

What Credit Unions Should Know About FedNowSM

March 14, 2023 | Member Q&A

Last year, Alloya launched an interactive, educational community, Alloya Insights: Faster Payments, to help credit unions strategically prepare for real-time payments and find answers to their most pressing questions, like the ones listed below generated during the March 14 webinar.

In 2023, Alloya is continuing to support credit unions through this community. Just recently, Alloya's team of faster payments experts created a proprietary Faster Payments Financial Model, exclusively available to credit unions in the Alloya Insights: Faster Payments community, to help them understand how the implementation of real-time payments will impact them – from staffing to daily operations to income to legacy payments and beyond.

In addition, participants gain access to the community portal, which includes topic briefings, blog entries, webinar recordings, polls, FAQs and planning tools – all of which have been synthesized and published by Alloya's team of experts. Visit www.alloyacorp.org/insights to learn more.

The FedNowSM System

Q1: The ecosystem to make FedNowSM work seems complex. Can you explain the roles of different stakeholders in a way that a fourth grader can understand?

A1: Think of the FedNowSM system as a highway (the industry frequently calls this a "rail"). It's the infrastructure. Alloya's products and services would be the on-ramp (let you access and use the highway). Credit unions would be cars and your members and their transactions would be the passengers. The [FedNow Explorer](#) is an excellent starting point to learn more.

The Market, Demand & Adoption

Q2: When is FedNowSM launching? Any closer estimate than May-July?

A2: On March 15, 2023, the Federal Reserve announced a July launch for the FedNowSM Service. Read [the press release](#) for additional details on their preparations. We will share more information about Alloya's plans to support credit unions in the coming days!

Q3: Why will this be a good thing for our credit union to offer? How do I convince my board, staff and members that this is needed? What if we don't do this?

A3: Member expectations for both speed and convenience are not just driven by the capabilities of other financial institutions, but also by other industries (e.g., streaming services, grocery delivery, online car purchasing). Within financial services, credit unions have now fallen behind banks for several years running in the annual ASCI customer satisfaction rating. This is primarily due to technology/mobile capabilities. FedNowSM provides an opportunity to take advantage of the speed and messaging capabilities, which will drive a better experience for individual and business members. On the other

hand, if you don't have these capabilities, there is a risk that your members will find a financial institution that does.

The team within your credit union that sees the value of these capabilities will be key to driving change and convincing senior leadership. Our team of experts are actively working to help credit unions through this process via the Alloya Insights: Faster Payments community.

Fraud & Security

Q4: Can I implement lower transaction limits?

A4: Yes, the sending institution can implement lower transaction limits. Limits should be set with a risk-based mindset. Some members may qualify for a higher limit than others.

Q5: What will occur if the sending institution and the receiving institution have different transaction limits? How is the institution and the consumer notified?

A5: Only the sending side can implement transaction limits.

Q6: You noted that the financial institution would be required to provide fraud reporting. Would this reporting tie in to current CTR and SAR reporting to the federal government, or is this additional reporting? If it is additional reporting, what platform is being used for this reporting?

A6: Additional notification to the FedNowSM network is required (above and beyond existing reporting requirements). FedNowSM fraud reporting can be done via ISO messages or CSV files. Specifics are detailed in [the FedNowSM Service Operating Procedures](#).

Q7: Regarding the "negative list" (which was also mentioned as a blacklist): how is this maintained? Is this operated like the 314(a)? Do you foresee sharing this information between institutions? Is there a way for a consumer to dispute being placed on the "negative list" as there is with the 314(a) process?

A7: Each financial institution will maintain their own negative list. Possible information sharing is in the future, but only between sending/receiving institutions and FedNowSM. A consumer would have to work with their financial institution to reassess their placement on the negative list.

Q8: How would you dispute a transaction or file a fraud dispute?

A8: Transactions are irrevocable, given that settlement is instantaneous. Financial institutions can initiate a request for return to the receiving institution. Since the transactions are irrevocable, the receiving financial institution does not have to return the funds; however, [FRB Operating Circular 8](#) requires all participants to use reasonable efforts to aid in the investigation and remediate exceptions.

Q9: If you are a receiving institution and funds are sent and subsequently found to be fraud, how is the fraud case managed? What are the timing requirements?

A9: Non-value messages can be exchanged through the FedNowSM network, including request for return

messages. Timing to report to the FedNowSM network is the next cycle date after the fraud determination is made.

Q10: Regarding the negative list, if I am sending for a customer, but the receiving institution has blocked the receipt, will I be notified this was blocked and why?

A10: Yes, the receiving financial institution will reject the message indicating to the sending financial institution that fraud controls were the reason for the rejection.

Q11: Are there fraud claim options, the same way that debit card fraud can be claimed through the card networks?

A11: A request for return can be sent to the receiving financial institution; however, since the payments are irrevocable, there is no requirement for the receiving institution to return the payment.

Staffing & Operations

Q12: Do I have to have staff 24x7x365 to support instant payments (internally and externally to members)?

A12: With existing “faster” but not “real-time” options such as Zelle, financial institutions have not generally staffed up 24x7x365. Alloya’s experts are conducting research on this and will review their findings in an upcoming webinar in the Alloya Insights: Faster Payments program.

Disintermediation

Q13: Will this replace ACH?

A13: No, we expect that existing payments rails and types will continue. We anticipate checks will continue to decline at the 7% rate they have in recent years, and that the overall number of payments will increase but real-time payments (over FedNowSM and RTP[®]) will begin to cannibalize some of the growth of other payment methods. We have built a Faster Payments Financial Model for our Alloya Insights: Faster Payments credit unions that incorporates these assumptions.

Financial

Q14: What will the costs be to a financial institution to originate FedNowSM payments?

A14: Costs will be determined based both on service providers and use cases that the credit union decides to implement. Alloya’s experts have built a proprietary Faster Payments Financial Model for our Alloya Insights: Faster Payments credit unions to help plan expenses and potential revenues based on strategic decisions.

Q15: You mention an opportunity for revenue streams. Do you envision the financial institutions charging a fee for the FedNowSM Service like we currently charge for a wire transfer?

A15: There is likely a revenue model based on speed, particularly for business members. Some credit

unions may charge consumer members based on speed as well. Alloya's experts are conducting research on this and will review their findings in an upcoming webinar in the Alloya Insights: Faster Payments program.

Participation

Q16: What constitutes an "eligible financial institution"?

A16: Any bank or credit union in the U.S. is able to connect to and use the FedNowSM network.

Q17: Does the receiving financial institution or the service provider have to be a registered member to participate in the FedNowSM payment system?

A17: Yes.

Q18: Is it possible to get a list of those participating in the pilot program?

A18: Yes, please refer to [this list](#) of participants in the FedNowSM pilot program.

Q19: Do both the sending and receiving financial institution need to be on FedNowSM for the payment to go through?

A19: Yes.

Q20: Due to a financial institution's ability to choose to utilize FedNowSM, are financial institutions that are not using it (as senders) required to be receivers? Or will the deposits happen automatically because it was sent in general?

A20: Deposits will not happen automatically unless you are connected to the network. FedNowSM participation is optional.

Q21: How do you validate the receiving institution?

A21: There will be a list of participating financial institutions (RTNs) available for systems to verify against.

Q22: Will members who only have savings accounts with a financial institution be able to utilize this product? Currently with the P2P (person-to-person) application we use, you have to have a checking account.

A22: This will be up to your credit union to decide which member account types (e.g., share drafts, savings, lines of credit) to enable for FedNowSM activity.

Q23: Is FedNowSM optional as an additional feature to offer?

A23: Yes.

Payment Details

Q24: When sending money, is anything verified besides the account number? For example, the account holder's name?

A24: Not by the FedNowSM network; however, the software used to send and receive the payments could incorporate additional field verification depending on the solution. For example, the software used to send must verify the account balance with the core system.

Q25: Will FedNowSM transactions have trace numbers?

A25: Yes, there will be unique identification numbers for each transaction.

Solution Providers

Q26: Do we know what service providers are going to work with Fed to post these transactions?

A26: Alloya will. Please refer to [this service provider directory](#) on the FedNowSM website for additional providers.

Q27: Is it possible to use Alloya for FedNowSM if we as a credit union are using another processor for our daily processing?

A27: Yes.

Q28: Are there any mobile banking providers that have programmed the ability to provide FedNowSM?

A28: Yes, please refer to [this service provider directory](#) on the FedNowSM website for the complete list of providers, including [Alloya](#).

Q29: Is there a link for FedNowSM that can be incorporated into our mobile app?

A29: It depends on the service provider and solution that you are using. They may provide a link that accesses FedNowSM.

Q30: If there is no need for a person to be involved in the transaction, that makes me think that our core processor has to be involved in the transaction. Is this the case?

A30: Yes, integration to core systems is required.

Support

Q31: If a member/customer calls in because a payment didn't work, what support is available to the financial institution to help determine why it didn't go through (i.e., wrong account number, on negative list, etc.)?

A31: Direct member support will be provided by the credit union. Alloya will provide tools to help you answer these types of questions and support your members. Systems support will need to be available 24x7x365.

System Availability

Q32: It says 24x7x365 financial institution balance availability. That means our core system must be available as close as possible to 100% of the time to be able to provide account verification and balance information, right? Is there a required up-time percentage to utilize the FedNowSM service?

A32: Yes, your core system must be available close to 100% of the time. The FedNowSM network allows 24 hours of downtime per quarter. No more than 2 hours of downtime at once.