FedNow Service continues momentum

February 09, 2024

The Federal Reserve’s first new payment rail in 50 years launched in July 2023 and has seen steady growth with broad geographic reach.

The Federal Reserve’s first new payment rail in 50 years, the FedNow Service, launched in July 2023, joining the Fed’s existing suite of payment services such as the Fedwire® Funds Service and FedACH®. The introduction of the FedNow Service is the culmination of four years of development and supports the Fed’s mission to promote a safe, efficient, and accessible payment system for the United States.

The FedNow Service launched with 35 participating institutions and has seen steady growth with a broad geographic reach. Comprising a diverse group of community banks and credit unions as well as some of the largest financial institutions in the country, the network surpassed 300 institutions across 45 states by year’s end.

The Federal Reserve expects strong network growth to continue in 2024, bringing accessibility to the FedNow Service through the longstanding connections the Fed has with thousands of financial institutions across the country.

With the service now live, the Fed’s focus is on growing the network and helping financial institutions onboard. Looking ahead, the Fed will continue to enhance FedNow with new features and functionality as market needs evolve.

Moving payments instantly

Through the FedNow Service, banks and credit unions can move payments immediately—24 hours a day, seven days a week, every day of the year. Through financial institutions participating in FedNow, businesses and individuals can send and receive instant payments at any time of day, and recipients have full access to those funds immediately. That means consumers and businesses have flexibility to manage their money, especially when making time-sensitive payments.

Increased appetite for instant payments

According to surveys by the Federal Reserve, U.S. businesses and consumers continue to express a desire for instant payments (FedPaymentsImprovement.org). A majority of businesses (83%) and consumers (75%) already are using faster forms of payment, and most (66% of businesses and 61% of consumers) say they are likely to use faster payments more often in the future.
In the surveys, businesses highlighted the importance of flexible payment options to help them remain responsive in a changing business environment. Consumers continue to exhibit a preference for online banking options, with use of mobile payment apps increasing beyond expected groups such as millennials and GenZ. (Learn more about young adults and payment apps.)

Leveraging the platform for new solutions

As demand for instant payment grows, so does the proliferation of new use cases that can leverage them. During a December 2023 FedNow Service Town Hall webinar, financial institutions and payment service providers presented innovative examples of leveraging the FedNow platform to offer new solutions, solve existing end-user pain points and improve customer satisfaction.

Panelists from the payments industry cited the benefits of instant payments for their customers as a driver of their participation. They also expressed a desire to provide an exceptional customer experience and remain competitive in an evolving payment landscape.

Early adopters of the FedNow Service have cited a variety of instant payment use cases they are currently enabling or view as potential opportunities. Examples included parents sending funds to their children, real estate transactions, individual investors moving money in and out of accounts, and buying and selling cars.

Opportunities for financial institutions

Kansas City Fed President Jeff Schmid recently promoted the opportunities of the FedNow Service to Tenth District financial institutions.

“The Federal Reserve has been at the forefront of improving accessibility, safety and efficiency of the U.S. payment system throughout its 110-year history," Schmid said. “The FedNow Service is the latest innovation.”

“FedNow offers financial institutions instant payment clearing and settlement and is an important step in the journey to achieve instant payments ubiquity in the United States," Schmid added.

The FedNow Service has many use cases, and these will continue to grow and evolve with advancements in technology and increasing demand for instant payments. Broader reach of real-time payments will allow workers to have immediate access to their paychecks, consumers to pay bills electronically much more quickly, small businesses to manage their cash flow more efficiently, and more.
The Fed’s decision to offer the FedNow Service to financial institutions of all sizes across the country is important for supporting equitable access to instant payments for the American public.

Go to FedNowExplorer.org to learn more about instant payments and sign up to receive updates on the FedNow Service.