BANK POLICY INSTITUTE

Real-Time Payments Issue Summary

An important development in modernizing the financial system is the November 2017 introduction by the banking industry of a real-time payments system in the U.S. (the RTP System). This new system provides immediate funds availability, payment certainty and decreases the use of high-cost check cashers and payday lenders. It also decreases the incidents of overdrafts, as customer funds can be immediately available for withdrawal.

To jumpstart the movement towards a real-time payments system, in early 2015 the Federal Reserve convened a Faster Payments Task Force to "identify and assess alternative approaches for implementing safe, ubiquitous, faster payments capabilities in the United States." The Task Force received 16 private sector proposals, including The Clearing House's proposal for the RTP System, which was launched in 2017. The RTP System is the first new US payments "rail" in more than 40 years. The system was built to meet the demands of the modern digital economy by delivering real-time clearing and settlement of funds. In addition to speed and certainty, RTP delivers tools that enable financial institutions and fintech companies to create innovative digital transaction services for retail and corporate customers. RTP is designed to meet the needs of all financial institutions, including credit unions and community banks, with a pricing schedule that is the same for all participants, regardless of size. (To ensure equality of access, there are no volume discounts, no volume commitments, and no monthly minimums.) A review by the Department of Justice found the system could have significant pro-competitive benefits. Currently, the RTP network can reach over 50 percent of U.S. demand deposit accounts with the goal of achieving ubiquitous reach by 2020, i.e. the potential to be used for transactions between any entity, business, consumer or government. Despite having a private sector solution in place, in December 2018 the Federal Reserve said it was considering developing its own real-time settlement system that would compete with private sector solutions and asked for public comment.

BPI's Position

The private sector has met regulators' demands to develop a safe, efficient and equitable real-time payment system accessible to all financial institutions. A government-run real-time payment system is unnecessary and will harm, rather than advance, regulators' goal of faster payments by 2020. The Fed should instead focus on modernizing its own Fedwire Funds Transfer system and making it 24/7 capable so that it can support private sector solutions.

Recommendation: The Federal Reserve should not develop a separate real-time payments system. Doing so would slow and potentially disrupt consumer access to real-time payments. BPI believes the Federal Reserve has successfully facilitated the development of faster payments in the U.S. and should continue the work of the Task Force by convening stakeholders and promoting adoption of RTP to achieve complete coverage.

Private Sector is Best Equipped to Deliver Real-Time Payments

The private sector is already meeting the demands of the Fed's task force for faster payments. Bank payment services powered by the RTP System create a better customer experience: consumers will no longer need to wait days for payroll or other funds to clear, and not only will funds be available to employees immediately, employers will have proof that payment is successful. RTP also provides consumer benefits through bill pay and cash management and benefits businesses of all sizes with immediate payment and receipt of invoices. Fundamentally, RTP will provide certainty about when money is moving in and out of accounts, improving consumers' ability to manage their finances.

Federal Reserve Involvement Deters Adoption

A Federal Reserve real-time payment system cannot reasonably be expected to be built by 2020 or achieve regulators' goals of ubiquity. Rather, it would likely freeze and fragment the market, and customers of those banks and credit unions that await potential Fed action would be disadvantaged. Moreover, the Fed should consider that interoperability of two real-time payment systems may not be possible and that, even if it were, two systems with separate operators and separate connections may well degrade rather than improve resiliency. As a cautionary example, in Europe the operators of two Real-Time Gross Settlement systems acknowledged that their systems will not be interoperable.