



## Instant payments: Let's get the ball rolling

*by the Bankers' Bank of the West Cash Management and Relationship Management Teams*

### What is an instant payment?

By definition, an instant payment enables the payment originator and the recipient to message and settle a transaction in real time (within seconds) in their respective accounts. This enables the recipient to use the funds immediately.

Instant payments are also final: There is no settlement delay between the payment message and final settlement, nor can the payment be reversed by the sender. In addition, payments can be sent, received, and settled 24 hours a day, seven days a week.

It's also important to understand what an instant payment is not. Applications like Venmo® or Zelle® enable individuals to send payment messages. Such applications have mainly used the ACH or debit payment rails to settle transactions. Although the messaging of the payment transaction is instant in these cases, the settlement of the funds is not as fast as instant.

The instant payment rail—FedNow<sup>SM</sup> Service and RTP® network—is an entirely new payment rail that settles the transaction between financial institutions as fast as messaging occurs. Applications such as Venmo, Zelle, treasury management systems, and payment applications will plug into the instant payment rails similar to plugging into Fedwire, ACH, and debit payment rails.

### What are the options?

At this time, there are two instant payment networks that bankers should consider when planning for instant payments.

### FedNow Service contrasted with Real Time Payments (RTP)

The FedNow Service, an offering from the **Federal Reserve Bank**, is scheduled to go live late in the second quarter or early third quarter 2023. It is accessed and managed similarly to the way banks access the **Fedwire** and **FedACH** systems. Your customers could use your payment platforms to initiate payment messages that flow through this network to the receiver while settling the transaction between the sender/receiver financial institution's fed accounts or correspondent accounts.

BBW can be your settlement agent for FedNow transactions, which means you wouldn't need to monitor funding during non-business hours. BBW will also provide liquidity should you experience an excess amount of payment outflow during non-business hours.

The RTP network, offered via **The Clearing House** (a consortium of the largest U.S. banks), is live today. It has gained good adoption by large banks and some community banks, but many community banks are waiting for the FedNow network. The question of whether the RTP network and FedNow Service will communicate with each other has not yet been settled. For this reason, you might want to consider adopting both networks depending on how your customers' needs develop.

The RTP network operates similarly to the FedNow service in that messages are sent between sender and receiver while settlement instructions are passed through the network.

#### **Learn about the FedNow<sup>SM</sup> Service:**

<https://www.frbservices.org/financial-services/fednow/instant-payments-education>

#### **Learn about the RTP® network:**

<https://www.theclearinghouse.org/payment-systems/rtp/institution>

## Instant payments: Let's get the ball rolling (continued)

The settlement takes place in a jointly owned account at the New York FRB between participating financial institutions. BBW can be your settlement agent in the RTP network, thus eliminating the need for you to manage a separate account at the New York FRB.

### Who should you talk to?

Given the requirements of instant payments, you will need to discuss the FedNow Service and RTP network with various service providers to learn where they are in the process of allowing you to join instant payment networks. The first two priorities are (1) your core system for sending and receiving messages, and (2) your settlement agent for settling the payments.

### Your core provider

Instant payment networks need to confirm availability at your customers' account level as part of their process, among other items. In most cases, this means your core provider must be involved on a real-time 24/7 basis. Questions for your core provider include:

- ▶ What options and functionality will they offer to process messages/transactions?
- ▶ Are they ready now?
- ▶ What is the timing, from start to finish, on rolling this product out to your customer base?
- ▶ What agreements are needed to begin the process? (Allow time for reviewing agreements with your legal team.)
- ▶ What are they offering as a fraud/risk solution for faster payments? Provide potential use cases that may prove beneficial for your customer base. For instance, A2A, P2P, B2B, B2C, C2B, G2C, C2G, and so on.

### Your correspondent or FRB

Settlement of payment activity is what BBW can do for you on either network. Much as you have done for wires, ACH, cash letter, and other services, you can set up your instant

payment settlement to settle in your BBW account. If you choose to send payments, we can provide liquidity 24/7/365 to ensure your customer payments continue to flow.

### Your payment application providers

Apart from your core system and settlement agent (correspondent), you may have various payment applications your customers are using. These make up another set of providers you might need to spend time with, depending on your infrastructure. Here are a few that come to mind:

#### Mobile banking

*(application used for end users)*

- ▶ What have they done to prepare connections to the faster payments networks? Talk through the potential use cases needed for your customer base.

Others vendors to reach out to include your online banking and P2P providers.

### How can BBW help?

Bankers' Bank of the West has been involved with the Faster Payments initiative since 2018 through the Faster Payments Task force, the Secure Payments Task force, the FedNow reconciliation group, and the FedNow Pilot. On the belief that community banks must not be left behind in the instant payment shift, we are here to assist you.

BBW can partner with you for 24/7/365 settlement and liquidity management similar to the way we currently help community banks in the management of their Fed master settlement transactions.

As you read more about use cases, you will understand the distinct advantages of participating in the new payment rail. We can help guide you in the role you choose for your bank, whether you decide to settle with us or not.

**Reach us at [ops@bbwest.com](mailto:ops@bbwest.com)  
or contact your relationship manager**