Fed’s new instant payment system could be trouble for PayPal, Venmo

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Yesterday, the US Federal Reserve officially launched FedNow, a new system rolled out to 35 early-adopting banks and credit unions for processing instant payments between financial institutions. The Fed’s goal is to eventually connect more than 9,000 banks and credit unions nationwide, tossing out the old payments system and supporting faster payment processing between all US institutions.

If FedNow becomes popular enough, it could one day make trouble for apps like PayPal and Venmo, which serve as intermediaries to make fast payments between banks. Cash apps could eventually seem so slow or unnecessary that they become obsolete. For now, peer-to-peer payments apps seem safe, though, as analysts told NBC News that FedNow is “likely to benefit consumers and small businesses the most.”

“The Federal Reserve built the FedNow Service to help make everyday payments over the coming years faster and more convenient,” Federal Reserve Chair Jerome Powell said in a press release. “Over time, as more banks choose to use this new tool, the benefits to individuals and businesses will include enabling a person to immediately receive a paycheck or a company to instantly access funds when an invoice is paid.”

Ars reached out to large and small institutions included on the Fed’s list of early adopters to find out how they’re using the new payments technology.

Among the big banks listed as early adopters are Wells Fargo and JPMorgan Chase. Wells Fargo declined to comment, but a JPMorgan Chase spokesperson confirmed that FedNow is already enabling one of the world’s leading financial services providers to “deliver faster, seamless, and more efficient payment services” to its customers.

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As the Federal Reserve seeks to expand adoption, big banks like JPMorgan Chase could serve as a key model proving the benefit of switching to FedNow’s instant payment rails. JPMorgan Chase’s spokesperson told Ars that the financial giant also expects that “given the rapid pace of innovation, our participation will help us learn, grow, and better serve our customers as a result.”

Many smaller, early-adopting regional banks and credit unions helped test FedNow ahead of its launch and are forming a foundation for the country’s first government-built instant payments system. Others are still waiting to see how FedNow works before adopting it. Financial services consulting firm Cornerstone Advisors reported that almost a quarter of financial institutions said they were waiting for FedNow’s launch before they even considered hatching their own instant-payments strategies.

Massachusetts-based Avidia Bank’s press release said that it is “positioned to provide consumers and businesses the option to move funds instantly, offering choice for sending and receiving payments to manage money, make bill payments, and avoid late fees.” That press release included a statement from Federal Reserve Bank of Boston first vice president and FedNow program executive Ken Montgomery, who said that banks like Avidia are paving “the way for industrywide progress, setting

an example for others wanting to play a role in supporting a modernized US payment infrastructure.”

The more financial institutions that participate in FedNow, the more opportunities Americans have to move money instantly. Currently, FedNow has set a default transaction limit of $100,000, but individual banks can adjust it up to $500,000, Forbes reported. A press release from another early adopter, BNY Mellon, said the Fed would be continuing to onboard more institutions throughout the rest of this year.

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