



Third Parties and the FedNow Service

Financial institutions (FIs) have the option to partner with a third party to support their participation in the FedNow Service. Partnering with an external partner may be advantageous for some FIs by reducing technical and administrative burdens, simplifying the onboarding process, or leveraging offerings that the participating institution is not equipped to provide on its own.

An FI is responsible for the actions of their partner in connection with services offered by Federal Reserve Financial Services (FRFS). It is important that FIs understand this allocation of liability and engage in sound third-party risk management with any vendor they select.

The decision of whether and how to use an external partner likely depends on the key capabilities of a given organization. It makes sense to understand the roles external parties can play and the requirements of the FedNow Service before weighing the strategic and risk considerations on a case-by-case basis.

Please note: The Federal Reserve can only provide the FedNow Service to depository institutions and other organizations specifically authorized by law. Businesses, and other non-FIs, who want to benefit from the advantages offered by the FedNow Service can partner with participating financial institutions. Federal Reserve Financial Services does not recommend or endorse any particular service provider or vendor.

SUPPORTING THE FEDNOW SERVICE ECOSYSTEM AS A THIRD PARTY

Organizations that are interested in serving as a third party should consider the role(s) that they would like to play, as well as the eligibility prerequisites required.

Potential third-party roles include:

1) Connectivity or payment processing: Eligible organizations can support FedNow Service participants as service providers by connecting to the FedNow Service as an entity authorized to conduct activities on behalf of a participant, provided they comply with the terms and conditions required by the Federal Reserve related to service providers. If a non-FI is considering acting as a service provider, an FI must provide express authority for it to act in such capacity.

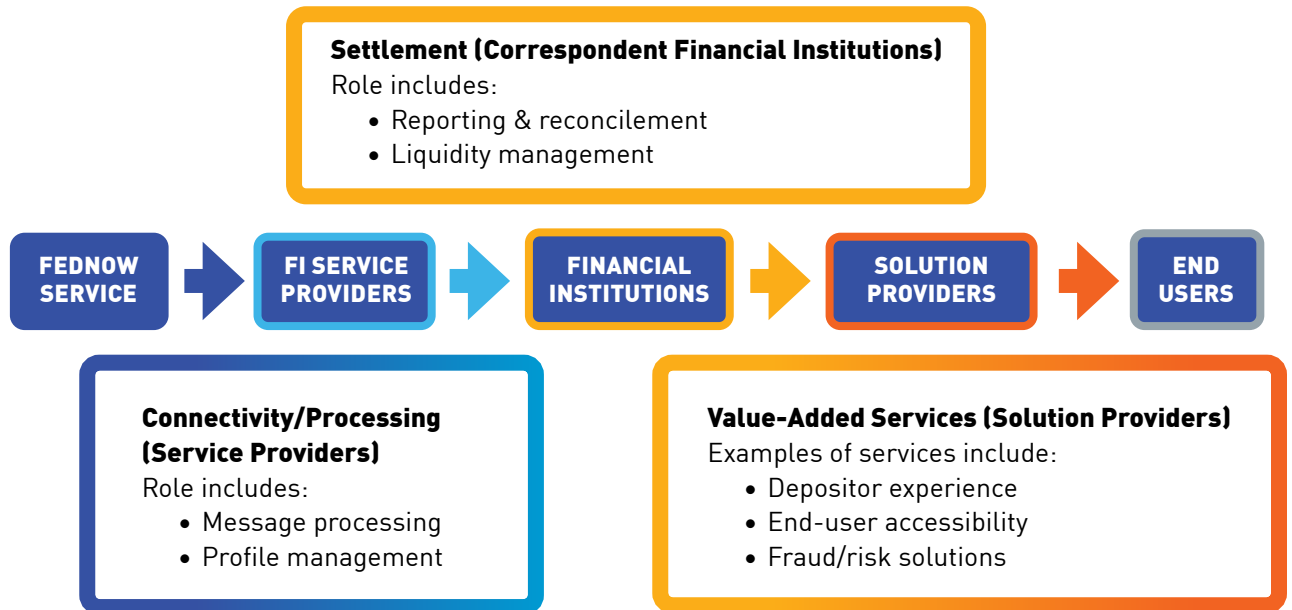
- 2) Value-added services:** Other third parties can serve FIs without directly connecting to the FedNow Service. Some examples include digital banking channels, open banking vendors or fraud solution providers. This also includes vendors who may support end users, such as AP/AR service providers or fintechs. These third parties may be interested in supporting the FedNow Service ecosystem but do not meet the eligibility requirements to become a service provider.
- 3) Settlement:** Eligible organizations can act as a correspondent FI by settling transactions for FedNow participants and may provide other services to participants, such as reports.

For more information about FedNow Service eligibility, visit [FRBservices.org](https://www.frb.org/services).

The Payments Value Chain and the FedNow Service

Many FIs look to the broader payments ecosystem for support in implementing the FedNow Service. External parties can offer FIs a range of products, services and support. There are a few broad categories of providers that can support access to instant payments, each with a role to play, as detailed below. Some third-party providers will play multiple roles, while others may be more specialized in their services.

Roles Third Parties Can Play



Check out our [helpful infographic](#) for more information about the FedNow Service ecosystem.

Connectivity/Processing – The Role of a Service Provider

Service providers, such as processors, core banking providers and aggregators, are entities authorized by FedNow Service participants to send and receive payment transactions or other messages on their behalf. An FI can designate a service provider to act as its agent and establish a direct connection to the FedNow Service. An FI can also designate a service provider to manage its FedNow Service participant profile information, which can include anything from configuring its profile settings to reports and queries. Authorized service providers play a unique role compared to other third parties, in that the Federal Reserve can act upon information and instructions received by a properly authorized service provider in their role as agent.

The FedNow Service is designed to flexibly allow for a range of configurations and help meet the needs of a variety of FIs. Some FIs may opt not to use a service provider, preferring to process payments internally. Others may choose to use a single service provider to provide a comprehensive suite of services and access to the FedNow Service. Another option is for FIs to use multiple service providers to send payments and other messages on their behalf based on how they plan to use the service. (Note: While multiple service providers can be used to send payments, only one service provider can be used to receive payments.) For those that process payments internally, the single endpoint for receiving transactions would be the FI itself.

For more information on connecting through a service provider, please see [FedNow Service Connectivity at a Glance](#).



Value-Added Services – Role of a Solution Provider

There is also an entire ecosystem of solution providers that support FIs in implementing the FedNow Service with value-added services. Some solution providers primarily serve downstream customers, such as payroll providers or back-end systems for businesses.

Other solution providers help FIs integrate instant payment functionality into their products. For example, supporting digital interfaces where customers/members can initiate transactions or fraud mitigation services. These organizations serve a pivotal role as solution providers for FIs. In partnership with FIs, these third parties may help FIs drive instant payment adoption and unlock the potential of the FedNow Service by providing offerings such as technological expertise, intuitive user interfaces or other value-added services.

Solution providers can play a number of different roles:

Serving Financial Institutions

- Bill pay/presentation applications
- Mobile/online applications
- Risk and fraud services

Serving End Users

- Payroll
- Accounts payable/receivable
- Treasury management
- Enterprise resource planning

The Role of a Correspondent

Correspondents are financial institutions that can settle funds on behalf of a participating FI. They may also offer other services to participating FIs, such as reporting/reconciliation and liquidity management. Some correspondents also act as processing service providers, with the ability to receive authorization to manage the FedNow Service profile of others.

The FedNow Service’s correspondent model is similar to what is in place with FedACH® Services. When an FI chooses to use a correspondent bank, its funds settle within the master account of the correspondent in seconds.

More information on settlement and correspondents/respondents can be found in [Settlement Through the FedNow Service](#).

PLEASE NOTE: Some third parties that offer connectivity support may also offer their customers value-added services or support with settlement. These organizations are broadly referred to as service providers.

Third parties that only provide value-added services are considered solution providers. Similarly, correspondents refer to those financial institutions that offer settlement services.

Considerations for Financial Institutions in the Selection of a Third-Party Partner

When it comes to selecting a third party to support instant payments, it is important to take both strategic considerations and risk mitigation factors into account.

Below is a list of some of the things that a participating FedNow Service FI may find helpful to consider when selecting a third party:

Strategic considerations

From a strategic perspective, participating FedNow Service FIs should consider how the instant payment capabilities of a prospective third party match their strategic needs. Understanding which features and messages a given service provider has enabled, for example, may be a good place to start. Other factors, such as how a prospective third-party partner manages exceptions, may also be important selection criteria. Taking an internal inventory of one's organizational strengths and operational constraints can help your team identify needs when selecting a partner.

The financial institution's broader payment strategy

It is important for a participating FedNow Service FI to decide how instant payments will fit into its broader payment strategy. You may want to review capabilities of existing service providers to determine if their current and planned capabilities align with your goals and timing for instant payments. In some cases, participants have selected new vendors who may more closely align with their needs.

The financial institution's long-term plans

It is also important to select a partner that is equipped to support any use cases or functionality that the FI plans to enable, either now or in the future. Developing an instant payment roadmap early can help FIs identify what will be needed from a third party over time. For example, if an FI plans to start as a receiving participant but expects to expand its instant payment offerings to enable send in the future, it makes sense to discuss both sending and receiving instant payments early on with any prospective service provider. Financial institutions that are planning to expand instant payment use cases over time should also discuss what user interface(s) they might need in the future with any solution providers responsible for their digital customer experience.

The prospective partner's capabilities

A detailed conversation with any prospective third party can help assess whether they will be a good fit. Determine how your staff will use the solution — for instance, as with any payment service, there will be exceptions that need to be addressed, such as transactions that need to be returned. Consider the top exceptions today on other payment services as a good starting point for discussions with the service provider and internal teams on how to plan for these scenarios.

The **Readiness Roadmap** includes more details for FIs on how to approach working with a service provider.

Risk considerations

A risk assessment should also be a critical part of selecting a third party to support the delivery of the FedNow Service. A sound third-party risk management framework should be appropriately tailored to a bank's level of risk, complexity and size. Not all third-party relationships pose the same risk, so it's important to take the nature of the relationship into account when considering how to best manage relevant third-party risks.

Regulatory compliance

It is ultimately the responsibility of the FI to ensure that its partners comply with any relevant legal and regulatory requirements. It is recommended that FedNow participants conduct due diligence with any external partner to better understand how they will handle issues of risk, information security, operational resilience and compliance, as well as other role-specific concerns, such as data privacy, anti-money laundering (AML) and know your customer (KYC), among others. A review of the prospective partner's ownership structure, legal authority and controls are just some of the many factors that should go into a proper investigation before the selection process.

Security

Security should also be top of mind for FIs when selecting any external partner. Robust security protocols, encryption and authentication mechanisms are essential to safeguard sensitive information from cyber threats. As intermediaries between users and payment systems, solution providers may have an important role to play in mitigating security concerns and protecting the organization's reputation. Understanding how the third party has handled security concerns in the past or learning about its current policies may help to shine light on this critical issue.

Integration across platforms

Harmonizing technical and operational aspects across multiple vendors can be complex. Financial institutions' due diligence should include a detailed discussion with any prospective provider about data formats, protocols and security measures to ensure the provider can integrate with the FedNow Service and also with any other provider that the FI may be using.

This list of risk considerations mentioned above is not exhaustive. For more information on assessing third-party risk, please see the [**Federal bank regulatory agencies' final joint guidance on third-party risk management**](#).

Third-party selection criteria varies by institution. For example, leveraging an existing partner or partners to facilitate their instant payment journey may be a good solution for some FIs, while others may find it makes sense to use a new provider. This decision is unique for every institution and depends on many factors, some of which may be included above.

More information on third parties and the services they support can be found in the [**Service Provider Showcase**](#) on FedNow Explorer.

This guide may and is likely to change from time to time, including as the Federal Reserve Banks obtain feedback from various stakeholders. The Readiness Guide is not an agreement with the Federal Reserve Banks and is not necessarily reflective of the final terms, operating procedures or other documentation for the FedNow Service.

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