

# Banking and Payments **BULLETIN**

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## **What impact will FedNow have on the US payments landscape?**

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Harnessing the power of the digital channel

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Would Europe benefit by introducing a digital euro?

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India expands payment innovations to cater to all

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Growing regulation limits fintech expansion in Argentina

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## **Country profile: Poland**

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## What impact will FedNow have on the US payments landscape?

On 20<sup>th</sup> July the US Federal Reserve launched FedNow, a US government-backed instant payments system. Following the launch of the RTP network in 2017, this means the country has moved from not having a real-time gross settlement system, to having two within the space of six years.

There is considerable redundancy between FedNow and RTP, which is undoubtedly part of the intention of creating FedNow – having two systems provides competition and promotes economic security. Although the two systems have a lot in common there are differences – most significantly RTP has a larger maximum transaction limit, while FedNow, through the Federal Reserve, has access to a larger number of institutions.

Although smaller banks and credit unions can and do participate in RTP, many have chosen to hold off. Research by Datos Insights suggests these institutions are prioritising FedNow participation over RTP, possibly over concerns that the larger banks that own The Clearing House that operates RTP will develop it in ways that benefit larger institutions. The Clearing House and the Federal Reserve are understood to be working together to make the two rails interoperable, which would reduce the need to belong to both systems.

The USA has come relatively late to the instant payment party. PIX in Brazil and UPI in India are examples from other countries where real-time payments have been introduced relatively recently and gained traction quickly – so will the same happen in the USA?

Unlike these other countries, where these real-time payments systems are essentially public utilities which banks are encouraged or even required to participate in, there is no obligation on banks to support or use FedNow or RTP. Furthermore, the USA has a large and fragmented base of financial institutions and a range of competing payments offerings; closed loop systems such as Venmo and Zelle, and push-to-card systems from Mastercard and Visa, offer instant or near instant payments. Even the better-known ACH system now offers a same business day option, albeit not an instant service.

The key to FedNow's future is going to be its ability to create a network effect. Initially, many banks will sign up as receive-only members. This will generate momentum as banks and fintechs will increasingly be able to build business cases for rolling out services to take advantage of the growing network. Over time more banks will be convinced by use cases such as payroll and will become full members. FedNow is not guaranteed to be a success, but it has a great shot.

Dominic Hirsch, Editor-in-Chief

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