

Factsheet

Realizing the promise of the new age of payments in the US

Whether it's delivering the digital, frictionless experience of Instant Payments or the new levels of automation and interoperability from ISO 20022 adoption on Fedwire, Community Banks and Credit Unions must modernize to stay relevant and delight customers

// **83% of North American banks believe that one or more of their payment rails will need replacement or substantial renovation within the next 5 years."**

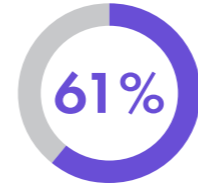
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Market context

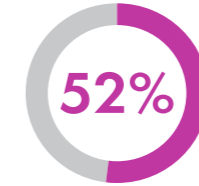
The payments market in the US is going through an unparalleled period of change – not only have the choices for instant payment delivery grown with the introduction of the FedNow service (alongside The Clearing House's RTP solution), but in March 2025 the Fedwire Funds service will switch over from proprietary FAIM message formats to the data-rich and structured ISO 20022 message set.

While the ISO 20022 change is mandatory, Instant Payment adoption isn't; but recent surveys indicate that customers are increasingly willing to transfer their business to another financial institution (or fintech) if their current one doesn't support Instant Payments. It's clear that regulation and/or market forces demand that these changes to the payments landscape are adopted and the new use cases they support used to drive innovation.

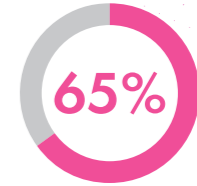
Fls in the U.S. are struggling to keep up and support their evolving payments business needs¹



of banks report that they have already lost 10% or more of their payments volume to fintech providers



state their current payments solution is lacking the needed scalability to support increasing payments volume and new services



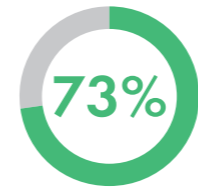
of banks report technical challenges of integrating with legacy systems to be an obstacle in introducing new products and services

To meet these challenges

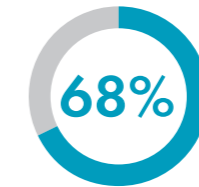


of banks expect their investment in payments technology will grow or remain the same

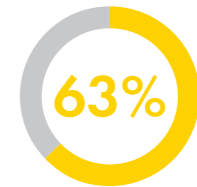
Banks indicated the following critical and very important priorities for their modernization plans:²



Simplifying the complexity of adding new rails



Reducing maintenance cost and operational complexity



Improving new services' time to market and their ability to meet customer demands for value-added services

1-2. Source: Payments Modernization and Technology survey report, Datos, 2023

What's the challenge for Community Banks and Credit Unions?

Whilst there are clear opportunities for financial institutions that embrace these changes, these come with several challenges which may be more keenly felt by Community Banks and Credit Unions, where budgets may not stretch to the large Capex investment needed to modernize on-premise, legacy payment solutions and infrastructures. Some of these are considered below:

- Instant Payments support requires 24x7 availability, elastic scalability, fast processing, and high resiliency; these operational challenges are difficult to support in current applications that are often batch-based and with defined operating windows.
- Financial institutions with solutions that are not ISO 20022-native may be forced to implement tactical solutions such as message transformation layers or face the risk of message truncation; in either case, while this may afford a base level of compliance such an approach is unlikely to provide the analytical and revenue opportunities that full support for ISO 20022 delivers.
- There are compliance and fraud management challenges that accompany these developments, such as the need to have real-time solutions (to support Instant Payments) and extensions to the compliance rules and depth of fraud detection (arising from the richness and structured nature of the ISO 20022 messages).
- Integrating new payment processing solutions with Core Banking services that have restricted processing windows is complex, requiring features such as Stand-In processing and shadow accounting.

Reliance on existing legacy technology results in

>64%

of IT budget is spent on "keeping the lights on"

Breaking free of this is driving more investment in payment hubs than any individual payment rail at

9%
CAGR

3. Source: Embracing the Revenue-Generating Opportunities of a Modern Payment Hub, Omdia, 2024

To meet the need to modernize banks are increasingly adopting Payment-as-a-Service solutions

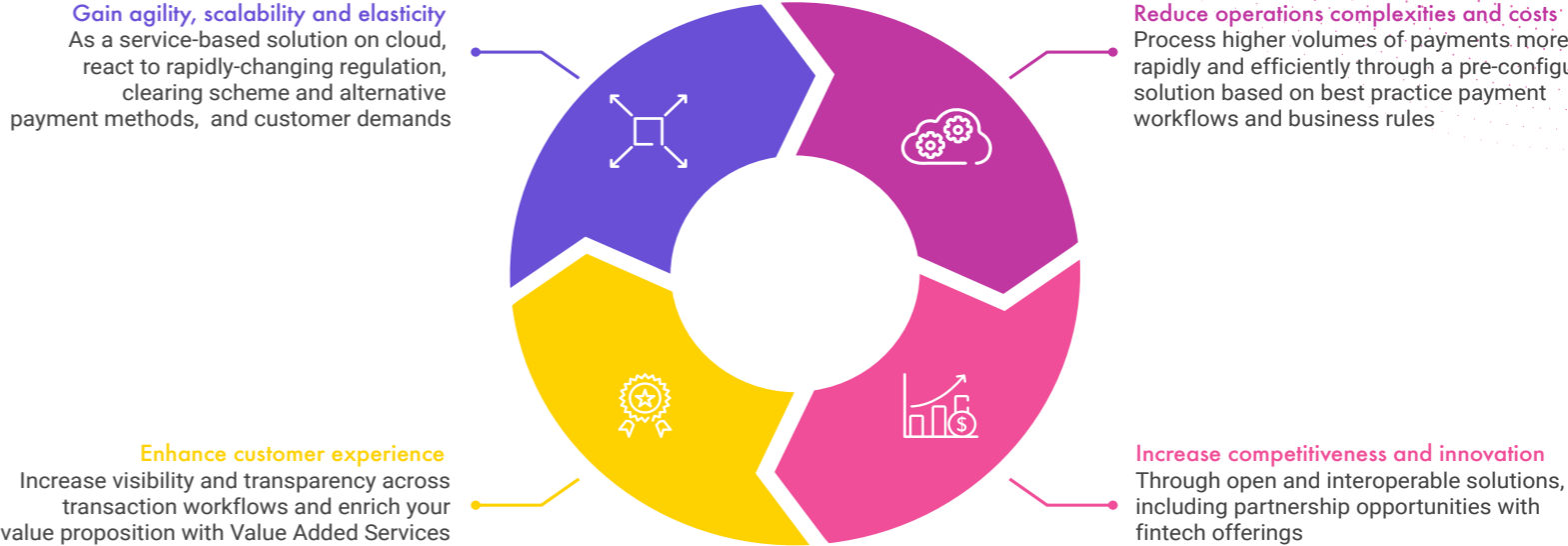
The need to meet these current and near-term changes to the US payment schemes, as well as future-proofing for further evolution (e.g. NACHA messages moving to ISO 20022), is a great example of why Community Banks and Credit Unions need to move to a Payments as a Service (PaaS) solution.

Research shows that this segment of financial institutions, and indeed US banks in general, have the best understanding of PaaS with 84% (Datos, 2023) being very familiar or somewhat familiar with the concept.

They also have a high level of understanding of the impact that this deployment model can have, where a single vendor can deliver:

- the full end-to-end pre-configured payment workflow, incorporating payment initiation and delivery.
- pre-integrated Core Banking functionality.
- access to best-of-breed ancillary services such as real-time compliance and fraud management which are essential given the nature of the US payments changes.

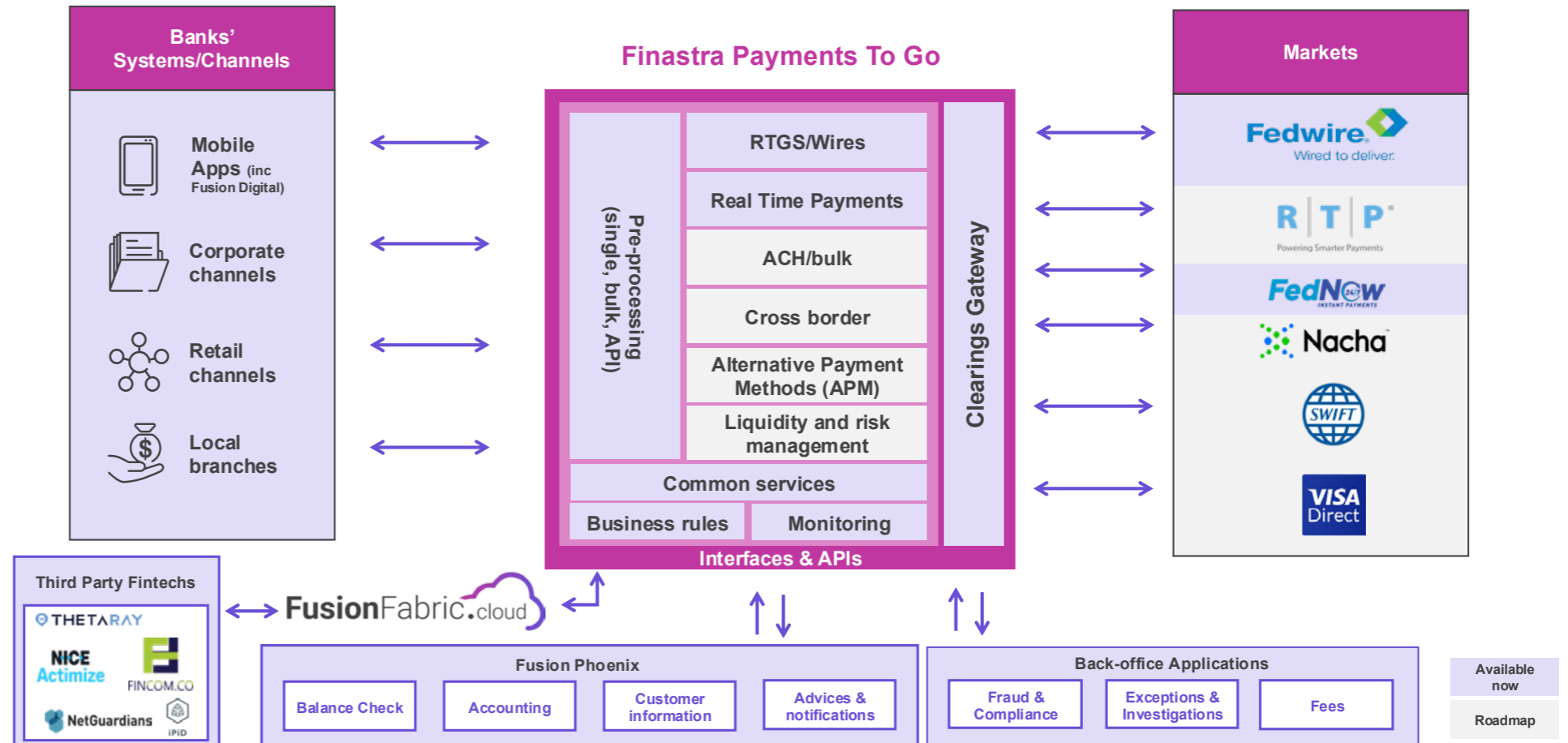
The figure illustrates the overarching benefits of PaaS.



Our Solution

With its extensive solution portfolio, Finastra is uniquely positioned to provide a PaaS solution through the following pre-integrated applications:

- **Fusion Digital** – our digital banking solution which provides omni-channel payment initiation and reporting. It allows users to have a full view of the processing status of outgoing and incoming payments. If a simplified mechanism is required, our Rapid FinPay solution is available. Both mechanisms support overlay services such as Request to Pay.
- **Payments To Go** – our SaaS payment hub, featuring best practice, pre-configured Instant Payment and Wire processing workflows with certified connectivity to the FedNow and Fedwire Funds services.
- **Fusion Phoenix** – our core banking solution providing account verification, balance inquiry and funds reservation, account posting, and reconciliation.
- **FusionFabric.cloud (FFDC)** - our collaboration and innovation platform providing pre-integration with a rich fintech ecosystem allowing simplified extension of the service to cover areas such as real-time fraud and compliance monitoring.



Key features include:

Send and receive payments:

- Multi-Rail Payment Processing - supports various clearings for high value and instant payments.
- Transaction Processing - outgoing and incoming transactions processed individually with final and irrevocable funds settlement.
- Security and Compliance - optional fraud and compliance checks.
- Posting - accept with/without posting scenarios.
- Notifications - real-time updates and notifications.
- Return/Reversal - Request for Return/ Reversal and Response messages.
- On-us transaction processing within the same financial institution.
- Additional features - fees and charges, PI/ SN matching for high value payments.

Value added services:

- Account upload for local accounts (if core processing is unavailable)..
- Browser-based user interface for exception management.
- Data research and reporting with reconciliation, usage, and audit reporting.
- Transaction limits.
- Range of Open APIs available.
- Standard integrations with other back-office applications.
- Provision of clearing gateways out-of-the-box.
- Rapid FinPay for simplified payment initiation.

Reduced complexity and cost:

- Multi-rail payment hub centralises operations.
- Highly available and scalable infrastructure with reduced TCO.
- Secured direct connectivity to the Federal Reserve Fedwire/FedNow services.
- SaaS delivery model with rapid onboarding, automated quality gates and delivery pipelines.
- Continued compliance with regulations, schemes changes and other standards as part of the service.

Why Finastra?

- Delivered as a full end-to-end, certified and packaged service requiring minimal personalization (through configuration, not coding).
- Rapid onboarding means a fast ROI.
- Opportunity to modernize legacy fragmented infrastructures without large, costly, slow, and risky projects.
- Support for the FedNow and Fedwire ISO 20022 services out-of-the-box, with the option to extend to additional rails over time and in line with business priorities.
- Operational certainty of a cloud infrastructure (guaranteed scalability, security, 24x7 availability, and resiliency).
- Open solution that can be readily enriched, extended, and upgraded without major effort.
- Access to pre-integrated fintech solutions to rapidly respond to changing demands.
- Personalised support and training options available.
- A trusted partner with a 30+ year reputation for quality, expertise and successful delivery of mission-critical projects to all sizes of financial institutions.
- Long-standing relationship with the Federal Reserve Bank, Nacha, and The Clearing House.

With Finastra you will be able to delight your customers with a complete solution (payment initiation, execution, and delivery) for their Instant Payment and Wires processing rapidly and with low risk - opening up a range of new use cases (see examples on following pages).

Talk to us today.

The following use cases are enabled with our solution:

Instant Payments - Receive-only

In this cycle, regional banks focus on receiving payments through FedNow but still need to initiate payments. This provides a gradual adoption of the system, allowing banks to familiarize themselves with the process before full implementation.

• Real-Time Payments for Retail Customers

- **Use Case:** Banks enable customers to instantly receive real-time payments, such as payroll or P2P transfers, into their accounts.
- **Benefits:** Faster availability of funds enhances customer satisfaction, providing a competitive advantage.

• Improved Cash Flow for Small and Medium Businesses (SMBs)

- **Use Case:** SMBs receive payments from clients instantly, even outside normal business hours.
- **Benefits:** Better liquidity management for businesses as they can access funds immediately.

• Disbursement of Government and Social Benefits

- **Use Case:** Regional banks help customers receive government payments such as tax refunds, social security, or emergency relief in real time.
- **Benefits:** Provides immediate access to essential funds, improving customer trust in the bank.

• Emergency Payments and Disaster Relief

- **Use Case:** Banks can facilitate real-time reception of emergency payments like insurance payouts or disaster relief funds.
- **Benefits:** Supports customers in urgent situations by providing immediate access to critical funds.

Instant Payments - Send-and-Receive

In this cycle, banks adopt FedNow's full functionality, enabling both payment sending and receipt, offering customers a more comprehensive set of services.

• Instant Bill Payments

- **Use Case:** Customers can pay bills instantly via FedNow, including utilities, credit cards, and other services.

- **Benefits:** Enhanced customer convenience, preventing late fees, and giving customers control over payment timing.

• Payroll Processing for Businesses

- **Use Case:** Banks allow businesses to send payroll instantly, ensuring employees receive wages on time, even on weekends and holidays.
- **Benefits:** Improves employee satisfaction and streamlines payroll operations for businesses.

• Peer-to-Peer (P2P) Transfers

- **Use Case:** Banks provide P2P payment services through FedNow, allowing customers to send and receive money to friends and family instantly.
- **Benefits:** Competes with services like Venmo or Zelle and attracts younger, tech-savvy customers.





The following use cases are enabled with our solution:

- **Lending and Loan Disbursements**

- **Use Case:** Banks use FedNow to send loan funds to borrowers instantly, reducing the time it takes for customers to access financing.
- **Benefits:** Streamlines the lending process and improves customer satisfaction for both personal and business banking clients.

- **Vendor Payments for Businesses**

- **Use Case:** SMBs and large businesses alike can send payments to vendors instantly, reducing supply chain friction.
- **Benefits:** Enhances supplier relationships and increases operational flexibility by speeding up payment cycles.

Fedwire ISO 20022

- **Enhanced Remittance Information**

- **Use Case:** Detailed remittance data such as purpose codes can be included in structured fields.
- **Benefits:** Users can see exactly what each payment is for, improving clarity and reducing the need for follow-up inquiries.

- **Improved Fraud Detection**

- **Use Case:** Enhanced data elements increase the depth and efficiency of fraud management.
- **Benefits:** More sophisticated fraud scenarios can be detected and managed up front giving users greater security and peace of mind, and avoiding the need for costly remediation processing.

- **Faster and More Efficient Cross-Border Payment Processing**

- **Use Case:** Standardized and rich data increases the transparency and level of automation for international transactions.
- **Benefits:** The delays and costs associated with cross-border payments will be reduced and their characteristics will become more like domestic payments.

- **Automated Reconciliation**

- **Use Case:** Additional fields in the ISO messages will allow related payment and non-payment messages to be matched without manual intervention.
- **Benefits:** Businesses can automatically match payments to invoices and other documents reducing manual effort and errors, and increasing speed, efficiency and customer satisfaction.

- **Better Customer Support**

- **Use Case:** Customer service representatives have access to additional and better quality data when looking into payment issues.
- **Benefits:** Queries are resolved more quickly and accurately saving time, effort, and cost.

- **Enhanced Compliance**

- **Use Case:** Use of structured data fields improves both the accuracy of regulatory screening and alignment with future requirements.
- **Benefits:** Reduced risk of compliance breaches and the associated reputational damage and financial penalties.

- **Regulatory Reporting**

- **Use Case:** Facilitates more accurate and efficient regulatory reporting by providing structured and detailed data.
- **Benefits:** Ensures that current and future regulatory reporting requirements can be met in terms of the required data being available.

- **Improved Liquidity Management**

- **Use Case:** Detailed payment data helps businesses manage liquidity more effectively.
- **Benefits:** Better visibility of their financial operations allows businesses to optimize cash flow and reduce risks.

- **Personalized Financial Services**

- **Use Case:** Financial institutions can offer more tailored services based on enhanced and detailed payment data.
- **Benefits:** Improved customer satisfaction, business, and retention through personalized offerings.

- **Interoperability**

- **Use Case:** Promotes domestic and cross-border interoperability through a single, open standard.
- **Benefits:** Simplifies transaction processing, operations, and integration and so reduces cost and risk.

- **Operational efficiency**

- **Use Case:** Reduces the need to support multiple message formats.
- **Benefits:** Streamlines various back-office processes, such as payment processing, settlement, and reporting and lowers costs.

- **Future-proofing**

- **Use Case:** Ensures banks' payment systems remain competitive and aligned with global standards.
- **Benefits:** Positions banks to better handle future technological advancements and regulatory changes preventing disruptions and maintaining service quality.

With Finastra you will be able to delight your customers with a complete FedNow and Fedwire ISO service rapidly and with low risk – talk to us today.

About Finastra

Finastra is a global provider of financial services software applications across Lending, Payments, Treasury and Capital Markets, and Universal (retail and digital) Banking. Committed to unlocking the potential of people, businesses and communities everywhere, its vision is to accelerate the future of Open Finance through technology and collaboration, and its pioneering approach is why it is trusted by ~8,100 financial institutions, including 45 of the world's top 50 banks. For more information visit finastra.com

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