

THE FEDERAL RESERVE
Federal Reserve Financial Services

FedNow
INSTANT PAYMENTS

Key Considerations as your Credit Union Plans its FedNowSM Service Strategy

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Federal Reserve Financial Services
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1

CUNA-hosted FedNow Webinar Series

- ✓ Webinar #1: Instant Payments 101 and Building Your Business Case
March 6
- ✓ Webinar #2: Deep Dive into FedNow Service Features and 24/7/365 Operations
April 25
- ✓ Webinar #3: Key Considerations as your Credit Union Plans its FedNow Service Strategy
June 13
- ☐ Webinar #4: Explore FedNow Service Benefits and Use Cases for Your Credit Union
July 13

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2

Takeaways from Today's Webinar


1. Learn about the latest progress with FedNow Service development
2. Ascertain the considerations that credit unions should make to prepare for the FedNow Service from a product planning, connectivity, use case, settlement, and 24/7 operations standpoint
3. **Survey:** Have you taken a FedNow Service readiness assessment?

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3

FedNow Launch Set for July 2023


- FedNow Service rollout targeted for July 2023
- Pilot program technical testing underway
- 120 organizations+ are participating in pilot program
 - Recent additions include U.S. Department of the Treasury's Bureau of the Fiscal Service, and several banks, processors and service providers
- May 2023 research conducted by the Federal Reserve finds businesses and consumers are eager for faster payments
 - 83% of businesses and 75% of US consumers are already using faster payments
 - 57% of U.S. consumers expressed interest in using faster payments to pay friends and family, 30% are interested in last-minute bill pay, and 32% would transfer money between accounts



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4




What considerations should your credit union be making as you prepare for FedNow and instant payments?

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5

Key consideration # 1: Product Planning



1. What problems do you want to solve for your members or for your credit union?
2. What are your members' biggest pain points that instant payments could alleviate?
3. What instant payment use cases will offer your members the most value?

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What instant payment solutions will you offer?

Business members

- Transferring cash between accounts at separate institutions
- Sending bills or invoices using RFP capabilities
- Paying bills or suppliers for inventory, services and rent
- Disbursing payroll

Retail members

- Paying loans or other credit accounts
- Transferring funds between accounts at separate Fis
- Funding/cashing out a digital wallet
- Paying bills
- Reloading prepaid cards
- Paying another person

Internal

- Reimbursing employee expenses
- Providing payroll, incentive pay or corrections
- Disbursing 401(k) loans or investments
- Funding member loans



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7

Use case: Account-to-account (A2A)

The initial release of the FedNow Service will enable A2A instant payments with these potential benefits:



To credit unions:

- Increase member satisfaction
- Improve cash flow management
- Give members more control

To end users:

- Certainty due to immediacy and irrevocability of the payment
- Greater flexibility, speed and efficiency
- Ability to make time-sensitive investments
- Fund big-ticket purchases more quickly

Examples of A2A opportunities: me-to-me, prepaid cards, mobile wallet funding/defunding



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Use case: Consumer-to-business (C2B)

The initial release of the FedNow Service will offer C2B instant payments with these potential benefits.



To credit unions:

- Eliminate risks due to nonsufficient funds and returns
- Improve receivables efficiencies
- Increase on-time payments
- Streamline accounting processes

To end users:

- Instant bill payment to avoid late fees and account overdrafts
- Payment flexibility (last-minute or emergency payments)
- Real-time money management and cash flow

Examples of C2B opportunities: bill pay, e-commerce, e-invoicing, home service payment



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9

Use case: Business-to-consumer (B2C)

Consider these benefits for businesses, their customers, employees and suppliers:



To credit unions:

- Offer myriad flexible use case opportunities
- Attract new business

To end users:

- Increase member satisfaction and cost savings (e.g., quicker rebates and refunds)
- Provide access to immediate funds in emergencies (e.g., insurance claims)
- Offer more flexible payroll payment options, especially with a growing gig economy

Examples of B2C opportunities: disbursements, one-time payments, immediate payroll

10

Use case: Person-to-person (P2P)

Mobile and online P2P payments may be reimaged with instant payments and offer these benefits:



To credit unions:

- Eliminate settlement-related credit risk
- Broader reach and accessibility
- Allow for alias-based payment transmission with access to routing information

To end users:

- Immediate and certain fund transfer
- Real-time confirmation of payment
- Less friction when making personal payments

11

Key consideration # 2: Connectivity







1. How do you plan to connect to the FedNow Service?

- Your own FedLine® Solutions connection (existing or new)
- A service provider's connection
- A combination of both (e.g., based on use cases or account types)

12

Flexible connection options

Connect directly	Through a service provider
<ul style="list-style-type: none"> FedLine Direct® FedLine Command® FedLine Advantage® <p>Note: FedLine Web® users will need to switch to one of the other three solutions, at least for the FedNow Service.</p>	<div style="display: flex; flex-wrap: wrap;"> <div style="width: 50%; text-align: center;">  Hosted Gateway </div> <div style="width: 50%; text-align: center;">  Core Processor </div> <div style="width: 50%; text-align: center;">  Bankers' Bank </div> <div style="width: 50%; text-align: center;">  Corporate Credit Union </div> </div>

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Key consideration # 3: Participation Types


1. Based on the use cases and services you want to offer, which of the following participation type are you most interest in?

- Send and receive member credit transfers
- Receive member credit transfers
- Receive requests for payment (RFPs)


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Receiving and sending payments


Receive

- Minimum participation type
- Work with core providers to receive and vet payments


Send

- More preparation and more opportunities
- Work with a variety of providers and internal tech teams based on use cases

TIP! Make sure your service provider can support sending if you plan to enable these features either right away or down the line.

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Transfer limits for the FedNow Service

- Credit transfer transaction value limit: \$500,000
- Default value limit: \$100,000, adjust up or down
- The Federal Reserve will continue to evaluate the value limit on an ongoing basis as appropriate

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2023 FedNow Service Pricing

- \$25 monthly service fee – *waived in 2023*
- \$0 per transaction to receive-only
- \$0.045 customer credit transfer fee – *discounted on the first 2,500 customer credit transfers per month in 2023*
- \$1.00 liquidity management transfer fee
- \$0.01 request for payment fee
- \$0.045 return customer credit transfer fee

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17

Key consideration # 4: 24/7 Operations

1. What unique risks might be associated with the instant payments services you plan to offer?
2. How will you balance member experience, controls and friction when it comes to risk mitigation?
3. Which of your upstream and downstream applications need to operate on a 24x7x365 basis?
4. What contingency arrangements are needed to mitigate service disruptions?

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FedNow Service risk mitigation

- **Message Authentication:** Ability for each party to verify authenticity and integrity of messages
- **Data encryption:** Data will be encrypted at rest and in flight to protect digital data confidentiality transmitted over FedNow network
- **Tokenization:** Tokenize certain sensitive data within FedNow data stores
- **Network Transactions Limits:** FedNow Service will have limits on the maximum value that can be sent across the network
- **Flexible participation options:** Participants can choose to be enabled for sending and receive payments or start by receiving payments only

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19

FedNow Service participant fraud capabilities at launch

Transaction Limits	Sender FI Negative List	Receiver FI Negative List	Fraud Reporting
Maximum value of funds participants may initiate for a single customer credit transfer or LMT transaction	Sender FI negative list to reject transactions going to a specific account	Receiver FI negative list to reject transactions coming from a specific account	Ability for FIs to work with the network to reduce fraud exposure

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Key consideration # 5: Settlement

1. Will you settle payments in your own Federal Reserve Bank master account or that of a correspondent?

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21

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How do these considerations tie into the FedNowSM Service payment flow?

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22

The FedNow Service payment flow



SENDER


① Sender initiates payment

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23

23

The FedNow Service payment flow



SENDER

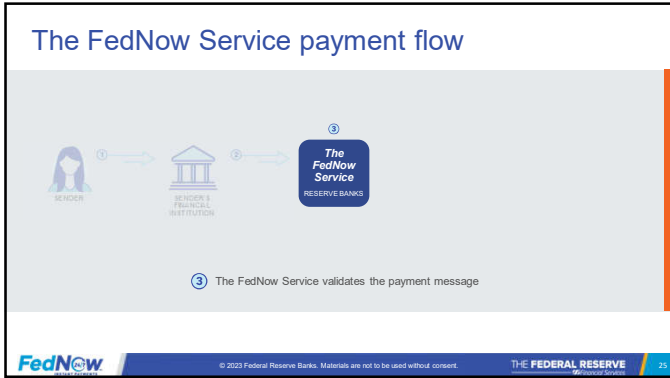
SENDER'S FINANCIAL INSTITUTION

② Sender's financial institution submits payment message to the FedNow Service

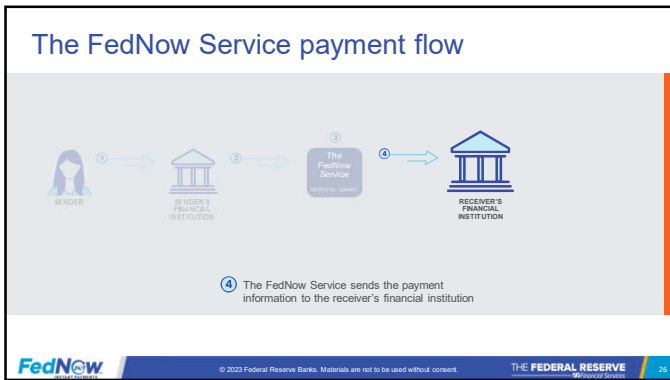
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24

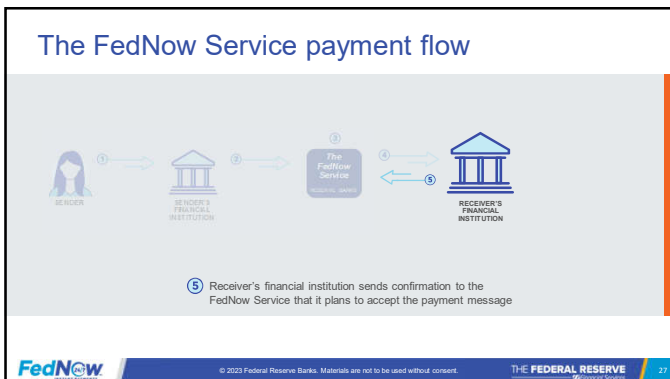
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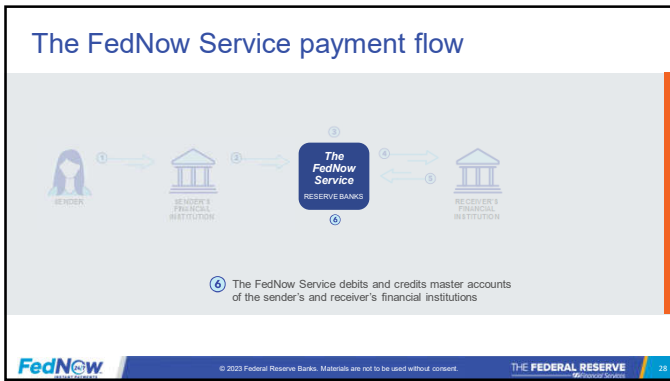
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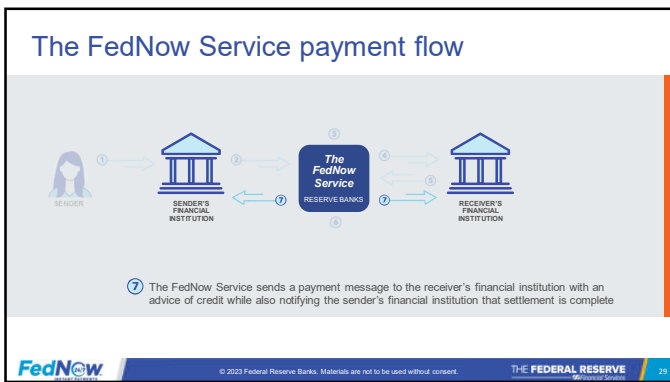
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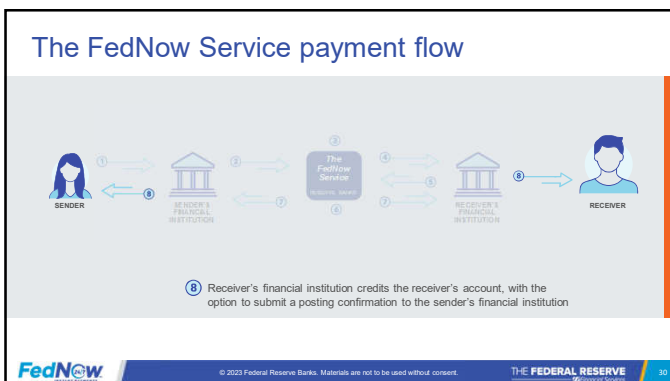
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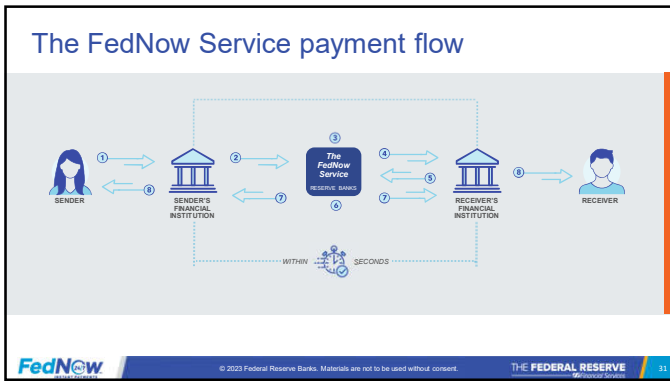
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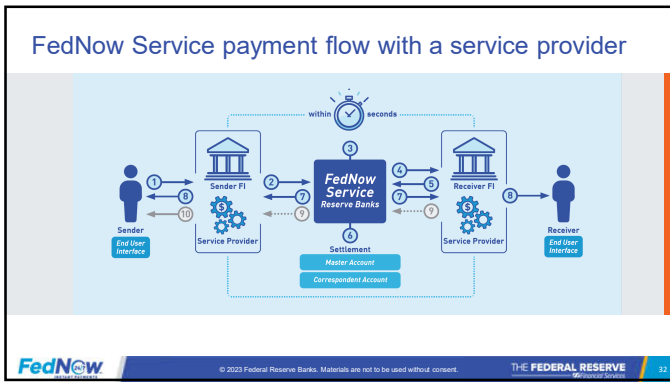
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30



31



32



How will my financial institution know they are ready to go live with the FedNowSM Service?

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Capabilities to Onboard

1. Real-Time Solutions are identified and validated
2. Connectivity decisions have been made
3. Settlement decisions have been made
4. Participation types are validated

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FedNow Service Resources for your Members

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New tools and support

The Federal Reserve Banks has launched new resources to facilitate education, preparation and ecosystem innovation in support of instant payments

FedNow Explorer

Ecosystem Accelerator Group


Service Provider Showcase

FedNow Community

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36

FedNow Explorer



An experiential platform designed to educate and engage banks and service providers


- Find curated content and business tools to support your instant payments journey
- Visit FedNowExplorer.org

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37

Readiness guide on FedNow Explorer

- Preplanning roadmaps and planning considerations for product, technology and treasury operations
- Operational details and benefits related to reporting and reconciliation, settlement and liquidity management
- Technology overviews regarding information security, participant availability and more



Welcome to the FedNow Service Readiness Guide
The Federal Reserve Banks are designing the FedNow Service, a safe and efficient instant payments system that will help produce the Fed's 2026 payments system.
Financial institutions of all sizes across the United States that are eligible for Federal Reserve Financial Services will be able to use the FedNow Service to create their own means for instantly sending and receiving money any time of the day or night.
With the FedNow Service, financial institutions, their service providers and others in the payments industry can create a range of innovative instant payment use cases that offer benefits all around.

FINANCIAL INSTITUTIONS
Receive incoming instant payments and send outgoing instant payments.

INDIVIDUALS
Send and receive money with confidence and make the most of your payroll and other benefits.


BUSINESSES
Send their payroll and other payments, receive incoming payments, and streamline their operations.

We invite you to start preparing now for the FedNow Service. And this guide is here to help.

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38

Service Provider Showcase



<https://explore.fednow.org/>
→ Choose "Explore the City"

Showcase Theater
See and explore service providers that will offer instant payment capabilities.
Enter building →

Featured content includes video and narrative profiles of participating service providers

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39

Overview of customer documentation

Operating Circular 8 and other applicable Circulars <small>Available on FRBServices.org</small>	Provide terms and conditions for the FedNow Service and other related services.
FedNow Service Operating Procedures <small>Available on FRBServices.org</small>	Details about the FedNow Service, including expectations, requirements and guidance to be followed by FedNow participants.
Service Readiness Guide <small>Available on FedNowExplorer.org</small>	A self-directed, online guide that supports participants on their journeys to implement the FedNow Service, initially, and in the future.
FedNow Service ISO® 20022 Implementation Guide <small>Available on MyStandards®</small>	ISO 20022 message implementation guidelines for the FedNow Service, including the FedNow Service ISO 20022 Implementation Guide and ISO 20022 Message Flows.

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40

Next Steps After This Webinar

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FedNow Readiness Assessment

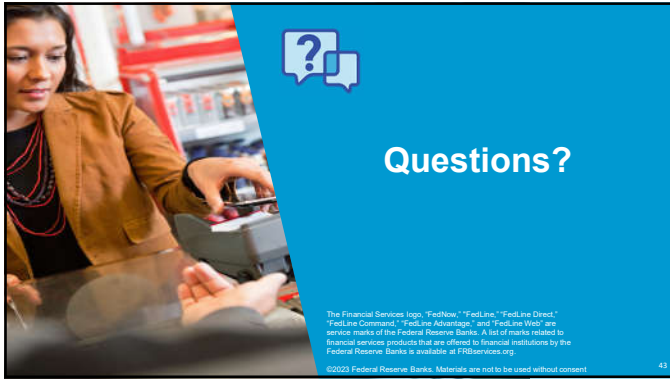
Our readiness assessment allows us to gather the necessary operational details from you to ensure your processing environment is FedNow compatible...

Contact your Federal Reserve Bank Account Executive for a readiness assessment.

Go to frbservices.org and select contact in the upper right-hand corner.

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42



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43

43
