

What is FedNow (instant payment)

JPMorgan, Wells Fargo, and other major banks will use the new Federal Reserve's 'FedNow' instant payment system. Let's take a look at how it works.

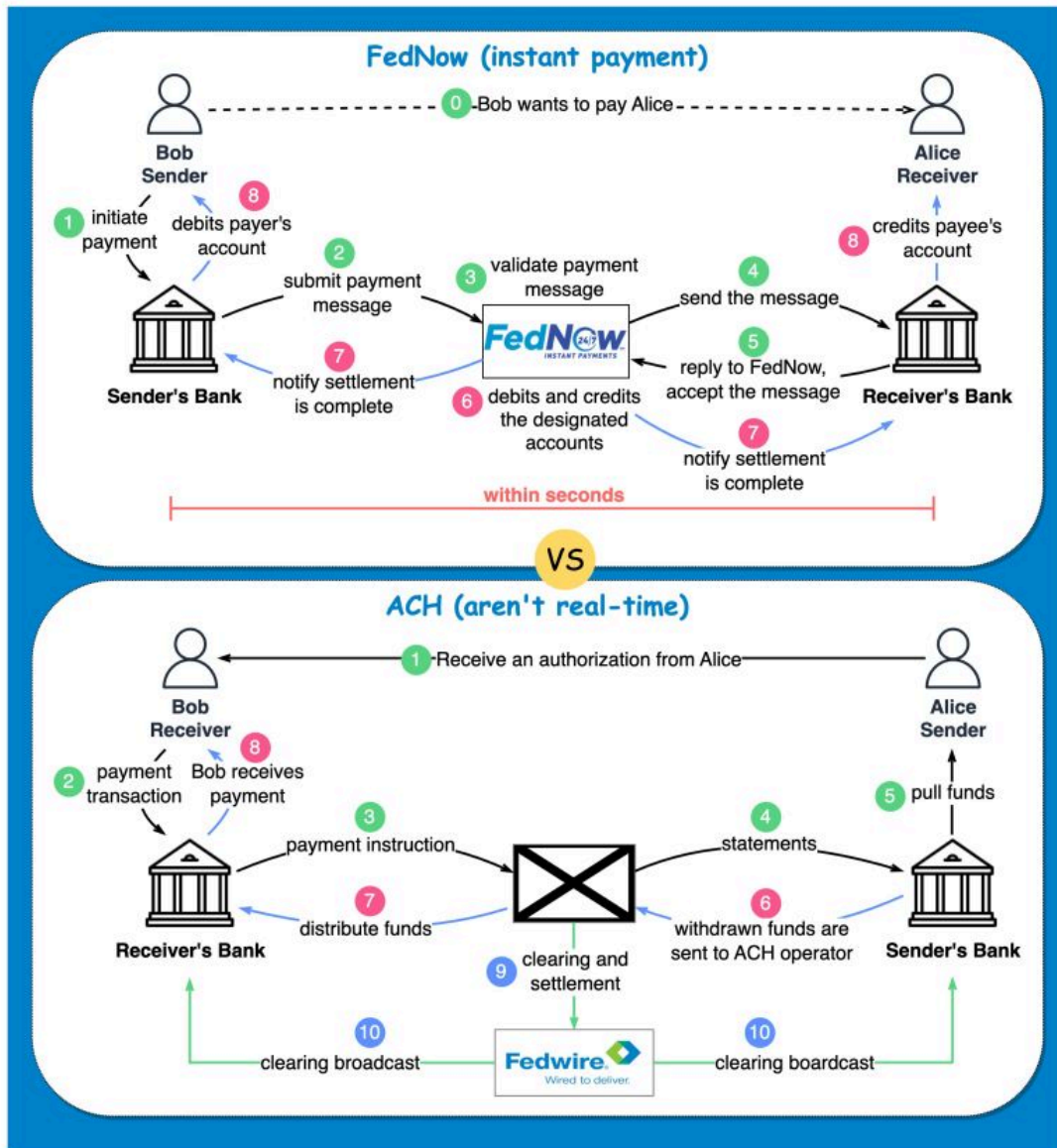
Federal Reserve launched FedNow instant payment service on 20 Jul. It allows retail clients to send and receive money within seconds and it is available 24x7.

- What does this mean?
 1. Peer-to-peer payment services in the private sector like Venmo or PayPal act as intermediaries between banks, so we need to leverage payment schemes for clearing and Fed systems for settlement. However, FedNow can directly settle the transactions in central bank accounts. [1]
 2. Fedwire, another real-time payments system, will still function in large-value or low-value payments. FedNow is not designed to replace Fedwire.

The diagram below shows a comparison between FedNow and ACH (Automated Clearing House), which is used in domestic low-value payments.

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Source: <https://www.klaros.com/post/q-a-on-the-federal-reserve-s-fednow-service>

- FedNow [2]
 - Step 0 - Bob wants to pay Alice \$1000.
 - Step 1 - Bob initiates a payment transaction using FedNow.
 - Step 2 - The sender's bank submits a payment message to FedNow.
 - Step 3 - The FedNow service validates the payment message.
 - Step 4 - The FedNow service sends the payment message to the receiver's bank, where it is confirmed.
 - Step 5 - The receiver's bank replies to FedNow, confirming that the payment is accepted.
 - Step 6 - The FedNow service debits and credits the designated accounts of the sender and receiver's banks.

Step 7 - The FedNow service notifies the sender's bank and receiver's bank that the settlement is complete.

Step 8 - The banks debit and credit the bank accounts.

- ACH

Step 1 - Bob receives authorization from Alice that he can deduct from Alice's account.

Step 2 - The payment transaction is sent to the receiver's bank.

Step 3 - The bank collects files in batches and sends them to the ACH operator.

Step 4 - The ACH operator sends the files to the sender's bank.

Step 5 - The sender's bank pulls funds from Alice's account.

Step 6 - Withdrawn funds are sent to the ACH operator.

Step 7 - The ACH operator distributes funds to Bob's bank.

Step 8 - Bob receives the fund.

Step 9 - The clearing instructions are sent to Fedwire.

Step 10 - Fedwire sends clearing broadcasts to banks for settlements.

Over to you: What types of instant payment systems does your country provide?

Reference:

[1] [Federal Reserve launches FedNow instant payment service that could bypass Venmo and PayPal](#)

[2] [Q&A on the Federal Reserve's FedNow Service](#)