

Now is the time to get ready for the Federal Reserve's FedNow<sup>®</sup> Service, an instant payments infrastructure that financial institutions can use to build innovative solutions that businesses and consumers are demanding.

## The benefits of instant payments are clear

With the FedNow Service, financial institutions can enable their customers to send and receive money instantly, any time of day, any day of the year. With instant payments, your financial institution can:

- Improve customer satisfaction
- Attract and retain customers
- Generate new revenue streams
- Reduce interbank settlement risk
- Lower costs through increased efficiencies
- Gain a competitive edge

## Preparation is key

The FedNow Service offers financial institutions an opportunity to transform their product offerings, but it will take time to get ready. As covered in our [preplanning roadmap](#), financial institutions should get to know the FedNow Service, explore instant payment opportunities and assess the needs of customers and pain points that instant payments can solve.

From there, your financial institution may consider whether to work with service providers to implement and operationalize instant payments with the FedNow Service. The following steps can help you determine how to engage service providers in your planning.

## STEP 1: Evaluate your own systems, processes and plans

Before deciding which service providers to work with, consider the impact instant payments will have on your operations and systems. Also, you'll want to think through the types of services and experiences you'd like to offer your customers. Here are some questions to ask your internal stakeholders:

- How can instant payments enhance our existing services?
- What new instant payment products or services should we offer?
- What use cases do we want to enable?
- What customer experiences do we want to support, and which types of alerts and notifications should we provide?
- Which FedNow participation types will we enable (e.g., receive only or both send and receive customer credit transfers)? How might our capabilities need to change in the future?
- Will we connect to the FedNow Service through our own FedLine<sup>®</sup> Solutions connection (existing or new), a service provider's connection, or a combination of both?
- Will we settle payments in our own Federal Reserve Bank master account or that of a correspondent?
- Which of our systems are likely to be impacted by instant payments? For example:
  - » How will we manage real-time processing?
  - » Will any of our downstream applications need to operate on a 24x7x365 basis?
  - » What contingency arrangements are needed to mitigate service disruptions?



- » Will we require alerts from providers as payments settle or other notifications are received?
- » What do we need to do to be able to make funds available immediately?<sup>1</sup>
- » Will current interfaces enable a user to report fraud or a mistake like a duplicate payment?
- » How will we need to update our error and fraud resolution processes?

Review the [FedNow Service Readiness Guide](#) for details on the FedNow Service, including more comprehensive lists of considerations and requirements around product planning, technology and operations.

### **STEP 2: Determine your service provider needs**

Once you've considered your operational requirements, think about what you'll keep in-house and what you'll outsource. Here are examples of assessments to consider:

- Will your current service providers support all your instant payment needs, or will you need to partner with additional service providers? For example, will they:
  - » Offer services to support the needed updates to your online and mobile banking and bill payment platforms?
  - » Be able to support real-time processing and fraud mitigation tools?
  - » Offer new services that might help reduce IT overhead?

- If you do not implement the FedNow Service as a fully outsourced solution, will you outsource some services while keeping others in-house? Here are a few scenarios you may encounter:
  - » Outsourcing aspects of processing and core systems that may require significant upgrading to support real-time processing and ISO® 20022.
  - » Engaging a service provider to manage liquidity in support of 24x7x365 operations.
  - » Partnering with multiple service providers – for example, one provider to support account-to-account transfers and another for bill pay services – to support various use cases.
  - » Coordinating multiple service providers for seamless operations – for example, managing settlement and reconciliation when relying on different providers for these services.

### **STEP 3: Start to match up your needs with service providers**

It's important to get to know various service providers and how they can support your instant payment needs. Your current service providers, including correspondents, are a good place to start as they may be expanding their services to incorporate instant payment offerings. However, you may find you need to enlist additional or different service providers.

<sup>1</sup> The Board of Governors issued for public comment proposed amendments to Regulation J (12 CFR part 210), which, among other things, would require the beneficiary's bank to make funds available to the beneficiary immediately after it has accepted the payment order. The Board also sought comment specifically about whether the regulation should specify a time parameter to define "immediately" as used in this requirement. The proposed rule is available at [federalregister.gov/documents/2021/06/11/2021-11759/collection-of-checks](https://www.federalregister.gov/documents/2021/06/11/2021-11759/collection-of-checks).

Before you engage with a service provider, consider your organization’s risk tolerance, technology needs and business strategy, and how you might match them to an appropriate provider.

PROVIDERS	EXAMPLES	SERVICES
<b>Payment processors</b>	Payment hubs/gateways, payment processors and core banking platforms/providers	Connect financial institutions to payment networks and process transactions, and may provide compliance tools and fraud management services.
<b>Correspondents</b>	Bankers’ banks and corporate credit unions	Provide settlement services to financial institutions and may provide payment processing services.
<b>Banking operations</b>	Accounting, reconciliation and operational system providers, and fraud and risk management providers	Support financial institutions’ core banking and accounting operations, as well as customer support operations and customer interface platforms. Solutions may include an integrated payment processing service.
<b>Customer-facing application providers</b>	Mobile, online and ATM banking platform providers	Provide solutions that allow customers to connect to their financial institution’s instant payment offerings supported by the FedNow Service.
<b>And many others</b>	Bill pay and presentment services, accounting and invoice software, and point-of-sale services	Many other service and solution providers that can help your organization integrate instant payments into your product offerings.

**STEP 4: Talk with service providers about their instant payment plans**

Talk to your own and other service providers to understand their plans and strategies for instant payments. Below are examples of questions to ask, depending on the types of service providers you’re talking to.

**Capabilities**

- When will the service provider be ready to support the FedNow Service on a 24x7x365 basis? What is the timeline for testing and implementing their initial FedNow Service capabilities?
- Which of the following will they be able to support for incoming and outgoing transactions?
  - » ISO 20022 messaging standards
  - » Customer authentication
  - » Account validation
  - » Fraud, risk and compliance reviews
  - » Transaction posting to your core banking systems
  - » Account balance updating and reconciliation
  - » Immediate posting of funds to customer accounts
  - » Error and dispute resolution
  - » Request for payment
- What use cases will they support (account-to-account transfers, bill pay, etc.)?
- What end-user services will they provide? Examples include:
  - » Updates to existing online and mobile banking services
  - » Configurable customer notifications and alerts for FedNow payments and messages
  - » Bill pay and other value-added services
- Will they offer reports and a user-friendly interface for your operational staff to identify, review and research FedNow transactions?
- What are their plans for future releases, and how easy or difficult will it be for your financial institution to add more capabilities/services over time?
- What expertise do they have in fraud management and ancillary products to help manage instant payments?
- For correspondents, do they plan to offer settlement services only, or are they prepared to offer payment processing services for instant payments?

### Integration

- How will their services integrate with your organization's current architecture (e.g., core banking system, payment systems, fraud, online banking and notification engines)?
- If using multiple service providers, what tools and support will they provide to facilitate the integration of your current architecture and the solutions of other service providers, if needed?
- By what means will you be able to access data you may need, such as via application programming interfaces (APIs)?
- How will they deploy their service(s) and any necessary maintenance? What impact will this have on your internal systems?

### Making your purchase decision

- Do they have pricing or expected pricing information for instant payment services they'll support and offer?
- What type of contractual obligations will they require to use their instant payment services?
- How will they help your financial institution prepare to leverage their services when the FedNow Service launches?
- How will they support your financial institution's implementation, testing and go-live with the FedNow Service? What's their onboarding process and duration? How long is their onboarding queue?

### Find service providers that support your instant payment needs

The [FedNow Service Provider Showcase](#) on FedNowExplorer.org is a one-stop resource for connecting financial institutions and businesses with service providers that can help them innovate and implement instant payment products using the FedNow Service. Browse the showcase to find a provider that's right for your needs.

### LEARN MORE

The considerations listed above are not all-encompassing but are meant to start you on the path toward planning and FedNow Service adoption. For more information and resources, visit [FedNowExplorer.org](#).

## IS YOUR FINANCIAL INSTITUTION READY TO MEET BUSINESSES' NEEDS?

A 2022 Federal Reserve survey of American businesses found that:



**3** out of **4**

businesses consider it important that their financial institutions offer a faster payment service.



**9** out of **10**

expect to be ready for 24/7 support of faster/instant payment services within three years.