

Leveraging Modern Payments Infrastructure in Community Banking

Remarks by
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The views expressed by the author are his own and do not necessarily reflect those of the Federal Reserve System, its governors, officers or representatives.

Good morning. Thank you for joining us at this year's Future of Banking conference. I'm pleased to see so many community bank leaders gathered here today. Your presence reflects a shared commitment to understanding how our industry is evolving and how institutions can position themselves to thrive in the years ahead.

When we talk about the "future of banking," it's tempting to think we're discussing something distant or theoretical. But the reality is that the future is already here. Many of the innovations that will define banking in the coming decade are already proven, operational, and creating opportunities for early adopters.

My message today centers on how leveraging foundational infrastructure—particularly instant payments—can strengthen competitive positioning while maintaining the trust and relationships that have always been the hallmark of community banking. This isn't about abandoning, or even distracting from, what makes community banks special. It's about accessing technological innovation to further deliver on community banking's promise and potential.

I'll begin with my perspective on the economic environment, then discuss how technology is reshaping dynamics in banking, and finally examine how instant payments, and the Federal Reserve's FedNow Service in particular, provides infrastructure that community banks can leverage. My goal is to make clear that the path forward in a rapidly changing payments landscape is both practical and achievable.

Economic Outlook and Banking Conditions

Before addressing payments innovation specifically, let me provide some context on where I see the economy and what that means for the banking sector.

Though the U.S. economy currently faces a number of challenges, it has also shown remarkable resilience. Geopolitical developments continue to create uncertainty. While the United States is less vulnerable to global energy disruptions than in the past, higher oil prices still drain household spending power and increase costs for businesses. Yet despite these headwinds, economic fundamentals in the U.S. and in the Tenth District remain sound.

Growth is positive, with economic output expanding at a modest but steady pace so far this year. Unemployment remains relatively low by historical standards, and the labor market is functioning effectively—albeit in an unusual low-hire/low-fire environment.

Consumer spending remains the largest driver of economic activity, representing two-thirds of output. In aggregate, household balance sheets are strong. Net worth relative to income is near all-time highs, largely due to gains in equity markets and home values over recent years. These high levels of wealth are leading many households to increase their spending.

Business investment has shown particular strength around technology infrastructure and the artificial intelligence buildout, reflecting confidence in the potential for long-term productivity improvements. And productivity gains have been strong, allowing the economy to expand even as workforce growth has slowed.

Though economic growth has been solid recently, looking further ahead, population trends, including declining fertility rates and the growing number of baby boomers aging into retirement may limit how quickly the economy can grow.

However, I see continued inflation as the most pressing risk to the economy. While inflation has moderated significantly from its peak, in my discussions with business leaders across the Tenth District, it is clear that it is still too high.

Despite the continuing challenge of inflation, conditions are fundamentally sound in the banking sector. Capital and liquidity positions remain strong across the industry, complemented by healthy profitability levels and sound credit quality. This is particularly true for community banks, which continue to maintain higher capital ratios on average than their larger counterparts.

Community banks have demonstrated remarkable resilience through multiple cycles of economic change. However—and this is critical—as important as a well-capitalized institution is, that does not insulate banks from competitive pressures. As you know, pressures on community banks are intensifying from multiple directions. An increasing number of consumers are holding balances with fintech companies and other nonbank providers. In the Tenth District alone, there were over 114 million transactions valued at \$18.6 billion into and out of the two largest digital wallets last year. This dynamic isn't just driven by the next generation or tech enthusiasts. It's becoming mainstream behavior across age groups and income levels.

Customer expectations are being shaped not just by what banks offer, but by the entirety of their digital experiences. One-click shopping, instant streaming, and millisecond messaging in other aspects of their lives have reduced frictions and create expectations for speed and convenience in banking services.

Technology as a Competitive Advantage

This brings me to the role of technology in competitive positioning and several technological developments that are reshaping banking today.

Artificial intelligence capabilities are increasingly important for fraud detection, cybersecurity, customer service, and operational efficiency. The potential here is significant, and I know many of you are exploring AI applications.

Digital assets and blockchain technology continue to evolve, with ongoing development in stablecoins, tokenized deposits, and more efficient cross-border payment mechanisms. The regulatory framework is still taking shape, but these innovations will likely play a growing role in financial services.

Underlying these developments is something more fundamental, and that's payments infrastructure. Payments are the circulatory system of banking—the foundation that makes everything else possible. Without efficient, reliable money movement, other products and services lose much of their value. The most sophisticated AI model or the most elegant mobile app faces a fundamental constraint if institutions can't move money when and how customers need.

The evolution in payments has progressed from paper to electronic systems. And now electronic systems are being leveraged to support instant transactions, which represents a transformational shift rather than incremental improvement to the payment system. The move to instant settlement has fundamentally changed what's possible in terms of business models, customer experience, and financial services innovation.

The ramifications for financial institutions and the economy are significant and worth exploring. As you may know, our Bank recently announced the theme for this year's Jackson Hole Economic Policy Symposium, which is "Financial Innovation: Implications for Payments and Policy." I look forward to an engaging discussion among central bankers and economists from around the world on this important topic.

The Federal Reserve's Role in Payment Modernization

The Federal Reserve has been an active participant in the payment system since its inception when the issue at hand was clearing checks at face value. We have a public-interest mission to promote the safety and efficiency of payments; to ensure every depository institution

has access to these services on an equitable basis; and to do so in an atmosphere of competitive fairness, while being mindful of the overall risks to the payment system. Private-sector providers also engage in payment clearing and settlement services, and we encourage this competition in the marketplace because it supports the processing of payments as efficiently as possible and improves the quality of services offered.

Federal Reserve Financial Services operates the central bank's critical payments infrastructure, maintaining relationships with roughly 9,000 financial institutions and processing more than \$5 trillion in transactions daily. One of the benefits of having the central bank maintain an operational presence in the payment system is that it provides an informed basis from which to catalyze the industry toward modernization by providing tools, data, and knowledge that institutions need to serve customers effectively.

This is not a new role for the Federal Reserve. There are many examples of the Fed acting as a convener and finding solutions to common challenges, especially as it relates to payments.

Instant payments and FedNow represent the latest chapter in this ongoing story.

Why Instant Payments Matter Now

So, why do instant payments matter now? I believe the market has changed fundamentally. Federal Reserve research shows that 78 percent of consumers prefer faster payments when given the option. This isn't a niche demand. For more than three-quarters of consumers, speed in payments is a clear preference. The question becomes: Are those rapidly evolving preferences being met by customers' primary banking relationships, or are they finding alternatives?

Businesses are also expressing expectations for faster payment options. Sixty-six percent of businesses indicate they're likely to use instant payments if their bank offers them. Further, businesses that use instant payments report 10 percent greater satisfaction with their primary financial institutions than businesses that do not.

Early adopters have noted benefits in customer relationships and business development. The landscape is evolving, with the competitive gap between institutions that offer instant payments and those that don't continuing to widen as use cases expand, 24x7 commerce becomes the norm, and instant access to funds becomes a must have, not a nice to have.

The Journey to FedNow

Understanding the path that led to the FedNow Service provides useful context. In 2013, the Fed initiated a consultation on payment system improvements. From 2015 to 2017, the Kansas City Fed's then-President Esther George served as executive sponsor to convene a Faster Payments Task Force that brought together diverse stakeholders to identify needs and opportunities in payment modernization. That task force requested that the Fed build a 24/7/365 settlement infrastructure for retail payments.

Following extensive public comment processes from 2019 to 2020, the FedNow Service launched in 2023. Its development was in direct response to industry requests for infrastructure that would provide broader access to instant payment capabilities. Since launch, we've seen adoption and usage grow significantly.

What Distinguishes FedNow

What distinguishes the FedNow Service from other payment options? Three attributes stand out that I think are of particular importance to community bankers.

First, FedNow operates as a trusted infrastructure provider.

The Federal Reserve operates the payment system, in part, to enable competitive positioning across the banking industry, not to compete with financial institutions for customers. The Fed's role is to provide infrastructure that institutions, regardless of their size and location, can leverage in serving their customers.

FedNow offers direct settlement access 24 hours a day, 7 days a week, 365 days a year, using the funds that financial institutions hold in their master accounts at the Federal Reserve. And the Federal Reserve has worked diligently to streamline the onboarding process, with one institution completing onboarding and processing instant payments in as little as five days.

Current participation includes over 1,700 financial institutions across all 50 states, covering over 50 percent of demand deposit accounts in the country. Community banks represent 98 percent of FedNow network participants, even though only 20 percent of community banks in the U.S. have subscribed to date. Together, we need to close this gap, as growth will make the network stronger and more useful for all participants. Having all community banks connected will unlock the full potential of instant payments.

A second attribute is that FedNow enables flexible innovation.

As a use-case agnostic platform, FedNow supports industry innovation for diverse applications. Rather than prescribing specific uses, the service provides infrastructure that institutions and their customers can leverage based on their needs.

Consider some live examples:

Earned wage access and same-day pay have expanded from the gig economy into mainstream employment, helping people get their money when they need it, not just on traditional paydays. One online job search platform currently lists over 100,000 jobs advertising same-day pay, with a significant number facilitated by instant payments—including positions like shift nurses and hourly workers. For working families, imagine getting access to your paycheck when you actually need it, rather than waiting until next Friday when your electricity bill is due this Wednesday.

Instant loan disbursement has many potential applications, including weekend auto loan disbursements or accelerated real estate closings. One institution on the FedNow Service works with an HVAC service provider to offer indirect loans, which are often needed during the weekend or after hours. With FedNow, the institution can disburse loan funds instantly to the service provider, who uses the financing to procure equipment and restore the customer's service immediately and doesn't have to wait for regular business hours.

Instant payments can significantly smooth small business cash flow issues or help protect business owners from the risks of pricing volatility. Someone shared with me a story about a farmer who purchased supplies using a traditional payment rail, but by the time their payment cleared and settled they owed an additional \$30,000 due to a massive supply chain disruption event that caused prices to skyrocket. With instant settlement, the payment speed wouldn't have been a factor—both parties would have clarity on the transaction price from the start.

Last year we saw the first federal emergency relief disbursement sent instantly via the FedNow Service through the U.S. Treasury's digital pay program. This is a gamechanger, especially in disaster or emergency situations where speed really matters to the recipient.

These and other use cases have driven strong FedNow transaction volume growth: We have seen 460 percent year-over-year growth from 2024 to 2025, going from 47,000 transactions in 2023, to 8.4 million in 2025. That growth is continuing in 2026.

The third attribute is that FedNow supports controlled implementation with comprehensive fraud risk-management tools.

We've heard loud and clear that fraud concerns are top of mind, which is understandable. Enabling your institution to send instant payment transactions—not just receive them—does warrant careful consideration, but sending is also where the main benefits exist for financial institutions.

The fundamental architecture of FedNow mitigates risk as users can only push transactions—not pull them. This design provides inherent security advantages compared to networks offering debit pull options. The fraud rate is also much lower than that of paper-based check systems.

Beyond this architecture, an extensive risk-mitigation toolkit already exists within FedNow and continues to expand. Institutions can customize their capabilities and controls within FedNow, which provides an opportunity to further mitigate risks.

These risk management tools will continue to evolve in close collaboration with the industry to ensure customers can effectively manage their fraud risk and pursue instant payments in a way that aligns with their unique risk parameters. Innovation and safety can work in concert rather than in opposition.

Implications for Community Banks

What does this mean for community banks?

FedNow provides the capability for community banks to match features offered by larger institutions and newer nonbank competitors. Some of FedNow's significant use cases come from partnerships between community banks and fintechs.

Revenue opportunities emerge from innovative use cases that attract customers and expand bank product offerings. Offerings like instant loan disbursement, same-day payroll, and real-time merchant settlement can differentiate institutions in their markets.

Expanding services and improving customer experience also allow institutions to better address customers' needs in-house rather than seeing those needs met elsewhere—keeping relationships intact and revenue within the institution. In today's market, customers are unlikely to ask for instant payments but instead may simply switch to a provider that offers the functionality they want.

Adopting instant payments represents an investment in infrastructure that positions institutions for the future while maintaining core community banking values, such as relationship building and knowledge of local market needs.

In essence, FedNow enables community banks to provide the same payments capabilities as the largest organizations while maintaining their distinctive focus on customer relationships.

The Path Forward

Momentum for instant payments is building across the industry, and community banks need to be a part of this transformation. FedNow adoption continues to accelerate, volume growth remains substantial, and new use cases continue to emerge.

As I mentioned earlier, with only one in five community banks currently utilizing FedNow, significant opportunity remains. The question isn't whether instant payment capabilities matter to customers—evidence suggests they do—but rather where customers are going to access those capabilities.

Resources are available to support institutions on this journey. The Tenth District Fed team stands ready to assist in partnership with Federal Reserve Financial Services, combining national expertise with regional market knowledge to offer tailored education, advisory group engagement, and research focused on the specific needs of local institutions and their customers.

Specific considerations depend on where your institution currently stands with instant payments—whether you're in early exploration, evaluating send capabilities beyond receive-only functionality, or already sending and identifying advanced use cases. Each stage presents opportunities for growth and to strengthen your competitive position, while also contributing to how the network evolves.

For all institutions, educating boards and management teams about current capabilities, engaging service providers about their FedNow offerings, and discussing needs with commercial customers are all productive steps. In short, we are available and ready to support you during this payments transformation.

Conclusion

In conclusion, the economic environment requires operational excellence. Community banks have demonstrated resilience but face evolving pressures. Technology creates

opportunities, but those opportunities rest on foundational elements—particularly payments infrastructure.

The future of banking involves leveraging modern infrastructure to strengthen market position. FedNow provides a means for institutions to compete effectively while maintaining their approach to trust and customer relationships.

Innovation and tradition need not be opposing forces—they can work as partners in serving communities. The future of banking is being written now, and the transformation that instant payments brings is already underway. The question for each institution is how to position itself within that evolving landscape.

Thank you.