



Instant Payments Are Coming: Will You Be Ready?

FedNow's real-time payments capability can become a competitive differentiator for financial institutions with first-mover advantage

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Consumers are willing to walk away from a payment that isn't fast enough: 21% of consumers say they have abandoned a financial transaction because the speed of money movement would take too long.¹ For those consumers with household incomes of more than \$100,000, the percentage rises to 31%.

Consumers are telling financial institutions that they want payments that settle in seconds.

Increasingly, financial institutions are being disintermediated by new payment types. To consumers, P2P payments such as Venmo appear to be instant, but the financial institution is fronting the payment behind the scenes. Consumers can also send funds directly from their P2P provider—leaving financial institutions out of the payments loop.

FedNow, the Federal Reserve's real-time payments solution, aims to put financial institutions back in the payments loop by enabling bank-to-bank real-time payments.

Instant payments benefit everyone. Customers benefit with increased flexibility and transparency, businesses benefit with improved cash flow and money management, and financial institutions benefit by offering new solutions to customers.

This white paper explores how—and why—the industry is marching toward real-time payments and how FedNow fits into the payments landscape. We'll also take a look at how financial institutions can use real-time payments as a competitive advantage, and how to prepare for the eventuality of instant payments.

The Evolution to Real-time Payments

The transition to real-time payments has been occurring for years. From PayPal to FedNow, here's how the payments industry has evolved—and what to expect from FedNow.

PayPal: Ushering A New Model for Payments

Payments changed forever with the launch of PayPal in the late 1990s. Rather than visiting an ATM or writing a check, friends and family now had a way to easily split a restaurant bill or send someone a monetary gift.

Other providers, including Venmo and bank-owned Zelle, jumped in and P2P has continued to gain momentum. About half of consumers under the age of 40 use P2P at least weekly and two-thirds are interested in using P2P for shopping and paying bills. More than half are interested in using P2P to fund new accounts.²

Electronic bill pay also had a big impact on consumers' payment experience. Although banks had a near monopoly in the early 2000s, bank bill pay usage has been steadily declining. Today, almost twice as many consumers (44%) pay the majority of their bills using the digital direct-to-biller channel versus 23% who use digital bank bill pay.³

Another milestone of the real-time payments evolution was the 2018 launch of the RTP Network, operated by The Clearing House Payments Company and owned by a group of the world's largest banks. Other faster payment solutions, such as Nacha's Same Day ACH, are fast, but still not fast enough.

¹ <https://www.financial-planning.com/research-report/the-good-bad-and-ugly-about-fast-money>

² <https://www.financial-planning.com/research-report/the-good-bad-and-ugly-about-fast-money>

³ <https://www.financial-planning.com/research-report/the-good-bad-and-ugly-about-fast-money>

“FedNow levels the playing field for smaller financial institutions by providing equal and fair access to accept and process instant payments. This keeps the landscape competitive and allows for more diverse innovation.”

— Dennis Sharpe

CTO, Ippon Technologies USA

FedNow: What We Know So Far

FedNow is in pilot today, and the Federal Reserve plans to fully launch FedNow sometime in 2023, starting with ACH transactions, followed by mobile banking and point of sale (POS) transactions. Although most financial institutions aren't expected to finish updating systems until 2025 or later, all financial institutions must use FedNow within seven years.

Any bank eligible for Federal Reserve financial services—regardless of size—can use FedNow.

FedNow is designed for domestic payments and will handle the following payment types:

Payment Type	Use Case Example
Person-to-Person (P2P)	Consumers can immediately send and receive money from friends and family.
Consumer-to-Business (C2B)	Consumers can pay bills and have the payment posted immediately.
Consumer-to-Government (C2G)	Consumers can make tax payments immediately.
Government-to-Consumer (G2C)	Consumers can receive government disbursements such as SBA loans immediately.

FedNow will initially give financial institutions a 20-second window to process messages, but in reality, the Federal Reserve expects financial institutions to settle most payment messages in just a few seconds.

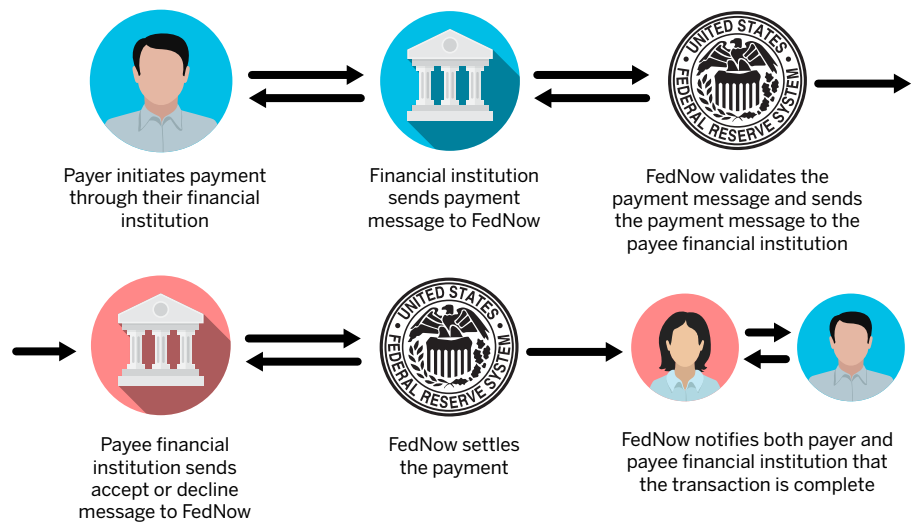
Here's what we know about FedNow pricing, which includes antivirus software that financial institutions can update daily or as often as needed (final pricing will be published later in 2022):⁴

- \$25 monthly FedNow Service participation fee for each routing transit number
- \$.045 per credit transfer paid by sender
- \$.01 for request for payment message (RFP)
- The credit transaction value limit is currently set at \$500,000 with the default limit set at \$100,000

⁴ <https://www.businesswire.com/news/home/20220127005808/en/Federal-Reserve-Announces-FedNowSM-Service-Pricing-Approach-Credit-Transfer-Limit>



Anatomy of a FedNow Instant Payment



FedNow Benefits to Financial Institutions

Consumers will appreciate not having to schedule their bill pay days in advance and be able to receive funds immediately. Businesses will appreciate having better control over their cash flow.

Financial institutions can also look forward to real-time payments since it provides them with new revenue opportunities, a way to differentiate, and a method for remaining a vital part of the payments ecosystem. Here's a few of the ways that financial institutions will benefit from FedNow:

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consumers report
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- **New Revenue Opportunities:** Financial institutions can offer new revenue-generating mobile and online P2P payment options. For instance, financial institutions can provide payment confirmation receipts in near real-time, rich details about payments, and irrevocable credit push payments that eliminate returned payments.
- **Competitive Differentiation:** About 8 in 10 consumers report that the speed of money movement has a positive impact on their willingness to continue to do business with an institution.⁵ Instant payments impact consumer satisfaction and retention, and financial institutions can market instant payment services to attract consumers.
- **Limit Disintermediation:** Using instant payment rails, the financial institution remains at the center of payment transactions. Banks help payers initiate the payment, facilitate clearing and settlement, and credit the payees' account immediately. This minimizes the volume of payments traveling through closed-loop networks that disintermediate financial institutions.
- **Less Cost, Less Risk:** Because FedNow streamlines the payment transaction process, financial institutions benefit with reduced costs through automation and more efficient operations. And payments settled immediately reduce interbank settlement risk.

The Nitty Gritty: Issues Financial Institutions Need to Address

There are quite a few technology and operational issues financial institutions will need to work through to prepare for FedNow. Plus, those financial institutions that migrate to FedNow early will have first-mover advantage and begin to reap the benefits of instant payments before their competitors do.

Answering the following questions will help you evaluate where you are on the path to FedNow readiness:

Technology:

- Will our batch-based systems support real-time payments?
- Will we integrate directly with the FedNow system or connect to FedNow through our core service provider?
- Do we have the appropriate bandwidth to support real-time payments?
- Do we need to make changes to our mobile banking, online banking, or IVR interfaces and customer experiences?
- How will we respond to confirmation requests and provide payment notifications to senders and recipients?

⁵ <https://www.financial-planning.com/research-report/the-good-bad-and-ugly-about-fast-money>

Instant payments will impact almost all of a financial institution's operations, from IT to finance to marketing

Compliance:

- Are we in compliance with the ISO 20022 message standard needed to communicate with the Federal Reserve?
- How will we comply with the Payment System Risk (PSR) policy?
- How will instant payments impact our OFAC and AML solutions?
- What payment security measures do we need to implement for real-time fraud detection across all payment types?
- How will we mitigate fraud when payers can't cancel a transaction and payees can withdraw funds instantly?

Settlement/Liquidity:

- Will we settle payments through the Federal Reserve or our correspondent?
- Have we calculated our liquidity needs for instant payments?
- If we need additional liquidity, will we source those funds from the Discount Window, another financial institution, or a correspondent?
- How will we update and monitor master account balances when payments settle continuously?
- What's our chargeback process to dispute and reverse payments?

People:

- Which Federal Reserve resources such as FraudClassifier Model and FedNow Service should we take advantage of to help with the transition?
- Is our staff trained?
- How will we educate our customers?

Finding the Right Partner

Implementing instant payments through FedNow is a significant initiative. A few of the largest financial institutions—with huge budgets and plenty of internal resources—may choose to embark on this journey alone. However, the vast majority of financial institutions will require outside assistance to complete their transition to FedNow and instant payments.

Here are some key partner attributes to consider:

- Offers a full scope of services. Instant payments will impact almost all of a financial institution's operations, from IT to finance to marketing. Look for a partner that is experienced in a full range of enterprise-wide transformation services and provides strategic consulting services from discovery to delivery, coaching, mentoring, and training.
- Has expertise in financial services. Financial institutions face unique challenges, including regulatory and compliance issues and the need to actively engage legal and compliance stakeholders and partners. Look for a provider that has worked directly with both large and startup financial services firms.

- Uses new methodologies. Agile methodology and the strangler pattern can reduce project risk by delivering incremental business value. Using the principles of measure, assess, transform, and scale, agile methodology is rooted in business outcomes. The strangler pattern places legacy systems behind an intermediary façade and the old systems are replaced over time.
- Understands fraud. A big challenge with instant payments is that financial institutions only have milliseconds to authenticate payments. It's critical to work with a partner that has experience detecting fraud during short time windows such as credit card authorizations and building fraud case management systems.
- Has the technology chops. Ask about the partner's technology expertise. Look for a partner that has consultants well-versed in product, data, cloud, and software engineering and have applied those areas of expertise to financial services clients.
- Can help with build vs. buy decisions. Depending on your current technology infrastructure and technology strategy for the future, a partner can help you evaluate build vs. buy decisions while accounting for issues such as speed-to-market, competitive advantage, total cost of ownership, and synergies.

Getting Ready For Instant Payments

- Instant payments is a vision that is finally being implemented. Financial institutions that sit back and wait to begin putting the pieces in place for instant payments and hope to play catch-up will likely find that the banking industry has moved on without them.
- Consumers and businesses will increasingly demand real-time payments. If their current financial institution is unable to provide payments in real-time, they will migrate to those institutions that can. In a landscape of commoditized banking products, instant payments can not only become a key differentiator, but a revenue generator and a platform to offer new products and services that will increase stickiness with your institution.
- Yes, it's a big undertaking, but with the right partner—one that's strategic, innovative, detail-oriented, and outcome-focus—you can get ready to take advantage of FedNow and optimize instant payments.

About Ippon Technologies

Founded in 2002 in Paris, France, Ippon Technologies is a global consulting firm that unlocks new possibilities through innovative technology and industry know-how. Ippon Technologies helps its clients leverage their digital assets to design an appropriate strategy and deploy their transformation roadmap at scale.

Currently, Ippon Technologies supports 100+ companies worldwide, with 50 of those in the United States alone, including several Fortune 500 names in the financial services sector.

Ippon prides itself on the following:

- A strong culture of technology expertise, focused on Product Management, Data, Cloud/DevOps, Software Development Modernization, and Agility
- Experience analyzing customers' business challenges to quickly deliver expected value
- Aligning the concepts of culture, business, process, and technology

Ippon consultants are hungry for growth and problem solving. They are the best at what they do and have years of experience working in the Financial Services and Payments industries. Ippon consultants have the brains and brawn summarized by our five COACH values: Creative, Open, Agile, Courageous, and Hungry.

Ippon Technologies serves the entire U.S. from offices in Richmond, VA, Washington, DC, New York, NY, and Atlanta, GA.

Reach out to discuss money movement or payments challenges your company is focused on and to hear how [Ippon Technologies](#) can help you optimize instant payments and take advantage of FedNow, now!