Delivering Instant Satisfaction with Bill Payments via FedNow

Monday, September 28, 2020
1:00 PM ET
Polling question – while waiting…

For consumer bill payment, what is the main challenge for your organization?

- Limited offerings to support faster payments
- Lack of transparency for payment status
- Difficulty for consumer to add new billers
- Limited payment methods (enable different accounts from which to make payments, credit cards)
- None of these apply
Welcome

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Agenda

• Evolution of consumer-to-business bill payments
• How instant payments can modernize bill payments for billers and consumers
• Overview of potential bill pay and request for payment (RFP) capabilities via FedNow Service℠
Users who send or receive P2P transactions on \( \geq \) weekly basis

- **Boomers**: 30%
- **Gen X**: 40%
- **Millennials**: 50%

Diverse bill payment options reflect friction for consumers

<table>
<thead>
<tr>
<th>Payment Methods</th>
<th>Channels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>Mail</td>
</tr>
<tr>
<td>Check</td>
<td>Biller direct</td>
</tr>
<tr>
<td>Debit Card</td>
<td>Financial Institution Bill Pay</td>
</tr>
<tr>
<td>Credit Card</td>
<td></td>
</tr>
<tr>
<td>ACH</td>
<td>Wallet / Directory</td>
</tr>
<tr>
<td>Wallet</td>
<td>Retail locations</td>
</tr>
</tbody>
</table>

FedNow 24/7
INSTANT PAYMENTS
**Request for Payment can reduce friction points in current models**

<table>
<thead>
<tr>
<th>Areas of Interest</th>
<th>Biller Direct</th>
<th>Financial Institution</th>
<th>Request for Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speed</td>
<td>if cards are enabled</td>
<td>□</td>
<td>●</td>
</tr>
<tr>
<td>Control</td>
<td>□</td>
<td>□</td>
<td>●</td>
</tr>
<tr>
<td>Convenience</td>
<td>□</td>
<td>□</td>
<td>●</td>
</tr>
<tr>
<td>Alerts and Notifications</td>
<td>●</td>
<td>If enabled</td>
<td>●</td>
</tr>
<tr>
<td>Bill details</td>
<td>●</td>
<td>If enabled</td>
<td>●</td>
</tr>
<tr>
<td>Ease of adding new billers</td>
<td>N/A</td>
<td>□</td>
<td>●</td>
</tr>
<tr>
<td>Transparency of payment status</td>
<td>●</td>
<td>○</td>
<td>●</td>
</tr>
<tr>
<td>Payment Choice</td>
<td>□</td>
<td>□</td>
<td>●</td>
</tr>
<tr>
<td>Security</td>
<td>□</td>
<td>□</td>
<td>●</td>
</tr>
<tr>
<td>Automated reconciliation</td>
<td>□</td>
<td>□</td>
<td>●</td>
</tr>
</tbody>
</table>

- **Full Support**
- **Partial Support**
- **Limited Support**
- **No Support**
Challenges for Billers

- Small/infrequent billers receive delayed payments in form of checks or additional expense of supporting card payments
- Funds may not be available by the time ACH/check processing occurs (e.g., insufficient funds)
- Digital bill pay errors are frequent and expensive to resolve (e.g., wrong invoice number)
- No easy way for customer to communicate with biller
Poll Question

Where is the greatest opportunity for the FedNow Service in the bill pay space for your institution?

- Small business billing
- Mid-size business billing
- Large corporate billing
- Enhanced customer experience for retail (consumer) customers
FedNow Service Bill Payment Overview
Bill Payment through FedNow Service: Scope

**Initial Launch**
- Focus on **consumer to business (C2B)**
- Support: one-time and recurring payments
- Includes value-added features:
  - Request for payment (RFP)
  - Responses such as received RFP, future pay
  - Final confirmation of payment posting (optional)
  - Support payments from all account types at financial institution

**Future Releases**
- Will enable capabilities designed to optimally support **business to business (B2B)** use cases
- Examples: purchase of building supplies, wholesale groceries, commercial services
- Support more complex remittance details
C2B Bill Payment Flow

- In step 1, a consumer (sender) initiates a bill payment by sending a payment message to its bank through an end-user interface outside the FedNow Service. The consumer's bank is responsible for screening the payment according to its internal processes and requirements.
- In step 2, the consumer's bank submits a payment message to the FedNow Service.
- In step 3, the FedNow Service validates the payment message, for example, by verifying that the message meets message format specifications.
- In step 4, the FedNow Service sends the contents of the payment message to the biller’s (receiver's) bank to seek confirmation that the biller’s bank intends to accept the payment message. At this point, the biller’s bank will have the opportunity to confirm or deny that it maintains the specified account.
- In step 5, the biller’s bank sends a positive response to the FedNow Service, confirming that it intends to accept the payment message.
- In step 6, the FedNow Service debits and credits the designated master accounts of the consumer’s and biller’s banks, respectively.
- In step 7, the FedNow Service sends a payment message forward to the biller’s bank with an advice of credit and in parallel sends an acknowledgement to the consumer’s bank notifying it that settlement is complete.
- In step 8, the biller’s bank credits the biller’s account. As a condition of the FedNow Service, the biller’s bank must agree to make funds available to the biller almost immediately after step 7. This crediting to the biller’s account as well as the debiting of the consumer’s account by their respective banks happens outside the FedNow Service.
Request for Payment

Enables user to request money from another user. Supports presentment (request) and payment (response)

- Requires user interface to view request and manage responses
- Optionally include detailed or summary remittance information, link to access e-bill or other details
- Useful for one-time or recurring bills
- Supports responses such as: accept (pay), decline (potentially with reason code), others
- Payment may be partial, full, additional amount
Request for Payment

Capabilities and standards under consideration by FedNow Service

✓ Sending financial institution
  • Ability for biller (sending FI) to configure “expiration” of RFP
  • Populate the business name (biller) using the name of record (or DBA of record) at the sender’s FI, so recipient is confident they are paying the intended party to mitigate risk for fraud

✓ Receiving financial institution
  • Confirmation of receipt of RFP by FI as “proof” of receipt for biller

✓ FedNow
  • Identification of participants who support receiving RFP
  • Support for Request for Information or other communication back to biller
Maximizing Value for Businesses

✓ Reduce errors and increase automated processing of payments by inclusion of remittance information in payment
  • Details from RFP can be automatically persisted to payment without disclosing sensitive information (such as biller bank account details) to consumer.

✓ Offer services to businesses which improve cash flow with immediate funds availability and reducing costs
  • RFP (sending and receiving)
  • Confirmation of posting

✓ Supporting a range of responses for RFP increases flexibility for billers and consumers
  • Send response such as: accept (pay), reject (potentially with reason code), others; request for information or other communication back to biller
Maximizing Value for Consumers

- **Improve customer experience with user interface for RFP presentment and payment**
  - Consider including more than just amount due, due date, and payment options. For example, remittance details, or link for customer to access e-bill. However, choose what sensitive information to share with recipients to reduce risk for fraud.
  - Consider supporting a range of responses to increase flexibility for consumers and billers. For example, pay, decline (with reason), request for information and others.

- **Increase transparency around status of payment**
  - Consider providing your customers with final posting of payment notifications for their records.
  - Create a seamless experience for the consumer by automatically persisting biller, remittance and other details from the RFP in the payment. This also supports automated processing by biller, so payments can be reflected in the account rapidly.

- **Support payments from a variety of account types**
  - Consider enabling checking, savings, investments and other account types for payments. This creates additional flexibility and use cases for RFP, driving opportunity to create and value for customers and deepening relationships.
Maximizing Value for Your Financial Institution

✓ Consider supporting presentment and payment for your own products, such as loans and credit cards.

✓ Identify opportunities where RFP and C2B transactions can yield revenue and deepen relationships with customers.
  - How might this be useful in:
    - on-boarding, funding accounts, setting up bill payment?
    - opening new accounts, such as loans, credit, or investment?
    - reducing costs and drive straight through processing within your own institution?
  - How might this amplify your institution’s ability to attract new customers or retain customers?
  - How might this support your policies and goals?

✓ Consider supporting a range of responses related to RFPs and payments which create opportunities for your institution.
Bill Pay Roundtable Discussions

Focus: Financial Institutions

Session 1
Current State – Gaps, Issues and Challenges for Adoption

Description: This interactive session will encourage participants to discuss their current ecosystem for facilitating bill payments, including addressing the barriers to adopting a roadmap that can offer instant payment options for both consumers and the billers.

Date: Thursday, October 15
Time: 2:00 – 4:00 ET

Session 2
Target Use Cases for Business Payments and Roadmap Priorities

Description: In the second session, we invite roundtable participants to continue the discussion on bill pay, specifically the identification of priority use cases for instant payments to solve current state issues for their client base.

Date: Wednesday, October 21
Time: 2:00 – 4:00 ET

Those interested are invited to join one or both of the roundtable sessions by signing up via the FedNow Community website.
Questions?
Learn More

Visit the FedNow Service page on FRBservices.org

Bookmark the FedNow Community pages

Review the Federal Register notice for the full FedNow Service description
Appendix
References

- Javelin 2020: Increasing payment options to maximize bill pay’s potential
- https://www.paymentsjournal.com/bill-pay-market-is-ripe-for-innovation/