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Progress on Fast Payments for All: An Update on FedNow

Remarks by

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Vice Chair

Board of Governors of the Federal Reserve System

at

FedNow Early Adopter Workshop

Rosemont

(via webcast)

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I am pleased to join the FedNow Early Adopter Workshop.¹ With the technical testing phase of the FedNowSM Service kicking off in mid-September, I want to particularly thank the early adopters for the important investments they are making to prepare for the day when the FedNow Service goes live next year. Together with our partners, we will be ready to launch the FedNow Service between May and July of 2023, bringing this innovative core instant payment infrastructure to financial institutions of every size across America. We have been working hard to deliver on time, but ultimately the number of American businesses and households that are able to access instant payments will depend on financial services providers making the necessary investments to upgrade our payments infrastructure. Together, we can ensure that all Americans have access to a modern and reliable instant payment system.

The payment system is a critical part of America's infrastructure that touches everyone. Americans rely on the payment system all day every day to make purchases, pay bills, and get paid—without ever needing to consider the complex infrastructure that is operating under the hood. American households and businesses want and deserve payment transactions that work seamlessly, reliably, and efficiently.

Fostering a safe, efficient, and widely accessible payments infrastructure has been a central part of the Fed's mission since the very beginning. The Federal Reserve Banks all around the country have provided payment and settlement services alongside the private sector for more than 100 years. Over that period, we have repeatedly innovated and invested in collaboration with the private sector to transform the payment system,

¹ I am grateful to Kirstin Wells of the Federal Reserve Board for her assistance in preparing this text. The views expressed here are my own and do not necessarily reflect those of the Federal Reserve Board or the Federal Open Market Committee.

using the latest technology to better meet the needs of businesses and households.² Now, after extensive industry engagement and planning, the Federal Reserve is on track to deliver the FedNow Service by May to July of 2023.

The FedNow Service will transform the way everyday payments are made throughout the economy, bringing substantial gains to households and businesses through the ability to send instant payments at any time on any day, and the funds being immediately available to recipients to make other payments or manage cash flow efficiently. Immediate availability of funds could be especially important for households managing their finances paycheck to paycheck or small businesses with cash flow constraints. Having the capacity to manage money in real time could help households avoid costly late payment fees or free up working capital for small businesses to finance growth. Indeed, during the pandemic, we witnessed how essential rapid access to funds can be, as many households started spending emergency relief payments on the day they were received.³

To deliver on the promise of a payment system for the future, the Federal Reserve has made a substantial commitment to the FedNow platform, which has benefited from the innovative technologies and approaches proven by global technology companies that are vital for today's always on digital economy. Our cloud-first design, unique among central bank instant payment services, positions us for the future by enabling not only the

² Lael Brainard, "Supporting Fast Payments for All" (remarks at the Fed Payments Improvement Community Forum, Chicago, October 3, 2018), <https://www.federalreserve.gov/newsevents/speech/brainard20181003a.htm>; Esther George, "From Then to FedNow: Payments Innovation and the Federal Reserve," Policy Perspectives (Kansas City: Federal Reserve Bank of Kansas City, December 18, 2020), https://www.kansascityfed.org/Research/documents/7574/policy_perspectives_12_1_20_v5.pdf.

³ Lael Brainard, "The Future of Retail Payments in the United States" (remarks at the FedNow Service Webinar, Washington, D.C., via webcast, August 6, 2020), <https://www.federalreserve.gov/newsevents/speech/brainard20200806a.htm>.

throughput and scalability required for high-volume retail transactions but also broad geographic points of resiliency to ensure continuous service. Cloud-first design affords other key technology components such as self-healing processes and automation, which add to operational resiliency. And our development processes are agile, allowing us to deliver new features faster to financial institutions of all sizes as they are ready to adopt them based on their priorities.

We have also invested heavily in stakeholder engagement to ensure readiness for service adoption through efforts like the pilot program, the FedNow Explorer resource, the FedNow Community, the service provider showcase, and the FedNow Early Adopter Workshop.⁴ To advance the goal of nationwide reach for instant payments, we have worked closely with the private-sector RTP instant payment service on message specifications to ensure alignment in support of routing interoperability.

Just as the Federal Reserve has made a substantial commitment to our new instant payment infrastructure, we are calling on industry stakeholders to do the same. The shift to real-time payment infrastructure requires a focused effort, but the shift is inevitable. The time is now for all key stakeholders—financial institutions, core service providers, software companies, and application developers—to devote the resources necessary to support instant payments. This means upgrading back-office processes, evaluating accounting procedures to accommodate a seven-business-day week, arranging liquidity providers, deploying a new customer-facing application, and promoting instant payments for key use cases to customers. As the service providers featured at this event will

⁴ Information about FedNow Service stakeholder outreach and other resources can be found at this link: <https://www.frbservices.org/financial-services/fednow>.

demonstrate in the coming days, parts of the industry have already seized on the opportunity to build new services and capabilities that support instant payments. These efforts will increase competition in the market for end-user services and promote innovation—key benefits from providing the FedNow Service as a neutral platform, accessible to financial institutions of all sizes nationwide.

I would like to personally thank our early adopters. The input that you have provided has been instrumental for our team as they have designed and built the service, and the time and energy that you have committed to this effort is important for a successful launch. I want to call on additional banks and core service providers to join your commitment to prepare for adoption of the FedNow Service. This time next year, I hope we can all have a great sense of accomplishment in our shared effort to transform America's payment system for the digital era.