Today’s Discussion

• The Federal Reserve’s Mission and Role in Payments
• The Evolving Payments Landscape
• Payments Improvement in the U.S.
• Focus on Faster Payments

Disclaimer: The views expressed are solely the responsibility of the presenter and should not be interpreted as reflecting the views of the Federal Reserve Bank of Kansas City or of anyone else associated with the Federal Reserve System.
Federal Reserve Mission Areas

- Conduct the nation’s monetary policy
- Supervise and regulate banking operations
- Provide and maintain an effective and efficient payments system
The Fed’s Roles in the Payment System

**Leader/Catalyst**
- Advocate, educator, or change agent

**Service Provider**
- Operate the Fedwire® Funds, FedACH®, FedCash®, Check services and FedLine® access solutions

**Fiscal Agent**
- Services to the U.S. Treasury and other government agencies

Provide and maintain an effective and efficient payments system
U.S. Payments Ecosystem
Global Trend: Faster Payments

Source: HSBC Instant Payment Schemes report, 2019
The digital era has fundamentally changed the nature of everyday interactions and commerce.

A gap has emerged between the capabilities of traditional payment methods and the payment capabilities expected in the digital era – fast, convenient, accessible.

The Federal Reserve and payment industry have been working together to determine the best path forward.
A Brief History in U.S. Payments Improvement

2013
Fed sought public's input on payments modernization

2015
Strategies for Improving the U.S. Payments System (SIPS) paper issued in response

2015-2017
Task forces convened to address two of five Desired Outcomes: Speed and Security

2017
Faster Payments Task Force asked Fed to evaluate 24x7x365 settlement
Next Steps paper issued in response

2018
Fed requested public comment on proposed settlement models
SIPS Paper Identified 5 Desired Outcomes

- **Speed:** Ubiquitous, safe, faster electronic solution(s)
- **Security:** Strong and responsive payment system security
- **Efficiency:** Payments originated and received electronically
- **International:** Better choices for cross-border payments
- **Collaboration:** Payment system improvements are collectively identified and embraced
Faster and Secure Task Force Milestones

Faster Payments Task Force: Vision: A payment system in the United States that is faster, ubiquitous, broadly inclusive, safe, highly secure, and efficient by 2020. The goal is to be able to pay anyone, anywhere at anytime with near real-time funds availability.
Recent Industry Developments and Engagements

In response to Recommendation One from the Faster Payments Task Force, establishment of the New Payments Fraud Work Group in October 2018

New Payments Fraud Work Group Focuses on Better Understanding Fraud

In March 2019, the Federal Reserve announced the establishment of the Fraud Definitions Work Group focused on ACH, Wire and Check fraud to help address industry challenges stemming from inconsistent fraud classification and lags in reporting.

Synthetic Identity Payments Fraud

Increase Federal Reserve and industry understanding of synthetic identity payments fraud, including system vulnerabilities that allow the creation and use of synthetic identities to perpetrate fraud. Through this initiative, the Federal Reserve and industry seek to collaboratively reduce synthetic identity payments fraud in the United States over time through Education, Research and Payments industry dialogue.
Committee on Payments and Market and Infrastructures:*  
- “Fast payment” is defined as a payment in which the transmission of the payment message and the *availability of “final” funds to the payee occur in real time* or near-real time on as near to a *24-hour and seven-day (24/7) basis* as possible.

- “Final” funds are funds received such that the *payee has unconditional and irrevocable access* to them.

- Further, the definition implies that other potentially rapid outcomes, such as an *immediate notification* to the payee of incoming funds that will only be accessible later, *would not qualify as a fast payment*.

* Source: The CPMI is a subcommittee of the Bank for International Settlements; they a paper in November 2016 titled *Fast payments – Enhancing the speed and availability of retail payments* [https://www.bis.org/cpmi/publ/d154.pdf](https://www.bis.org/cpmi/publ/d154.pdf)
### Select FPTF Effectiveness Criteria

| Fast Approval | The Solution should require and enable the Payer’s Depository Institution or Regulated Nonbank Account Provider to **assure Good Funds for each payment in a timely manner.**
|               | • Effective: Within 5 seconds  | Not effective: Over 15 seconds |
| Fast Clearing  | The Solution should require and enable the Payer’s and Payee’s Depository Institution or Regulated Nonbank Account Provider to **exchange payment information in a timely manner.**
|               | • Effective: Within 5 seconds  | Not effective: Over 1 minute  |
| Fast Availability | The Solution should require and enable funds and contextual Data, as appropriate, to be received by the Payee, such that the **funds can be withdrawn or transferred in a timely manner.**
|               | • Effective: Within 15 seconds | Not effective: Over 1 minute  |
Faster Goal: A Robust Retail Payment System

Today, some payments may seem “fast,” but in reality inefficiencies, delays, and risks remain:

- Recipients may not be able to broadly use funds received instantly
- Senders can’t reach anyone they want nationwide
- Interbank settlement is often deferred, creating risk

Key Considerations

- Speed
- Convenience
- Accessibility
Emerging payments technologies: Mobile/P2P

- Zelle
- Venmo
- PayPal
- Square Cash
- Facebook Messenger
- Mastercard Send
- Visa Direct
- PopMoney
- RTP: online banking apps
- Apple or Android Pay
- Retailer POS

Most online consumers have used P2P
Over 8 in 10 U.S. online consumers have trialed P2P services while just over 4 in 10 have used a digital wallet

![Graph showing the percentage of online consumers who have used P2P services and digital wallets from 2012 to 2018.](source: Early Warning Services Digital Payment Adoption Study)
Consumer Reports reviewed the most commonly used mobile P2P apps in November 2018.

While P2P apps may seem to facilitate faster payments, they may only facilitate faster payment messaging.
RECOMMENDATION 5: ENHANCE FEDERAL RESERVE SETTLEMENT MECHANISMS TO SUPPORT THE FASTER PAYMENTS SYSTEM.

The Faster Payments Task Force asks the Federal Reserve to develop a 24x7x365 settlement service that supports the needs of faster payments solutions and considers ways to broaden access to its settlement services within the bounds of its mandate.

RECOMMENDATION 6: EXPLORE AND ASSESS THE NEED FOR FEDERAL RESERVE OPERATIONAL ROLE(S) IN FASTER PAYMENTS.

As faster payments are implemented in the market, the Faster Payments Task Force asks the Federal Reserve to explore and assess the need for operational role(s) in the faster payments system to support ubiquity, competition, and equitable access to faster payments in the United States.
Faster Settlement

- The Federal Reserve believes **Real-Time Gross Settlement (RTGS)** would provide the safest and most efficient infrastructure for settlement of faster payments.
- Many global faster payment platforms are built on an RTGS model.
- The Real-Time Payments (RTP) system introduced by the The Clearing House (TCH) is an RTGS service.
Potential actions the Fed could take to support a safe, modern payment infrastructure for interbank settlement of faster payments

- Develop a **24x7x365 RTGS Settlement Service** for faster payments
- Develop a **Liquidity Management Tool** to support RTGS services

Received 400+ comment letters from a variety of stakeholders that are currently being reviewed

<table>
<thead>
<tr>
<th>Segment</th>
<th>Themes</th>
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<tbody>
<tr>
<td>Small/regional banks</td>
<td>Support Fed entry as operator</td>
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<tr>
<td>Large banks</td>
<td>Generally oppose Fed entry as operator but support development of a Liquidity Management Tool</td>
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<tr>
<td>Trade associations</td>
<td>Aligned with industry segment</td>
</tr>
<tr>
<td>Individuals</td>
<td>Generally support Fed entry as operator</td>
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<tr>
<td>Processors/service providers</td>
<td>Generally support Fed entry as operator</td>
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<tr>
<td>Card companies/networks</td>
<td>Generally oppose Fed entry as operator</td>
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<tr>
<td>Merchants</td>
<td>Support Fed entry as operator</td>
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<tr>
<td>Fintech/software companies</td>
<td>Support Fed entry as operator</td>
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<tr>
<td>Standards organizations</td>
<td>Supportive of existing offerings</td>
</tr>
<tr>
<td>Private-sector operators</td>
<td>Generally oppose Fed entry as operator</td>
</tr>
<tr>
<td>Other</td>
<td>Varied</td>
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Operational Considerations for the Banking Industry

- What will become the end of the banking day?
- How will service level agreements affect operations, compliance, core processing?
- How will customer service issues be resolved?
- Will staffing be impacted?
- What new positions might be required?
- Will this be managed in-house or through a third-party relationship?
- And the list goes on....
Next Steps in the Faster Payments Journey

• Fed is reviewing public comments and will make a decision on its involvement
• Expected continued evolution of end-user services, including P2P, mobile, digital innovations
• Follow the FedPayments Improvement progress @ fedpaymentsimprovement.org