FAQs

Faster Payments in General

1. What are faster payments?

Faster payments allow individuals and businesses to send and receive payments within seconds at any time of the day, on any day of the year, such that the receiver of a payment can use the funds almost instantly. This immediacy differentiates faster payments from traditional retail payment methods, including those that appear to occur within seconds from the sender's perspective but can take many days before funds become available to the receiver. There is broad consensus within the U.S. payment community and among other stakeholders that, just as real-time services have become standard for other everyday activities, faster payment services have the potential to become widely used, resulting in a significant and positive impact on individuals and businesses throughout the country and on the broader U.S. economy.

2. What benefits do faster payments offer?

Beyond speed and convenience, faster payments can yield real economic benefits for individuals and businesses by allowing them to make time-sensitive payments whenever needed and providing them with more flexibility to manage their money. This flexibility is especially important for individuals and households on tight budgets, for whom receiving a payment in real time could help avoid the need to use expensive check cashing services, engage in high-cost borrowing, or incur overdraft or late fees that may throw off their carefully managed finances. Similarly, immediate access to funds and the ability to make bill payments instantly benefit small businesses who may otherwise need to seek costly short-term financing. Widely available faster payments would be the foundation for the next generation of payment services, catalyzing innovations that generate new economic activity.

3. Are there already faster payments in the United States?

The market for faster payments is still in its early stages of development in the United States. Although there are some faster payment services offered by banks and fintech companies in the United States, their functionality can be limited. In particular, due to the lack of a universal infrastructure to conduct faster payments, most of these services rely on "closed-loop" approaches, meaning that users signed up to one service cannot exchange payments with users signed up to other services. Other services target ubiquity by relying on users' bank accounts, but they may face challenges reaching enough banks to allow any two users to exchange payments. Moreover, these services typically use traditional retail payment methods to move funds between accounts. These methods result in a build-up of financial obligations between banks which, as faster payments usage grows, could present risks to the financial system, especially in times of stress.

The private sector has taken some steps to address these limitations, including through the development of private-sector infrastructure to move funds between banks in real time and at any time, on any day. However, challenges remain to achieving faster payments that are ubiquitous, safe and efficient. The result is a fragmented market for end-user faster payment services, with services that may provide faster payment functionality in some circumstances and for some specific uses, like person-to-person payments, but that do not have sufficient reach to advance the U.S. payment system as a whole. The Federal Reserve's goal in announcing the planned actions is to provide a much broader scope of access to safe and efficient faster payments throughout the country.

4. What is required to conduct a payment between bank accounts? What is clearing? Settlement?

Payments typically require "clearing" and "settlement" between banks. (As used here, "banks" refers to any type of depository institution, including commercial banks, savings banks, savings and loan associations, and credit unions.) "Clearing" refers to the exchange of information about a payment and can involve additional activities such as fraud screening. "Settlement" refers to the debiting and crediting of accounts to fund a payment. Settlement services act as the foundation for most payment systems, as they provide a universal way for the sender's bank to settle a payment by moving funds to the receiver's bank. Payment services offered by the Federal Reserve, such as funds transfer, check, and automated clearinghouse (for example, direct deposit) services, have historically provided clearing and settlement between banks.

5. What have central banks in other countries done to support faster payments?

Central banks in various countries have already implemented changes to their settlement services in support of faster payments, reflecting the foundational role that central banks play worldwide in the settlement of financial obligations between financial institutions. For example, the European Central Bank, Banco de México, and the Reserve Bank of Australia have looked to support the development of faster payments in their jurisdictions by providing services that enable payment-by-payment, real-time settlement of retail payments at any time, on any day. In fact, among the many countries that have either developed or are in the process of developing faster payment capabilities, the vast majority have done so with the direct operational involvement of their central banks. This progress means that the U.S. retail payment system lags behind systems in other countries.

Federal Reserve Actions to Support Faster Payments

6. What actions has the Federal Reserve already taken to support the development of faster payments in the United States?

Since 2013, there have been several collaborative initiatives between the Federal Reserve and industry stakeholders on strategies for improving the speed, safety, and efficiency of the nation's payment system. In 2015, the Federal Reserve convened the Faster Payments Task Force, a 320-member group comprised of a broad range of industry participants, to identify and assess alternative approaches for implementing safe and ubiquitous faster payment capabilities in the United States. The Federal Reserve has also supported the development of private-sector services for faster payments by enabling the use of joint accounts to facilitate settlement in faster payment services. For example, the existing private-sector faster payment service settles payments in real time on its private ledger, supported by a joint account at a Reserve Bank that is prefunded by banks participating in the service.

7. Did industry stakeholders request the Federal Reserve take any additional actions to support the development of faster payments in the United States?

As part of the recommendations published in its final report in 2017, the Faster Payment Task Force requested that the Federal Reserve (i) develop a 24x7x365 settlement service to support faster payments and (ii) explore and assess the need for other Federal Reserve operational role(s) in faster payments. The U.S. Treasury subsequently recommended that "the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities." In response to these requests and recommendations, the Federal Reserve Board (the Board) published in 2018 a request for comment on two potential Federal Reserve payment and settlement services to support the development of faster payments in the United States: (i) a new service that would enable 24x7x365 real-time settlement of faster payments and (ii) a tool for liquidity management that would support services for real-time settlement of faster payments.

8. What actions will the Federal Reserve take going forward to support the development of faster payments in the United States?

Based on detailed analysis of the potential actions and feedback received in response to the previous request for comment, the Board has determined that the Federal Reserve should take two actions to support widespread adoption of ubiquitous, safe, and efficient faster payment services in the United States. First, the Federal Reserve Banks (the Reserve Banks) will develop the FedNow℠ Service, a new interbank 24x7x365 real-time gross settlement (RTGS) service with integrated clearing functionality, to directly support the provision of end-to-end faster payment services by banks (or their agents). Second, the Federal Reserve will explore the expansion of hours for the Fedwire® Funds Service and the National Settlement Service (NSS), up to 24x7x365, subject to further analysis of relevant operational, risk, and policy considerations, to support liquidity management in private-sector RTGS services for faster payments, as well as provide additional benefits to financial markets beyond faster payments. Both of these actions would modernize the Federal Reserve's payment and settlement services, helping foster the development of faster payment services and improvements to the broader U.S. payment system.

9. Will the development of a new Federal Reserve service go beyond the roles that the Federal Reserve has traditionally played in the payment system?

A new Federal Reserve service to support faster payments, operating alongside private-sector RTGS services for faster payments, aligns with most payment systems in the United States. Since its inception, as intended by Congress, the Federal Reserve has played a key operational role in the nation's payment system by providing payment and settlement services between banks. As the nation's central bank, the Federal Reserve has a unique ability to provide settlement between banks without introducing credit and liquidity risks. This operational role also allows the Federal Reserve to promote the accessibility, safety, and efficiency of the U.S. payment system. The payment and settlement services offered by the Reserve Banks, such as services for funds transfers, checks, and automated clearinghouse payments, have traditionally operated alongside and in support of similar private-sector services.

10. How does the Federal Reserve make decisions about developing new payment services, such as the FedNow Service, or enhancing its existing services?

The Board has established a set of criteria for evaluating new or enhanced Federal Reserve payment services in its policy *The Federal Reserve in the Payment System*. As the Federal Reserve considers the introduction of new services or major service enhancements, the policy requires all of the following criteria to be met:

- The service should be one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity. For example, it may be necessary for the Federal Reserve to provide a payment service to ensure that an adequate level of service is provided nationwide or to avoid undue delay in the development and implementation of the service.
- The Federal Reserve must expect that its providing the service will yield a clear public benefit, including, for example, promoting the integrity of the payments system, improving the effectiveness of financial markets, reducing the risk associated with payments and securities-transfer services, or improving the efficiency of the payments system.
- The Federal Reserve must expect to achieve full recovery of costs over the long run.

The FedNow Service

11. How will the FedNow Service support the development of faster payment services in the United States?

The Federal Reserve's new FedNow Service, alongside services provided by the private sector, will help establish a safe and efficient nationwide infrastructure supporting faster payment services in the United States. This infrastructure will assist banks across the country and the broader payment industry in their efforts to build modern, innovative, and safe faster payment services that are broadly available to individuals and businesses and that ultimately serve the American public.

12. Why does the Federal Reserve believe it is important to develop the FedNow Service?

In assessing its criteria for new payment services, the Board considers input from the public, historical experience, and its own analysis to assess whether such services can be expected to generate public benefits that private-sector services alone may be unable to achieve. Based on its assessment, the Board has concluded that private-sector real-time gross settlement (RTGS) services for faster payments alone cannot be expected to provide an infrastructure for faster payments with reasonable effectiveness, scope, and equity. In particular, private-sector services are likely to face significant challenges in extending equitable access to the more than 10,000 diverse banks across the country. By contrast, the Federal Reserve is well positioned to overcome the challenge of extending nationwide access to an infrastructure for faster payments, thanks in large part to its existing nationwide payment infrastructure and established customer service relationships with more than 10,000 banks (or their agents). Moreover, the development of the FedNow Service will likely yield clear and substantial benefits to the safety and efficiency of faster payments in the United States, as suggested by the majority of comments in response to the Board's previous request for comment.

13. Why doesn't the Federal Reserve use its supervisory or regulatory authority to influence the development of faster payments in the United States?

The Board does not have plenary regulatory or supervisory authority over the U.S. payment system. Rather, the Board has limited authority to influence private-sector payment systems in specific circumstances. Instead, the Federal Reserve has historically exercised significant influence in the U.S. payment system through the Reserve Banks' provision of payment and settlement services to banks. This operational role has helped to promote payment systems in the United States that are ubiquitous, safe, and efficient.

14. How will the FedNow Service work?

The FedNow Service will process and settle individual payments within seconds, 24 hours a day, 7 days a week, 365 days a year. Like other payment and settlement services offered by the Federal Reserve, the service will settle obligations between banks through adjustments to balances in banks' master accounts at the Reserve Banks; these funds will be eligible to earn interest and count toward banks' reserve requirements. Consistent with the goal of supporting faster payments, use of the FedNow Service will require participating banks to make the funds associated with individual payments available to their end-user customers immediately after receiving notification of settlement from the service. The service will support values initially limited to $25,000. The Federal Reserve will conduct industry engagement to gather feedback on the key features and functionality of the service, both those planned at launch and those available incrementally after the service is operational.

15. How will the FedNow Service help smaller banks?

Providing payment services that are accessible to virtually all U.S. banks benefits all payment system participants because it allows individuals and businesses to make payments to any other party for a wide range of purposes. The Federal Reserve is uniquely positioned to help develop a safe and efficient nationwide settlement service for faster payments through its existing payment infrastructure and established customer service relationships with more than 10,000 banks (or their agents). Since its inception, driven by its long-standing policy commitment to promote nationwide access, the Federal Reserve has extended access to banks of all sizes on fair and equitable terms, including smaller banks in rural and remote areas of the country. The FedNow Service will facilitate access to a real-time gross settlement (RTGS) infrastructure for faster payments for these banks and, most importantly, the communities they serve.

16. How will the FedNow Service interact with private-sector settlement services?

The Board views nationwide reach as a key objective for a real-time gross settlement (RTGS) infrastructure for faster payments. A payment system with multiple operators could achieve this in two main ways. First, interoperability via direct exchange of payments between RTGS infrastructure operators could allow payments originated by a participant of one service to be received by a participant of another service. This situation exists today in the case of the automated clearinghouse system. Second, banks could participate in multiple services that are not interoperable, but nationwide reach could still be achieved through at least one service achieving nationwide reach on its own. This situation exists today in the case of the funds transfer system. A bank that participates in multiple services can choose which service to use for transactions, depending on any number of factors, such as fees, functionality, and the counterparties a particular service can reach. During its engagement with the industry, the Federal Reserve intends to explore interoperability and other paths to achieving the ultimate goal of nationwide reach for faster payments. Although direct exchange of payments between RTGS infrastructure operators may not be an initial element of the FedNow Service, as standards, technology, and industry practices change over time and the relationship between RTGS services for faster payments evolves, interoperability will continue to be a desirable outcome that the Federal Reserve pursues.

17. How will the FedNow Service make faster payments safer in the United States?

A safe payment system is crucial to economic growth and financial stability because the effective operation of markets for virtually every good and service is dependent on the smooth functioning of the nation’s banking and payment systems. The FedNow Service will promote the safety of the U.S. payment system in multiple ways. As the prominence of faster payments in the United States grows, the development of the FedNow Service will allow the Federal Reserve to retain its ability to provide stability and support to the banking system and the broader economy in times of crisis. In addition, as the operator of the service, the Federal Reserve will be in a position to promote the development and implementation of industrywide fraud-mitigation standards, which are especially important for faster payments. The development of the FedNow Service can also enhance the safety of the U.S. payment system by promoting resiliency through redundancy, allowing banks that join multiple services to establish backup connections in case one of those services has an operational outage or other problem.

18. How will the FedNow Service lead to a more efficient payment system?

An efficient payment system facilitates and encourages economic activity by making it faster, cheaper, and more convenient for individuals and businesses to pay for goods and services. The FedNow Service will facilitate an efficient payment system by creating a foundation on which banks across the country and the broader payment industry can build modern, innovative, and safe faster payment services. By helping real-time gross settlement (RTGS) infrastructure achieve nationwide reach, the FedNow Service will likely make the development of new faster payment services more attractive, improving efficiency by increasing innovation and competition in the market for end-user faster payment services. In addition, the presence of multiple RTGS services for faster payments--the FedNow Service and private-sector RTGS services--can yield additional efficiency benefits by leading to lower prices and higher service quality, which would benefit the U.S. payment system and its customers.

19. Will the Federal Reserve be able to recover costs of the FedNow Service over time?

In keeping with the requirements of the Monetary Control Act (MCA) and longstanding principles for the pricing of Federal Reserve services, the Board would fully expect any new service to achieve full recovery of costs over the long run. In reaching this conclusion, the Board considered the MCA's cost recovery requirement alongside its requirement that the Federal Reserve "give due regard to competitive factors and the provision of an adequate level of such services nationwide." For any new service, the Board would follow a similar approach to long-run cost recovery as that applied to the Federal Reserve's FedACH® service, the last new retail payment service developed by the Federal Reserve.

20. When will the FedNow Service become available?

The Federal Reserve recognizes that, if undertaken, establishing a new service would need to be carried out as soon as practicably possible and that time-to-market is an important consideration for many industry participants. However, the achievement of true nationwide reach, as opposed to initial availability of a service, is a critical measure of success for faster payments. Pending engagement between the Federal Reserve and the industry to inform the final service design, the FedNow Service is expected to be available in 2023 or 2024. However, it will likely take longer for any service, whether the FedNow Service or a private-sector service, to achieve nationwide reach regardless of when the service is initially available. In advance of the service's availability, the Federal Reserve will work closely with banks and their technology partners to prepare for expeditious onboarding.

21. Who will be eligible to participate in the FedNow Service?

As with current Reserve Bank services, the FedNow Service will be available to banks eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures. (As used elsewhere in these FAQs, "banks" refers here to any type of depository institution, including commercial banks, savings banks, savings and loan associations, and credit unions.) Participating banks will be able to designate a service provider or agent to submit or receive payment instructions on their behalf. Participating banks will also be able to settle payments in the account of a correspondent bank, if they choose to do so.

Expanded Service Hours

22. How would expansion of the Fedwire Funds Service and National Settlement Service (NSS) hours help benefit payments in the United States?

Expanded Fedwire Funds Service and NSS hours would support a wide range of payment activities, including support for private-sector real-time gross settlement (RTGS) services for faster payments. In particular, the Reserve Banks do not currently offer a service that provides the functionality to manage liquidity on a 24x7x365 basis for RTGS services that rely on a joint account. By expanding Fedwire Funds Service and NSS hours, the Federal Reserve would provide further support to private-sector RTGS services for faster payments based on a joint account. Expanded hours for the Fedwire Funds Service and NSS could also benefit other retail or wholesale payment activities, for example, by enabling additional settlement windows for automated clearinghouse payments.

23. Why is the Federal Reserve not already moving ahead with expansion of the Fedwire Funds Service and National Settlement Service (NSS) hours?

Because of the systemic importance of the Fedwire Funds Service and the Board's risk management expectations for the service, additional analysis is needed to evaluate fully the relevant operational, risk, and policy considerations for both the Reserve Banks and service participants. The Federal Reserve plans to engage with the industry, including those market participants involved in the settlement of securities and derivatives transactions who rely on the Fedwire Funds Service, on issues related to, and potential approaches for, expanding Fedwire Funds Service and NSS operating hours. Implementation approaches could range from limited availability on weekends and holidays to full 24x7x365 availability. The Board will announce any decision regarding the expansion of hours for the Fedwire Funds Service and NSS, including issuing a request for comment if necessary, after further analysis is completed.