

FedNow launch could bring challenges for banks, Moody's claims

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The news: FedNow may pose risks to banks and other payments players, Moody's Investors Service [claimed in a report](#). The Federal Reserve's instant payments system is expected to launch later this month.

Here are the top three risks Moody's outlines in its report:

1. **Loss of interchange revenues.** Issuers rely heavily on fees from credit card payments and to a lesser extent debit payments. But if consumers and businesses start using FedNow instead of cards, those revenues could dry up. In 2022, merchants paid an estimated **\$85.6 billion in credit card processing fees**, and more than 80% of this went to issuers as interchange revenues.
2. **Costs of beefing up tech.** FedNow enables 24/7 real-time money movement, but this adds security risks to FedNow partners. They may need to increase investments in technology and staff to monitor around-the-clock transactions to protect against cyberattacks. This will disadvantage smaller banks because they have fewer resources to invest in these efforts.
3. **Threat of bank runs.** Faster money movement could also increase the risk of bank runs. Moody's noted that recent bank failures were exacerbated by the speed of withdrawals, which could happen even faster with FedNow.

Our take: Despite potential risks for payment incumbents, consumers and businesses should enjoy the benefits of FedNow and its low-cost, real-time payments.

And the [list of FedNow early adopters](#), which contains heavy hitters and smaller banks alike, suggests the positives outweigh the risks, and financial institutions aren't willing to miss out on this payments advancement.