The Virgin Islands Consortium

# Instant Payments Service From Federal Reserve Set to Revolutionize Banking

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The Federal Reserve is on the brink of launching a groundbreaking system that allows instantaneous, round-the-clock payments in the U.S. banking system. The initiative, called FedNow Service, signals a major leap for consumers who will soon have the ability to transfer funds instantly, without the need for wires, and benefit from same-day transactions.

The FedNow Service is planned to go live in late July and has already gathered a strong cohort of 57 early adopters, including an array of financial institutions and service providers. All of these organizations have finished formal testing and certification, with many planning to launch the service simultaneously or shortly after the Federal Reserve.

The introduction of FedNow aims to enhance the speed and convenience of payments, marking a significant departure from the current Automated Clearing House (ACH) system, where transactions may take several days to settle, the Federal Reserve said in a release. While this lag often benefits banks, it can prove frustrating for those waiting for their funds to clear. Unlike the existing system, FedNow is easily accessible to smaller lenders, presenting an advantage over other real-time networks developed by larger banks, which have struggled to gain traction.

Ken Montgomery, First Vice President of the Federal Reserve Bank of Boston and FedNow Program Executive, affirmed, "We are on track for the FedNow Service launch, with a strong cohort of financial institutions and service providers of all sizes in the process of completing the final round of readiness testing." He encouraged confidence in the impending launch and urged financial institutions to advance their plans to participate in the innovative service.

Montgomery also highlighted that, as a platform for innovation, FedNow is intended to support a variety of use cases, including account to account transfers, bill payments, and requests for payment, among others. As more financial institutions adopt and develop the service, it's anticipated they will offer new instant payment services to their customers.

At launch, FedNow will limits transactions to $500,000 at a time, though instant transfers across more than one account could occur.

While this development is largely positive, some analysts warn that FedNow could challenge banks' reliance on customer cash, potentially intensifying deposit flight issues that have troubled several regional banks this spring.

The Federal Reserve is actively working with early adopters and continuing to onboard financial institutions planning to join later in 2023 and beyond, as a part of their efforts to build a robust network. Their ultimate goal is to extend the reach of the FedNow Service to all 10,000 U.S. financial institutions.

The FedNow Service is expected to revolutionize the way consumers and businesses transact, offering immediate fund access and providing unprecedented flexibility to manage money and handle time-sensitive payments. Through the Federal Reserve's FedLine® network, businesses and individuals will be able to send and receive instant payments anytime, every day of the year. This step towards instantaneous payments marks a new era in the financial world, changing the landscape for consumers and businesses alike.