

# IS FEDNOW THE SOLUTION, A SOLUTION, OR NO SOLUTION

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*The new FedNow system promised to restore the U.S. payment system to its rightful place with once-in-a-generation innovation. Against popular belief, this paper, based on recent data on FedNow's operation, argues that this proclaimed game-changer is an empty promise. The failure of FedNow—going beyond structural designs, consumer protection, or governance level—was rooted in the Fed's involvement. The Fed's involvement in the real-time retail payment market was both unnecessary and poorly timed. FedNow, offering almost identical service to its private counterpart, RTP, is now stuck in an awkward place; it should have been implemented before RTP entered the market or waited for RTP to fully develop the market.*

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## I. ROUND OF APPLAUSE FOR FEDNOW AND THE U.S. PAYMENT SYSTEM?

You might not believe your eyes, but for a long time, the U.S. payment system lagged behind the EU, the rest of the G7 countries, and even Kenya.<sup>1</sup> The solution seemed simple and straightforward: Build a retail fast payment system (“FPS”) to restore the U.S. payment system to its rightful place.<sup>2</sup> The promises were rosy—FedNow would fill the gap in the U.S. payment system, fix income inequality, and promote cross-border payments. Behind all the flowers, cheering, and confetti, the promises seem to be falling apart one year after its launch. Is installing a retail FPS, such as the much-discussed FedNow, beneficial? Yes... but its importance will depend heavily on the purposes, and more importantly, the targeted country. Before smiling at my rather lawyerly answer, it is imperative to look beyond the hype and instead at the impact of retail FPSs to determine whether the U.S. should continue toward these major undertakings.

## II. SEE THE FOREST FOR THE TREES—WHERE DOES FEDNOW FIT IN THE U.S. PAYMENT SYSTEM

An often-overlooked characteristic of payment systems is that the market experiences a strong network effect and a natural tendency toward monopolization.<sup>3</sup> Each and every market participant needs to show a certain level of marginal benefit to survive. So, does FedNow bring such marginal value to the table to keep itself afloat?

By definition, retail FPSs are systems that process retail payments to make funds immediately available to the payee.<sup>4</sup> The U.S. launched its public retail FPS, called FedNow, on July 20, 2023. Unlike the more internationally popular path of deferred net settlement arrangements, FedNow chooses

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<sup>1</sup> Pengfei Han & Zhu Wang, *Why Is the U.S. Lagging in Adopting Mobile Payments?*, FED. RSRV. BANK OF RICHMOND (June 2021), [https://www.richmondfed.org/publications/research/economic\\_brief/2021/eb\\_21-21](https://www.richmondfed.org/publications/research/economic_brief/2021/eb_21-21) [<https://perma.cc/7LMN-RNWC>]; Penny Lee, *The U.S. Lags Other Countries on Faster Payments—Why?*, FORBES (Apr. 17, 2024), <https://www.forbes.com/sites/pennylee/2024/04/17/the-us-lags-other-countries-on-faster-paymentswhy/> [<https://perma.cc/Q9FZ-L26T>].

<sup>2</sup> Kathleen O’Neill, *FedNow: A Once-in-a-Generation Payments Innovation for the Fed*, FED. RSRV. BANK OF ST. LOUIS (Sept. 6, 2023), <https://www.stlouisfed.org/publications/regional-economist/2023/sep/fednow-payments-innovation> [<https://perma.cc/4NFD-36XY>].

<sup>3</sup> See Aaron Klein, *Payment Systems’ Changing Role from Economic Growth to the New Foreign Policy Lever*, BROOKINGS (Feb. 13, 2024), <https://www.brookings.edu/articles/payment-systems-changing-role-from-economic-growth-to-the-new-foreign-policy-lever/>; Risto Gogoski, *Payment Systems in Economy - Present End Future Tendencies*, 44 SOC & BEHAV. SCI. 436, 441 (2012).

<sup>4</sup> Comm. on Payments and Mkt. Infrastructures, *Fast Payments – Enhancing the Speed and Availability of Retail Payments*, BANK FOR INT’L SETTLEMENTS (Nov. 2016), <https://www.bis.org/cpmi/publ/d154.pdf> [<https://perma.cc/R35N-NC4A>].

the more technology-intensive path to finalize payments on a transaction-by-transaction basis.<sup>5</sup>

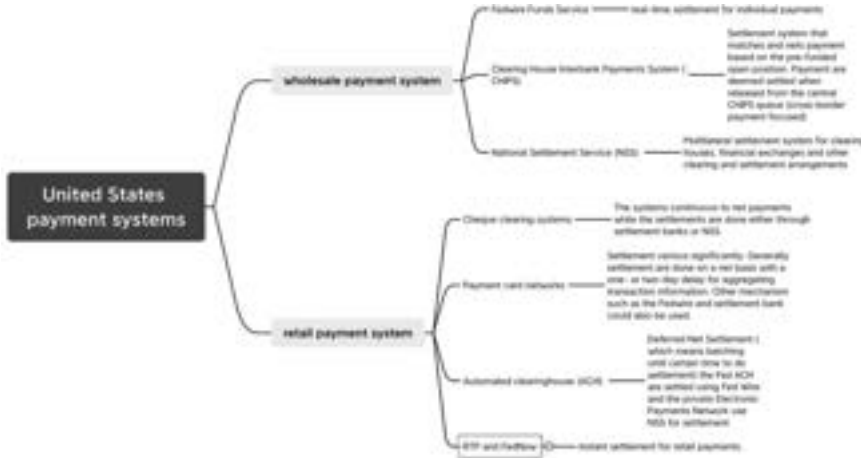


Figure 1 here illustrates that FedNow can fill a payment market gap—there were previously no Federal Reserve FPS services. Before FedNow, the Fed only provided instant settlement for wholesale payments. Among the different Fed payment services before FedNow, Automated Clearing House (“ACH”) presents the fastest option where same-day settlement is possible if transactions are submitted before a cutoff time and are accompanied by an extra fee.

Yet, private retail FPS services by the RTP system have been thriving since they were rolled out by The Clearing House in 2017.<sup>6</sup> So far, RTP has performed over 500 million settlements for federally insured depository institutions.<sup>7</sup> RTP covers 66% of all US demand deposit accounts and 90% of demand deposit accounts that actively use payment services.<sup>8</sup> Like FedNow, RTP also operates twenty-four seven.

<sup>5</sup> See World Bank Grp., *Settlement Models in Fast Payment Systems and Implications for Participant Access*, WORLD BANK (2023), [https://fastpayments.worldbank.org/sites/default/files/2023-05/Settlement%20Note\\_Final\\_April%2020.pdf](https://fastpayments.worldbank.org/sites/default/files/2023-05/Settlement%20Note_Final_April%2020.pdf) [https://perma.cc/8RPZ-EJAS].

<sup>6</sup> Dean Nolan, *One Year into FedNow: An Unvarnished View of Instant Payments*, STRATEGIC RES. MGMT. (Aug. 15, 2024, 12:12:27 PM), <https://blog.srmcorp.com/one-year-into-fednow-an-unvarnished-view-of-instant-payments> [https://perma.cc/75W5-4S5G].

<sup>7</sup> STRATEGIC RES. MGMT, *EXAMINING THE FIRST YEAR OF FEDNOW & THE STATE OF INSTANT PAYMENTS: A SPECIAL REPORT FROM SRM* (2024), [https://info.srmcorp.com/hubfs/Reports/SRM-FedNow-Report-August-2024.pdf?utm\\_campaign=Instant%20Payments%3A%20A%20Year%20With%20FedNow&utm\\_medium=email&\\_hsenc=p2ANqtz-8AoRojNkrkKpX9y2VaGW0m56dsuhPpZbnsu79fOMAKzmWh0AI0gzr5qQTHx\\_abNwUuwLxKZmpjx1Fg5SiaLWTbeQS8WJAJ\\_5j71pep2MYKli3loFs&\\_hsmi=318763092&utm\\_content=318763092&utm\\_source=hs\\_automation&hsCtaTracking=0d48e4db-2554-44c4-847d-0c2f627f3a5a%7C2a38e4ce-82ad-456c-97e1-f95f5d340a4c](https://info.srmcorp.com/hubfs/Reports/SRM-FedNow-Report-August-2024.pdf?utm_campaign=Instant%20Payments%3A%20A%20Year%20With%20FedNow&utm_medium=email&_hsenc=p2ANqtz-8AoRojNkrkKpX9y2VaGW0m56dsuhPpZbnsu79fOMAKzmWh0AI0gzr5qQTHx_abNwUuwLxKZmpjx1Fg5SiaLWTbeQS8WJAJ_5j71pep2MYKli3loFs&_hsmi=318763092&utm_content=318763092&utm_source=hs_automation&hsCtaTracking=0d48e4db-2554-44c4-847d-0c2f627f3a5a%7C2a38e4ce-82ad-456c-97e1-f95f5d340a4c) [https://perma.cc/7Z72-A8PC].

<sup>8</sup> *Id.*

### III. FOR DOMESTIC PAYMENTS, FOR CROSS-BORDER PAYMENTS, FOR WHAT...

For FedNow, an under-discussed yet crucial problem is whether the gap for fast payment services necessitates the Fed's involvement. In other words, are there sufficient marginal benefits for the Federal Reserve to assemble a public rail in parallel with the private RTP.

#### A. Domestic Benefits

Domestically, FedNow is desirable. Supporters argue that FedNow would hit two birds with one stone. It brings benefits to consumers, particularly low-income ones, by accelerating their access to paychecks;<sup>9</sup> and FedNow provides a competitive alternative to the Fintech sector, especially stablecoins.<sup>10</sup>

Although arguments that a retail FPS could address income inequality seem logical and persuasive, they warrant closer assessment. It has been argued that families living paycheck-to-paycheck are most impacted by payment system delays and waste their hard-earned money on payday loans, high-cost check cashers, or overdraft fees to stay afloat while their paychecks trudge through the system.<sup>11</sup> Therefore, implementing FedNow—a system that can make funds instantly accessible—can cure these problems.

But how practical are these claims? Other functionally approximate solutions were producing equivalent results before FedNow, but unfortunately, none worked as the argument claimed. Beyond the RTP system, paychecks are often processed through the ACH. The employers can have a good night's sleep knowing that their employees will receive their funds on the same day if they submit their transactions to ACH Same-Day by 4:45 PM EST, fifteen minutes before the nine-to-five work wrap-up for the week on Friday.<sup>12</sup> Yet, since ACH Same-Day went live in September 2016,

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<sup>9</sup> Mark E. Budnitz, *New Developments in Payment Systems and Services Affecting Low-Income Consumers: Challenges and Opportunities*, 30 GEO. J. POVERTY LAW & POL'Y 133, 159 (2023).

<sup>10</sup> Nellie Liang, Under Secretary for Domestic Finance, Remarks at the Chicago Payments Symposium hosted by the Federal Reserve Bank of Chicago: Modernizing the Regulatory Framework for Domestic Payments (Oct. 9, 2024), <https://home.treasury.gov/news/press-releases/jy2639> [<https://perma.cc/97BJ-V4SY>].

<sup>11</sup> Aaron Klein, *The Fastest Way to Address Income Inequality? Implement a Real Time Payment System*, BROOKINGS (Jan. 2, 2019), <https://www.brookings.edu/articles/the-fastest-way-to-address-income-inequality-implement-a-real-time-payment-system/> [<https://perma.cc/WP9P-67KP>].

<sup>12</sup> 4:45 PM Eastern Time is the system cut-off time for Same-Day ACH. *Expanding Same Day ACH*, NACHA (Mar. 19, 2021), <https://www.nacha.org/rules/expanding-same-day-ach> [<https://perma.cc/S8YD-Y6Q4>].

there has been little change in the use of payday loans that can be attributed to such service.<sup>13</sup>

Resorting to FedNow to solve inequalities is misguided. After FedNow went live, the percentage of individuals overdrawing remained steady while the individuals using payday or pawn loans grew to six percent.<sup>14</sup> The drop in overdraft fee value can be attributed to the Consumer Financial Protection Bureau tackling unfair action rather than the FedNow operation.<sup>15</sup> Similarly, nonbank check cashers usage did not decrease during the same period.<sup>16</sup> Another argument emphasizes that FedNow would equip the Fed to better compete with the booming Fintech sector. Stablecoins have true potential in cross-border payments going forward rather than domestic payments.<sup>17</sup> In practice, stablecoins were used primarily as on/off ramps for crypto-asset transactions rather than in the real economy even during its heydays.<sup>18</sup>

Additionally, with the RTP facilitated Zelle being on a good trajectory—having over 120 million accounts and completing \$806 billion transactions in 2023, FedNow must play strategically in its differentiation strategy to bring additional benefit.<sup>19</sup> Without meaningful functional differences, however, RTP and FedNow are dragged into a zero-sum game. FedNow is in good shape for the fight—ending its first year with more than 900 participants.<sup>20</sup> But from a market or consumer standpoint, is this competition necessary, or just another futile rat race?

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<sup>13</sup> Jessica N. Flagg & Simona M. Hannon, *Small-Dollar Loans in the U.S.: Evidence from Credit Bureau Data*, FED. RSRV. (July 19, 2024), <https://www.federalreserve.gov/econres/notes/feds-notes/small-dollar-loans-in-the-us-evidence-from-credit-bureau-data-20240719.html> [<https://perma.cc/W643-SU52>].

<sup>14</sup> The statistics include other similar small loan products similar to payday loans and pawn e.g auto title, or tax refund anticipation loans. *Report on the Economic Well-Being of U.S. Households in 2023 - May 2024*, BD OF GOVERNORS OF THE FED. RSRV. SYS., <https://www.federalreserve.gov/publications/2024-economic-well-being-of-us-households-in-2023-banking-credit.htm> [<https://perma.cc/DX2E-EARF>] (last updated May 29, 2024).

<sup>15</sup> *CFPB Takes Action to Stop Banks from Harvesting Overdraft Fees Without Consumers' Consent*, CONSUMER FIN. PROT. BUREAU (Sept. 17, 2024), <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-to-stop-banks-from-harvesting-overdraft-fees-without-consumers-consent/> [<https://perma.cc/NA7Z-GKN6>].

<sup>16</sup> BD OF GOVERNORS OF THE FED. RSRV. SYS., *supra* note 14.

<sup>17</sup> Muhui Shi, *Revolutionizing the Cross-Border Payment*, 31 MICH. TECH. L. REV. (forthcoming Apr. 2025).

<sup>18</sup> PRESIDENT'S WORKING GRP. ON FIN. MKTS., FED. DEPOSIT INS. CORP. & OFF. COMPTROLLER CURRENCY, *Report on Stablecoins 1* (2021), [https://home.treasury.gov/system/files/136/StableCoinReport\\_Nov1\\_508.pdf](https://home.treasury.gov/system/files/136/StableCoinReport_Nov1_508.pdf) [<https://perma.cc/3XXB-3U6K>].

<sup>19</sup> *Zelle Soars with \$806 Billion Transaction Volume, up 28% from Prior Year*, ZELLE (Mar. 4, 2024), <https://www.zellepay.com/press-releases/zelle-soars-806-billion-transaction-volume-28-prior-year#:~:text=Consumers%20and%20small%20businesses%20sent,their%20financial%20institution%20in%202023> [<https://perma.cc/ZR74-TV93>].

<sup>20</sup> *FedNow® Service Ends First Year with 900+ Participants*, FED. RSRV. (Aug. 1, 2024), <https://www.frbervices.org/news/fed360/issues/080124/fednow-service-ends-first-year-900-participants> [<https://perma.cc/7XER-428L>].

Table 1: Payment System Comparison

	Fed Wire	Fed Now	RTP
Main Function	Real-time settlement for large value payment	Real-time retail payment settlement system	Real-time retail settlement system
Ownership	Federal Reserve	Federal Reserve	The Clearing House, a private party
Business Day	Mon- Fri	365 Days	365 Days
Business Hour	21:00-19:00	24 Hours	24 Hours
Transaction Volume	773,267/day*	Unknown but said to be millions in the first year	910,000/day, could grow to billions**
Average Size	\$5.62 million /transaction*	a few dollars to a couple thousands	on average \$793****
Upper Limit	\$9,999,999,999.99/transaction	\$500,000/day	\$1,000,000/transaction
Participants	Financial Institutions that maintain an account at a Federal Reserve Bank	Eligible depository institutions	Federally-insured depository institutions
Access Type	Direct & Indirect Access	Direct & Indirect Access	Direct Access
Settlement Model	Real time settlement	Real Time settlement***	Real Time settlement
Direct Access by Non-Bank	No	No	No

\* Data from 2023, <https://www.fbservices.org/resources/financial-services/wires/volume-value-statistics/annual-stat.html>

\*\* Estimation made based on ACH, Check clearing, and data from other countries, [https://data.bis.org/topics/CPMI\\_FMI/tables-and-dashboards/BIS/CPMI\\_TR,1/#?Dimensions=REP\\_CTY%IAUS](https://data.bis.org/topics/CPMI_FMI/tables-and-dashboards/BIS/CPMI_TR,1/#?Dimensions=REP_CTY%IAUS)

\*\*\* See Get the facts about the FedNow® Service, [https://open.fednow.org/open-the-city-hub-88/building-a-welcome-plan&source=129&title=0\\_op-er-ate&sourceTitle=get-the-facts-about-the-fednow-service/](https://open.fednow.org/open-the-city-hub-88/building-a-welcome-plan&source=129&title=0_op-er-ate&sourceTitle=get-the-facts-about-the-fednow-service/)

\*\*\*\* Data calculated for Q3, 2024, Real-Time Payments for All Financial Institutions, <https://www.theclearinghouse.org/payment-systems/rtp>

Alternatively, the reason why the Fed must get involved in the real-time wholesale settlement system, e.g., the Fedwire, could shine a light on whether its involvement in FedNow is necessary. Fedwire is much more overarching than FedNow. Without delving into the weeds, Fedwire cemented its position as the fundamental financial infrastructure by involving itself—directly or indirectly—in almost all payment activities. Even systems like CHIPS must facilitate Fedwire to finalize transactions before and after a whole day of constant netting.<sup>21</sup> By comparison, if Fedwire is the superhighway for the entire city, the FedNow would be a street serving the specific neighborhood for retail transactions.

<sup>21</sup> Comm. on Payment and Settlement Sys., *Payment, Clearing and Settlement Systems in the United States*, BANK FOR INT'L SETTLEMENTS 1, 20 (2012), [https://www.bis.org/cpmi/publ/d105\\_us.pdf](https://www.bis.org/cpmi/publ/d105_us.pdf) [https://perma.cc/G358-ANF3].

Fedwire is also pecuniarily more important than FedNow. In 2021, Fedwire settled over \$991 trillion in transactions, forty-six times the U.S. GDP.<sup>22</sup> The retail payment market is much smaller: all core noncash payments, including prepaid cards, credit cards, ACH, and checks combined are worth \$128.51 trillion. At best, FedNow can take up a small fraction of this market. In practice, domestic wholesale instant settlement systems are almost always run by central banks, while the retail FPSs are operated by private, public, or public-private cooperations.<sup>23</sup>

The question becomes: does the retail-focused FedNow system—with its much smaller scope, market potential, and value—need the Fed’s hands-on operation, or can the private sector, already on the right track with RTP, manage without it?

### B. Cross-Border Payment Benefits

Implementing FedNow in addition to RTP is nominally beneficial for the U.S. cross-border payment market. While FedNow could theoretically reduce delays—one of the four internationally acknowledged cross-border payment challenges—its actual impact will depend heavily on global collaboration.<sup>24</sup>

Under the current framework, time gaps occur when transactions move between jurisdictions located in different time zones and have different business days. Take a hypothetical U.S.-Japan payment A as an example. Suppose payment A is immediately settled at 8:30 a.m. JST (6:30 p.m. EST) when the Yen clearing system starts operating. Even if that payment arrives immediately at the U.S. correspondent banks, CHIPS has already closed. FedNow, which operates around the clock, could reduce this delay to a few seconds, greatly speeding up the process. To be sure, implementing FedNow alongside the already twenty-four-seven RTP is neither essential to shorten delays, nor is it sufficient to fully eliminate them. The marginal contribution FedNow brings is minimal.

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<sup>22</sup> Fedwire® Funds Service - Annual Statistics, FED. RSRV. (Jan. 26, 2024), <https://www.frbservices.org/resources/financial-services/wires/volume-value-stats/annual-stats.html> [<https://perma.cc/Y5TC-T4H4>].

<sup>23</sup> WORLD BANK, CONSIDERATIONS AND LESSONS FOR THE DEVELOPMENT AND IMPLEMENTATION OF FAST PAYMENT SYSTEMS 10 (2021), [https://fastpayments.worldbank.org/sites/default/files/2021-11/Fast%20Payment%20Flagship\\_Final\\_Nov%201.pdf](https://fastpayments.worldbank.org/sites/default/files/2021-11/Fast%20Payment%20Flagship_Final_Nov%201.pdf) [<https://perma.cc/CMX5-7QZ8>].

<sup>24</sup> COMM. ON PAYMENTS AND MKT. INFRASTRUCTURES, BANK FOR INT’L SETTLEMENTS, LINKING FAST PAYMENT SYSTEMS ACROSS BORDERS: GOVERNANCE AND OVERSIGHT-FINAL REPORT TO G20 (2024), <https://www.bis.org/cpmi/publ/d223.pdf> [<https://perma.cc/9C78-5ZPJ>]; FIN. STABILITY BD, ENHANCING CROSS-BORDER PAYMENTS STAGE 1 REPORT TO THE G20 at 1 (2020), <https://www.fsb.org/uploads/P090420-1.pdf> [<https://perma.cc/WXD2-5TGY>].



Unfortunately, the cause of this processing delay is not U.S.-specific. Global reform is required to address the problem. Because the global market operates through a decentralized correspondent banking framework, processing delays are systemic and structural. Although the average detours for U.S. payments are unclear, the UK experience suggests that such payments may pass through five banks and four currencies before reaching destinations.<sup>25</sup> Accordingly, addressing processing delays will require a general international adoption of twenty-four-seven systems or a complete structural transformation. These reforms far exceed what FedNow is able to fix.

To clarify, a retail FPS is important for the U.S., especially given the dollar's prominent international position. However, implementing a second retail FPS does not double the benefits.

#### IV. BUT AT WHAT COST?

A retail FPS is costly to build and to run. The implementation of FedNow alone cost the Federal Reserve \$545 million.<sup>26</sup> Maintaining FedNow is also expensive. Without specific data, we can draw an inference from the Federal Reserve Budget.<sup>27</sup> Table 2 shows that a significant increase in both payment system operational and oversight expenses took place between 2022 and 2023, the year FedNow went live. When combined, there was a 14.89% increase between 2022 and 2023, compared to the 0.84% increase the year before. This cost increase is also significantly higher than that of the budget in general during the same period.<sup>28</sup>

Some might argue that the cost jump could be attributed to system establishment rather than its maintenance. Nonetheless, the payment systems oversight and operational costs increased by 17.7 million between 2023 and 2022, and \$22.9 million between 2024 and 2022.<sup>29</sup> This cost range aligns

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<sup>25</sup> Jon Cunliffe, *Cross-Border Payment Systems Have Been Neglected for too Long*, FIN. TIMES (July 13, 2020), <https://www.ft.com/content/a241d7e0-e1de-4812-b214-b350cbb7d046>. [<https://perma.cc/7VEW-9EHJ>]

<sup>26</sup> *FedNow® Service Frequently Asked Questions*, BD. OF GOVERNORS OF THE FED. RSRV. SYS., [https://www.federalreserve.gov/paymentsystems/fednow\\_faq.htm#:~:text=Banks%20and%20credit%20unions%20of,their%20consumer%20and%20business%20customers](https://www.federalreserve.gov/paymentsystems/fednow_faq.htm#:~:text=Banks%20and%20credit%20unions%20of,their%20consumer%20and%20business%20customers) (last updated July 17, 2024) [<https://perma.cc/W975-Q6QG>].

<sup>27</sup> Data from Table D.3. & D.4. of the following Annual Report of Federal Reserve System Budgets illuminates, *See Annual Report-2021*, FED. RSRV. (Aug. 11, 2022), <https://www.federalreserve.gov/publications/2021-ar-federal-reserve-system-budgets.htm> [<https://perma.cc/ULQ8-62DZ>]; *Annual Report-2022*, FED. RSRV. (Aug. 4, 2023), <https://www.federalreserve.gov/publications/2022-ar-federal-reserve-system-budgets.htm> [<https://perma.cc/6Y6K-3EJ2>]; *Annual Report-2023*, FED. RSRV. (Sept. 3, 2024), [https://www.federalreserve.gov/publications/2023-ar-federal-reserve-system-budgets.htm#:~:text=2024%20Operating%20Expense%20Budget,the%20System%20budget%20\(figure%20D](https://www.federalreserve.gov/publications/2023-ar-federal-reserve-system-budgets.htm#:~:text=2024%20Operating%20Expense%20Budget,the%20System%20budget%20(figure%20D) [<https://perma.cc/54NG-B2FT>].

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

with the UK's annual average operational expenses of \$22 to \$32.8 million.<sup>30</sup> The Fed must cover the total cost with revenue in the long run.<sup>31</sup> With each FedNow transaction incurring \$0.045 in revenue, FedNow needs to process at least 508 million transactions on a yearly basis just to cover the listed cost differences for maintenance. This requires FedNow to settle more payments in a single year than RTP, its private counterpart, has processed cumulatively for the seven years of its entire operation.

Despite being a major league competitor, the Fed has its fair share of payment system setbacks. After announcing a 111 percent value increase from 2014 to 2016, the Fed quietly discontinued its high-profile FedGlobal ACH with the EU and Canada 7 years later in 2023.<sup>32</sup> Once connecting 35 countries, FedGlobal connects only Mexico and Panama now.<sup>33</sup>

Table 2: Fed Payment System Cost from 2021-2024

Year	Payment system and Reserve Bank oversight actual cost (Millions of dollars)	Operating expenses of the Reserve Bank Operations and Payment Systems (Millions of dollars)
2021	72.2	45.6
2022	72	46.8
2023	85.1	51.4
2024 (Budget)	86.4	55.3

## V. PAST, FUTURE, AND NOW?

FedNow would have been a true game-changer if launched at the right time. Ultimately, it was too little, too late. In 2013, the Fed's public consultation paper identified that "several other countries are moving to ubiquitous

<sup>30</sup> Claire Greene et al., *Costs and Benefits of Building Faster Payment Systems:*

*The U.K. Experience and Implications for the United States*, BANK OF CAN. 1, 37 (Feb. 15, 2015), <https://www.bankofcanada.ca/wp-content/uploads/2015/12/costs-benefits-building-faster-payment-systems.pdf> [<https://perma.cc/D9AS-SYSQ>].

<sup>31</sup> 12 U.S.C. § 248a(c)(3) (2006).

<sup>32</sup> Bd. of Governors of the Fed. Rsrv. Sys., *Report to the Congress on the Use of the ACH System and other Payment Mechanisms for Remittance Transfers to Foreign Countries* 1, 8 (Apr. 2017), [https://www.federalreserve.gov/publications/files/ACH\\_report\\_201704.pdf](https://www.federalreserve.gov/publications/files/ACH_report_201704.pdf) [<https://perma.cc/LM57-ZKYU>].

<sup>33</sup> *FedGlobal® ACH Payments*, FED. RSRV., <https://www.frbservices.org/financial-services/ach/fedglobal> (last visited Dec. 17, 2024) [<https://perma.cc/QCS5-984T>]; Lynne Marek, *Fed to Reduce Cross-Border Payments Program*, PAYMENTS DIVE (Apr. 20, 2023), <https://www.paymentsdive.com/news/Federal-Reserve-fedglobal-ach-payments-program-reduced/648181/#:~:text=That's%20despite%20a%20Feb.,discontinued%20in%20the%20coming%20months> [<https://perma.cc/2B24-634M>].

near-real-time retail payment systems” and that such action is essential.<sup>34</sup> But instead of taking a nimble approach, the Fed procrastinated for nearly a decade to launch FedNow. Meanwhile, RTP was in operation for six years; and over five dozen other retail FPS were already in full operation internationally.<sup>35</sup>

When FedNow finally debuted, the core issue had changed. The problem was no longer whether a retail FPS was useful. It is no doubt necessary. The real question became does the U.S. need a second system? Or, most specifically, how much added value does a second Fed-operated retail FPS bring? The answer might sound disappointing, but the Fed’s involvement is neither necessary nor marginally beneficial. This conclusion echoes the global practice in which most countries choose to have one retail FPS.<sup>36</sup>

Granted, a Fed retail FPS could still provide certain marginal benefits.<sup>37</sup> But timing matters—the FedNow would yield more benefits if introduced after the market fully matures. Internationally, the timely involvement of the People’s Bank of China (“PBOC”) promoted FPS. There, the private sector led the fast payment movement, with Alipay launching its system in 2004. But until the market fully took off and transmitted \$22.8 trillion in 2017, PBOC took a back seat.<sup>38</sup> The patience worked to PBOC’s advantage—allowing it to achieve effective supervision, strengthen financial stability, and further promote the market.<sup>39</sup> In contrast, the Fed’s full-on involvement came prematurely. Despite its boom, RTP’s market size was merely \$127 billion in 2023.<sup>40</sup> The retail settlement market was too big to ignore, but still too small an arena for two major competitors.<sup>41</sup>

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<sup>34</sup> The Fed. Rsrv. Banks, *Payment System Improvement - Public Consultation Paper*, FED. PAYMENTS IMPROVEMENT 1, 3 (Sept. 10, 2013), [https://web.archive.org/web/20131206032128/http://fedpaymentsimprovement.org/wp-content/uploads/2013/09/payment\\_system\\_improvement-public\\_consultation\\_paper.pdf](https://web.archive.org/web/20131206032128/http://fedpaymentsimprovement.org/wp-content/uploads/2013/09/payment_system_improvement-public_consultation_paper.pdf) [<https://perma.cc/5UNM-2FQC>].

<sup>35</sup> COMM. ON PAYMENTS AND MKT. INFRASTRUCTURES, DEVELOPMENTS IN RETAIL FAST PAYMENTS AND IMPLICATIONS FOR RTGS SYSTEMS 5 (2021), <https://www.bis.org/cpmi/publ/d201.pdf> [<https://perma.cc/UT6M-648C>].

<sup>36</sup> *Id.*

<sup>37</sup> See *Fast Payments: Design and Adoption*, BANK FOR INT’L SETTLEMENTS (Mar. 4, 2024), [https://www.bis.org/publ/qtrpdf/r\\_qt2403c.htm](https://www.bis.org/publ/qtrpdf/r_qt2403c.htm) [<https://perma.cc/DF57-3LTD>].

<sup>38</sup> *Payment System Report (2017)*, PEOPLE’S BANK OF CHINA, <http://www.pbc.gov.cn/en/3688259/3689026/3706133/3825630/3852992/index.html> (last updated Mar. 12, 2018) [<https://perma.cc/J42D-8EAF>].

<sup>39</sup> Despite a minor decline in 2022 during COVID-19, the size of this market continued to grow by double-digits regulation was implemented. Combined, the two giants in the market, Alipay and WeChat, are predicted to have 2.5 billion users. See Statista Rsch. Dep’t, *Number of users of Alipay and WeChat Pay in China in 2020, with forecasts from 2021 to 2025*, STATISTA (May 29, 2024), <https://www.statista.com/statistics/1271130/mobile-wallet-user-forecast-in-china/> [<https://perma.cc/3P4C-3B7Z>].

<sup>40</sup> *Real-Time Payments for All Financial Institutions*, THE CLEARING HOUSE, <https://www.theclearinghouse.org/payment-systems/rtp> (last visited Dec. 16, 2024) [<https://perma.cc/G8TU-TNA5>].

<sup>41</sup> A complete private arrangement could also alleviate the conflict of central banking being both an operator of and a regulator to the industry. See Aaron Klein, *Structural Conflicts in Central Banking: Regulator or Operator of a Payment System?*, WHARTON SCH., <https://wifpr>.

Looking ahead, FedNow can distinguish itself through competitive differentiation by expanding direct access to the growing non-bank financial institution sector.<sup>42</sup> Granting PayPal and other major players direct access would simultaneously grant unbanked households better access to payment services.<sup>43</sup> Such action will also give the Fed a better understanding of domestic money flow.

#### CONCLUSION

Even now, after a full year of FedNow operation, discussions over this real-time settlement system do not seem to be ending anytime soon. Yet even today, FedNow seems to be a nice-to-have, albeit an extremely expansive one.

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wharton.upenn.edu/wp-content/uploads/2023/09/Structural-Conflicts-in-Central-Banking.pdf (last visited Dec. 17, 2024) [https://perma.cc/J7P5-HCYX].

<sup>42</sup> For criticisms over Fed's failure to address payment network access problem, see Dan Awrey, Joshua Macey & Jeffery Zhang, *Payment Network Governance* 53-54 (Eur. Corp. Governance Inst., Law Working Paper No. 801, 2024), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4951523](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4951523) [https://perma.cc/A4XX-B39J].

<sup>43</sup> Ryan Goodstein, *A Closer Look at the Unbanked: Cash-Only Households Versus Those That Use Prepaid Cards or Nonbank Payment Apps*, FED. DEPOSIT INS. CORP. (July 2024), <https://www.fdic.gov/consumer-research/closer-look-unbanked-cash-only-households-versus-those-use-prepaid-cards-or> [https://perma.cc/TF3B-V9AK].