



June 2019 Payments Executive Brief: The Federal Reserve Must Play a Central Role in Faster Payments

Issue No.1

Globally, there are 40 real-time payments systems live, and many are realizing significant growth. In China, for example, there are now more than 25 million faster payments made every day, more than double the daily average from just a year ago.

Contrast that with the U.S., which far lags the rest of the world in faster payments innovation. While the nation's largest banks launched a real-time payments network in November 2017, only 15 financial institutions—out of nearly 11,000—are live on the network today.¹

The U.S. market needs competition to drive faster payments adoption. It's time for the Federal Reserve to act on its statutory responsibility for payments and become a real-time settlement operator.²

3 Reasons the Industry Needs the Federal Reserve as an Operator of a Real-Time Gross Settlement (RTGS) Service

- 1. Industry-wide ubiquity will never be achieved without the Federal Reserve.** Real-time payments require access to all financial institutions both as receivers, and eventually as senders. No other entity has the breadth to reach every financial institution in the nation. Without the Federal Reserve linking together the nation's banks and credit unions, the market will become fragmented, creating great disparity between those consumers and businesses who have access to real-time payments and those who don't. While the largest banks control the nation's deposit accounts, reaching nearly 11,000 financial institutions will be a long, uphill struggle without the Federal Reserve.
- 2. With the Federal Reserve as a RTGS operator, there will be greater access for financial institutions—leading to more opportunities for industry innovation.** History shows that having both the Federal Reserve and the private sector working together with interoperable systems will result in a foundation for greater payments innovation. Today, the Federal Reserve serves as an operator in existing payments systems, which has enabled community banks and credit unions to introduce network innovations—from remote check deposit to same-day settlement and beyond. New uses for real-time payments—disaster relief, immediate bill payments, real-time payroll, person-to-person payments, account-to-account payments and business-to-business payments—will emerge if the Federal Reserve becomes a RTGS operator.
- 3. Having one, private-sector settlement service puts the financial system at risk.** Competition creates strong markets, and to date, only one real-time settlement network has emerged—the one developed by The Clearing House, which is owned by the nation's largest banks. Allowing this type of monopoly would place thousands of community banks and credit unions and their customers at a competitive disadvantage.

A Call to Action

Today, the Federal Reserve is a trusted payments partner, operating wire, check and ACH services for all financial institutions in a fair, equitable and transparent manner. The Federal Reserve must continue this role and build a real-time gross settlement service with a clear path toward interoperability with private-sector solutions.

By offering real-time gross settlement, the Federal Reserve will increase faster payments access for all, bringing critical services to consumers and businesses across the country, while keeping pace with the rest of the world.

1. <https://www.fisglobal.com/About-Us/Media-Room/press-release/2018/real-time-payment-system-growth-surging-worldwide>
2. <https://www.digitaltransactions.net/tch-says-avidia-bank-is-just-the-first-smaller-bank-lining-up-for-real-time-payments/>