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The Federal Reserve and Payments: Governor Brainard Discusses Payments and the Federal Reserve Seeks Public Comment on Potential Actions to Facilitate Real-Time Interbank Settlement of Faster Payments

Written by [Eamonn Moran](#)

During a [speech](#) at the Fed Payments Improvement Community Forum, which was sponsored by the Federal Reserve Bank of Chicago, Federal Reserve Board Governor Lael Brainard discussed payments, the role of the Federal Reserve in ensuring safe and reliable payments, and the Federal Reserve's plans to move to 24/7 real-time settlement. In particular, she highlighted how there is "a growing gap between the transaction capabilities we need and expect in the digital economy--fast, convenient, and accessible to all--and the underlying settlement capabilities."

In this increasingly digital world, Governor Brainard stated how we are seeing "a growing demand for payments to be as instantaneous as the apps on our smartphones," but that, in reality, "under the hood, these payments currently rely on a patchwork of systems that can result in inefficiencies and delays, as well as uneven access." According to Brainard, "[t]o meet the expectations of our 24/7 app economy, there is a growing demand for broadly and nationally accessible faster payments that make funds available immediately. Faster payments would allow consumers and businesses to send and immediately receive payments at any time of the day, any day of the year, and provide recipients the ability to use their funds anywhere they choose."

While she observed that "[n]ascent faster payment services are emerging to address this demand from individuals and businesses for the capability to manage their finances more efficiently in real time," Governor Brainard cautioned that these faster payment innovations are striving to keep up with demand and gaps in the underlying infrastructure create challenges associated with safety, efficiency, and accessibility. "In many circumstances, the underlying infrastructure in place today cannot ensure that a fast payment is fully complete before the recipient seeks to use the funds. To complete a payment, the banks behind the transaction need to transfer funds between each other. Until this happens, the payment between them is like an 'IOU,'" stated Brainard.

Governor Brainard emphasized that our current systems that transfer funds between banks are not set up to work in a 24/7, real-time world. Rather, most faster payments settle funds between banks on a deferred basis. By entailing a buildup of obligations (like IOUs between banks), Brainard believes that this deferred settlement structuring "could present real risks to the financial system in times of stress," and that such risks are likely to increase as the volume and value of faster payments grow over time. "To fully deliver on the promise of faster

payments into the future, we need an infrastructure that can support continued growth and innovation, with a goal of settlement on a 24/7 basis in real time. To ensure the robustness of the payment system into the future, banks and other providers acting as their agents should have access to a settlement system that operates 24/7 and settles each payment as soon as an individual sends it," she stated. In her view, the benefits of such a system could be especially important for households and small business owners who face cash flow constraints.

Governor Brainard then discussed the role of the Federal Reserve in delivering and implementing a faster payments system. Highlighting how the Federal Reserve launched a collaborative effort five years ago with a broad array of stakeholders to catalyze a safe, efficient, and accessible faster payment system for the United States, she noted the Federal Reserve's efforts undertaken in the past year to conduct an assessment of what the Federal Reserve could do to modernize its infrastructure to support interbank settlement of faster payments. According to Brainard, that assessment "found that 24/7 payment-by-payment interbank settlement in real-time--what we refer to as real-time gross settlement (RTGS)--offers clear benefits in minimizing risk and maximizing efficiency. A 24/7 economy with 24/7 real-time payments needs 24/7 real-time settlement, and RTGS is the way to achieve this. That is where we believe that the Federal Reserve and the private sector together need to make investments for the future." In this regard, she noted that the U.S. payments system lags behind other parts of the world -- the Reserve Bank of Australia and the European Central Bank have already implemented or are soon to implement RTGS systems to support private-sector faster payment services.

During her speech, Governor Brainard also announced that the Federal Reserve Board was issuing a [Federal Register notice](#) that solicits public comment on: (i) potential steps the Federal Reserve could take to support the vision of RTGS of faster payments; and (ii) whether the Reserve Banks should consider developing a liquidity management tool that would operate 24/7 in support of services for real-time interbank settlement of faster payments, regardless of whether those services are provided by the private sector or the Federal Reserve Banks. Building upon this, she noted that the Federal Reserve Banks (which currently provide payment services to over 11,000 banks across the country) could develop a service for RTGS that is available on a 24/7 basis to provide payment-by-payment interbank settlement in real time and at any time, on any day, including weekends and holidays. According to Brainard, "[t]his common infrastructure would support connections across banks, and faster payment service providers acting as their agents, with the potential to weave together the current patchwork of systems," which could increase the overall safety of the payments system. Although she observed that RTGS may be "operationally demanding," in Brainard's view, it provides "clear benefits from a risk and efficiency perspective over the long term." In addition, Brainard sees the potential the development of private-sector faster payment services by banks and technology providers, which could capitalize on the underlying interbank settlement infrastructure and lead to increased innovation and choice in the market.

In stressing the Federal Reserve's responsibility to promote a payment system that serves the evolving needs of the public, Governor Brainard stated that the Federal Reserve hopes to solicit "as wide a range of views as



possible as we consider these and possibly other options to support prompt, secure, and resilient settlement in a 24/7 world, as well as views on the “appropriate role for the Federal Reserve in such a system.” Comments are due by December 14, 2018.

In Brainard’s view, the imperative to embrace innovation and design a faster payments infrastructure is clear.