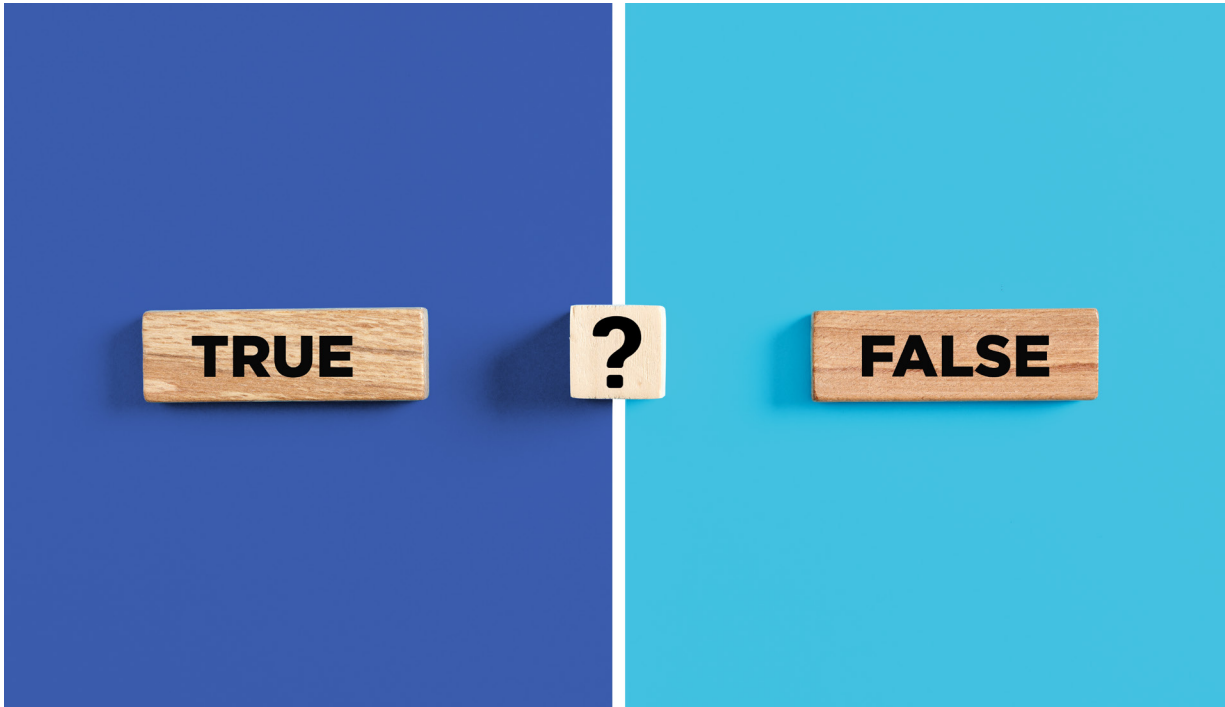


Top 10 Misconceptions about the FedNow® Service



The FedNow® Service, the first new payment rail introduced into the Federal Reserve system in over 40 years, is launching in July. However, despite being so close to going live, there are still many misconceptions about what's to be expected.

In a CUInsight-hosted [webinar](#), Joni Hopkins, Vice President, Product and Relationship Management Group at Federal Reserve Financial Services, and Mark Majeske, SVP Faster Payments at Alacriti, reviewed the top ten misconceptions they hear in the market about the FedNow Service.

Hopkins kicked off the webinar with the history of the FedNow Service. It was first announced in 2019 that a new instant payment service from the Federal Reserve was going to be built, with a 2024 expected launch. Despite COVID, the Fed was able to launch a year ahead of schedule. Hopkins attributed part of this to the hard work of the pilot participants.

Hopkins then explained the difference between “faster payments” and “instant payments.” A *faster payment* typically provides information with settlement to follow, whereas an instant payment allows the funds and the information to flow together simultaneously,” Hopkins explained. “So with

a faster payment, an FI might make the funds available to the payee, yet the settlement may occur later the same day or the next day, but it isn't instantaneous. With FedNow, the financial institution doesn't have to extend any short-term credit to their customers, which is sometimes a risk. It is completely instantaneous information and settlement 24/7/365."

Misconception #1

My credit union has to offer both Send and Receive and all use cases to see a value.

Hopkins: We get asked this a lot because we have built the platform to be very flexible and have a lot of options. Credit unions ask, "How much do I have to do?" At the very basics, we can meet the needs of all types of financial institutions, and this can be a platform for innovation. However, you get to decide whether you want to Send and Receive or you want to only Receive. I tell financial institutions it all depends on the solutions that they are thinking of and their needs, and what they want to provide to their members. At a minimum, I would recommend that every credit union look at Receive Only. While every credit union needs to look at what they want to do long term, they don't have to do all the use cases and can make a choice whether to Send and Receive or Receive Only.

Majeske: I think it comes down to use cases and if members want to use something that they're seeing in the marketplace—like getting payroll faster. I've seen a number of financial institutions start out with Receive Only and build out to Send as they recognize what their members need and when they need it.

Misconception #2

I don't have to create use cases for faster payment products—other FIs will.

Hopkins: This is a misconception with a little bit of truth to it. You don't necessarily have to create use cases. However, you're going to find a ton of use cases that are going to be relevant to your credit union. You get to decide how you want to use the rail. You can innovate and dream about new opportunities that you want to do tied to use cases.

On day one, when we launch, the [U.S. Treasury](#) will be with us in this journey for FedNow. They've been part of our pilot program and have announced that they will be bringing agencies to the table. I don't know what those agencies will be on day one, but we do know they are going to be a participant. So I encourage everyone to at least think of the Receive side. The risk is also a lot lower for Receive Only.

Majeske: Your members will find use cases that other financial institutions have put in place, and they're going to want to use them. The question is, do you Receive Only first? You want to do Receive because we're seeing a huge number of use cases, such as payroll companies. As a member, if you see friends that are able to get payroll two days faster, and your credit union is not offering that capability, that may be an issue. For example, in the gig economy, we're seeing Uber drivers that want to be paid as soon as possible. Perhaps you can let other financial institutions

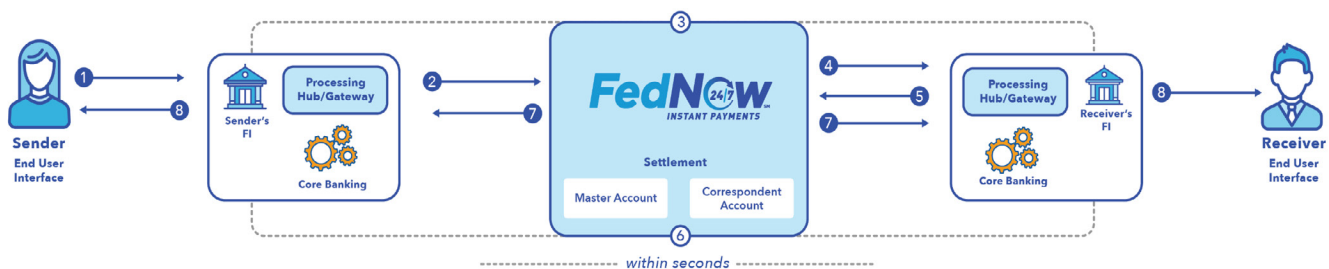
come up with use cases in the beginning, but over time you'll find that your members are going to like what they're seeing and using. You want to keep very close ties with those members to understand what their needs are.

Misconception #3

It's mandatory to open a separate account with the Fed for FedNow.

Hopkins: We listened to all of you who said, "I don't want to open a separate account or do anything different. Keep this as simple and flexible as you can." We built this so you can settle. You can settle in your master account at the Federal Reserve if you have one, or you can settle with your correspondent bank. You can do this in the same way you do all your other financial services products today. So you can settle the same way you do your ACH, your wires, and your checks. There's no need to get any new accounts pre-funded. It can all flow through a correspondent account or directly into your master account.

The FedNow Service Payment Flow



Source: 2023 Federal Reserve Banks

Misconception #4

Funding agents are required for the FedNow Service.

Hopkins: You are not required to have any type of funding agent. You will use your accounts the same way that you do today. But one thing that's new is we are launching some new liquidity management capabilities because the Fed normally isn't open 24/7/365. The FedNow Service will be able to enable those fund transfers between your master account and a joint account in the private sector (if you want). So while you do not have to have a pre-funded account or a funding agency, we will offer liquidity management services to you over the weekends and even at night as you need it.

Misconception #5

A brand new fraud system for instant payments is a must.

Hopkins: If you want to add new tools to help you combat fraud, go for it. Because, let's face it, fraud exists in payments. I wish it didn't, but we're seeing check fraud on the rise today, and that's a very stable environment. We have to continue to educate our members on scams and how to identify them. You don't necessarily have to add a brand-new system. We are launching some fraud capability options on day one and will continue to add. We have transaction limits so you can manage how much money is going through instant payments. We're going to have negative lists both on the Send and Receive side and then amped up fraud reporting to hopefully reduce fraud exposure within the system.

Majeske: What we're seeing in the marketplace is that there are firms with a fraud system in place that are well-tuned for ACH and wire. But when you get into the instant payments realm, we're recommending that people look at systems that are more proactive and can decision transactions in seconds. If you look at your current system and you want to build it out and make it more functional or tune it better to instant payments, a lot of times, your current provider will have a module to do that. Rather than a new system, it's an expansion of an existing one. If you want to add another protective layer, you can do that. And that's one of the things that we're working on at Alacriti.

Hopkins: One of the things that we are seeing with a lot of payment providers that have been involved in the FedNow pilot and some of our early adopters is the Fed will also have transaction limits out there at the institution level. We're seeing a lot of the providers offer transaction limits down to the account level. And so you can decision out whether you want to offer all of your members the exact same access to the system or trusted partners with special access where members get a little more flexibility in dollar limits or in use cases. You don't need to do something new, but I love that approach of layering because you talk to your current providers and layer on some additional aspects that will help with the implementation.

Misconception #6

Processing real-time payments is more expensive than processing Same Day ACH.

Hopkins: There are some misconceptions that FedNow is going to be very expensive. The good news is the pricing for FedNow is relatively comparable to what you are doing in the ACH world, checks or wires. And we are waiving that in 2023. There are no fees for Receive Only in 2023.

On the Send side, you'll see that it is \$0.045—so a fairly inexpensive option. This is going to give institutions another option for how they're going to send their payments for their members. This may be something that they do internally or something they offer out to their members directly. But it is a great tool because there's so many things that can happen that make sense in both the instant and the ACH world.

For example, if you usually send your ACH files out the day before for payroll for some companies and you have trouble and can't get the file out Thursday to pay on Friday, you may work it and be able to send it on Friday in the same-day ACH file. It makes sense—it's a batched file. You don't have to change your formats. You can just move that file over and do same-day ACH. But what if you still can't do it on Friday and you're struggling to get the payment out? This rail would be a good option. This can be a great tool for day workers/laborers where you can literally pay them as they're walking out the door and not have to delay their payment.

Majeske: I don't see pricing or cost as a major factor anymore. What I do see as a major factor is speed and availability. For instance, if I wanted to do a transaction on a Saturday, Sunday, or a holiday, I would use FedNow. I think the use cases are going to drive what rails are used. Oftentimes I have people from financial institutions ask me, what is this going to do to my ACH or wire business? And my response is those two are not going away, but you choose the right tool to do the job.

Hopkins: I think it's going to open the doors for financial institutions, like being able to do a car loan on the weekend. I do not see wires or ACH going away. And honestly, I don't think checks are going to go away for a couple more generations because we've got to get through some generational changes before those are going to go away.

Misconception #7

I have to staff my credit union 24 hours a day, 7 days a week once we sign up for FedNow.

Hopkins: I get asked, "How are we going to be staffed 24/7?" I respond by asking, "Do your ATMs or debit cards shut off at 5:00 p.m.? Do you offer those things on the weekends?" This is another rail that gives you the ability to innovate on how you can serve your members 24/7/365. While you don't have to staff 24/7/365, you need to come up with a plan the same as if your ATMs go offline or if you have a debit card issue. You have to have that contingency or who's going to be called potentially if something happens. But that's not going to be full staff 24/7/365. With that said, I will say that the Federal Reserve is going to be staffed 24/7/365. We're going to have a customer service number you can call should issues arise, which is going to be a change for the Federal Reserve. So we're the ones that are probably going to be impacted with that change of staffing, not you.

Majeske: I've had the opportunity to launch a number of banks into instant and faster payments. I know of very few institutions that have added staff as a result of adding instant or faster payments. At Alacriti, we design a working relationship where we do all the heavy lifting for you, and you don't have to have people there on the weekend, either for the transaction or for fraud. It's not necessary because all of this is systemic and built around efficiency.

Misconception #8

Credit unions can only go through their core provider to connect to FedNow.

Hopkins: The answer is no. You don't have to go through core providers to do that. We listened to all of you and built this with the flexibility to work with whatever payment provider you wanted to work with. One of the great things that came out of our pilot is participants telling us to create a website that gives bite-size information that helps institutions be able to learn not only about instant payments, but who they can work with. You can go to <https://explore.fednow.org/> and choose 'Explore the City,' which allows you the ability to go into the Showcase Theater building and look at providers that have established the ability to work with the Fed. We're not endorsing them, but this is layering a different payment provider on top of your core that could assist you with the Fed. They also might be able to layer on a specific use case opportunity for you, but you do not have to use your core. Most of the third-party service providers are in our pilot.

Majeske: A lot of people that we work with have different core providers. We address that at Alacriti by integrating with a number of major cores. We want to make it easy for you to participate in FedNow.

Hopkins: Alacriti is a good example of an opportunity to participate with someone who's been in our pilot. Talk to other financial institutions that you're close with. But at the same time, don't be afraid to explore something new that might be a better match for your use cases and your members.

Misconception #9

My members are not asking for instant payments yet, so there's no need to start planning for FedNow.

Hopkins: I would ask you, how are you getting the feedback from your members? They may not be asking for it from you, but they're more than likely going around you today. You can look at your own information and be able to tell usage possibility. For example, with Venmo or Paypal, you can see some of the settlements coming back and forth when someone decides to move money from their account to their credit union account. Take a look again at your members, talk to them a little more, and rephrase your questions because if they're not asking, it's just that they're not telling you because every credit union we have talked to that's done a survey of their members or really had some in-depth conversations finds out that there really are use cases with their members, but they just weren't hearing about it.

Majeske: I've learned that members do not care about rails. They care about function and use cases. So listen carefully to them because they will talk about the benefit, such as a friend getting their payroll two days early, rather than talk about FedNow. Question yourself in terms of your credit union. How do you want to differentiate yourself and innovate? Because that's going to be a key to the retention of your members.

What Instant Payment Solutions Will Your Credit Union Offer?

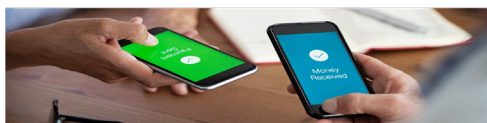
Business members	Retail members	Internal
<ul style="list-style-type: none">• Transferring cash between accounts at separate institutions• Sending bills or invoices using RFP capabilities• Paying bills or suppliers for inventory, services and rent• Disbursing payroll	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• Reimbursing employee expenses• Providing payroll, incentive pay or corrections• Disbursing 401(k) loans or investments• Funding member or member loans

Source: 2023 Federal Reserve Banks

Misconception #10

It's best to wait until more financial institutions are on the FedNow Service.

Hopkins: My answer is to get on at least Receive because you will likely have payments flowing through your credit union on day one. We have enough organizations already committed that they're going to be Sending in addition to the Treasury, so I think you are going to want to get involved as quickly as possible, at least on the Receive side. I wouldn't wait because the only thing you're doing by waiting to at least Receive is holding money from getting to your members in a faster mode. We've done the research to see what businesses and consumers think.



Consumer Survey – 2,000+ respondents

- About 70% say having access to enhanced faster payment capabilities from their financial institution(s) is an **important satisfaction driver**
- 83% use payment apps or digital wallet (at least occasionally).
- Nearly 80% are interested in **leveraging faster payments to pay businesses.**
- 62% expect to be using **faster payment options more in the future.**



Business Survey – 2,000+ respondents

- 9 in 10 businesses expect to be able to **initiate and receive faster payments by 2023**; many are ready to do so now.
- A majority of surveyed businesses consider it important to use faster payments. Nearly two-thirds indicated they would factor access to faster payments into **future decisions on whether to switch banks.**
- Businesses want to use faster payments for **quicker access to funds and the ability to post immediately/automatically.**

Source: 2023 Federal Reserve Banks

I think what's really important here is that 80% of consumers are interested in leveraging faster payments. We see the same on the business size—9 out of 10 businesses want to initiate faster payments by this year. We see a lot of businesses saying that this will be a deciding factor about where they bank in the future.

Majeske: I see a lot of institutions looking at loan disbursements. I see that as a huge growth area because when people come to you for a car loan, they don't want to wait a week. The new normal is instant. So how can you get those funds to their account instantly, even on a Saturday or Sunday? Those are the kind of things that people are getting used to. As a result, you're going to need to bring that into your institution and put your processes in place. It's important not to wait too long to do that. I think there are two things that we're going to start to see more and more applications as we go forward on. As it launches, we're going to start to see [Requests for Payment](#). And ultimately [cross-border](#). This isn't going to stop at domestic. And it's time to assess your members' needs and act on that.

Hopkins: We are using the ISO 20022, which is an international standard for payments. One of the reasons we did that is when you're building something for the future, you want to be ready and have compatibility with international standards. This is a completely domestic service at rollout. I get asked a lot on the international level if other countries are doing this. I say yes, and we're behind about 50 years because other institutions in other countries have been doing faster payments. But we're different from a lot of countries too. A lot of countries have a smaller footprint in the number of institutions. The Federal Reserve is indicative of our country as a whole in that we're going to serve all 10,000 financial institutions. We're going to allow that flexibility for everyone to act in the best interest for their community.

Next Steps

Hopkins suggested the next steps for those interested in the FedNow Service, which starts with contacting your Federal Reserve Relationship Manager and going to explore.fednow.org to research and look at use cases. And then next, validate your capabilities to onboard:

- **Real-Time Solutions are identified and validated** – Are you going to use your core system or another payment provider like Alacriti?
- **Connectivity decisions have been made** – That may be part of your payment provider, but it must also be coming directly to the Fed. There is not a charge for those who are connected directly to the Fed through Fedline Advantage or higher. The VPN refresh will have the capabilities to do FedNow.
- **Settlement decisions have been made** – If you're going to continue to do things as you do with other Federal Reserve financial services today, settling doesn't have to change. However, if you want to settle differently, then those decisions need to be in place.
- **Send/Receive decision made** – Think about whether you're going to Receive Only or whether you're going to do Send and Receive.

A relationship manager can help institutions get onboarded fairly quickly with these considerations addressed.

Majeske explained how Alacriti is contributing to FedNow's success. "We're participating in the pilot. The great news is that we recently completed our full end-to-end transaction in the test system. We have already added the capability to add FedNow into our [Orbipay Payments Hub](#).

Majeske also shared how Alacriti is different in the marketplace, “We’re cloud-native and always have been from the ground up. We’re also ISO 20022 compliant and built as well. We utilize a lot of different types of APIs, and one of the major applications of that is to integrate with many cores in the United States today. And that makes us a little bit different in that we’re able to facilitate companies who may have their core at a different provider, which provides operational efficiency and rapid time to market. One of the most important things I’d like to add, though, is that we look at doing business with people as being a partner versus a vendor. And so we spend a lot of time helping you manage your success in instant payments.”

To learn more about the misconceptions in the market related to the FedNow Service real-time payments rail, watch the full webinar, [***Top 10 Misconceptions about the FedNow Service***](#), featuring the Fed and Alacriti.



WEBINAR PLAYBACK

Top 10 Misconceptions about the FedNowSM Service

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Alacriti | FedNowSM

The banner features a blue background with a white play button icon in a circle. To the right is a photograph of a road sign with two directional signs: the top one says 'TRUE' with an arrow pointing right, and the bottom one says 'FALSE' with an arrow pointing left. The Alacriti and FedNow logos are at the bottom left of the banner.

Alacriti’s centralized payment platform, [*Orbipay Payments Hub*](#), provides innovation opportunities and the ability for customers to make smart routing decisions at the financial institution to meet their individual needs. Financial institutions can unify payment processing all in one cloud-based platform—ACH, the Fedwire Funds Service, TCH RTP[®] network, Visa Direct, and soon, the FedNow[®] Service. To speak with an Alacriti payments expert, please [*contact us*](#) at (908) 791-2916 or [*info@alacriti.com*](mailto:info@alacriti.com)

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