

Facilitating Consumer Payment Innovation in the U.S. through Changes in Clearing and Settlement: A Public Policy Perspective

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Consumer Payment Innovation in the Connected Age

Discussion Outline

- Purpose
- Fundamental assumptions
- Framework for analysis
- Public policy considerations
- Clearing and settlement reference model
- Payment system governance and innovation
- Conclusions and recommendations

Purpose

To stimulate thinking and action leading to innovation in clearing and settlement of consumer payments in the digital economy, where the public has come to expect immediate completion in all manner of information-intensive transactions.

The paper addresses concerns that the U.S. payment system is not keeping up with the rest of the digital economy in providing new methods of payment that give consumers immediate access to and use of their deposits held in bank accounts.

Fundamental Assumptions

- Consumers include individuals, businesses, and governments
- Consumers expect immediate completion of digital transactions
- Consumers need a universal method for making general-purpose payments

Framework for Analysis

- Payment is a function of money and banking
 - Payment is completed by transferring claims on banks that are recorded in deposit accounts
- The analytical framework consists of four parts
 - Payment system
 - Payment schemes
 - Payment infrastructure
 - Payment services
- Role player interactions within this framework involve cooperation, competition, regulation, and oversight

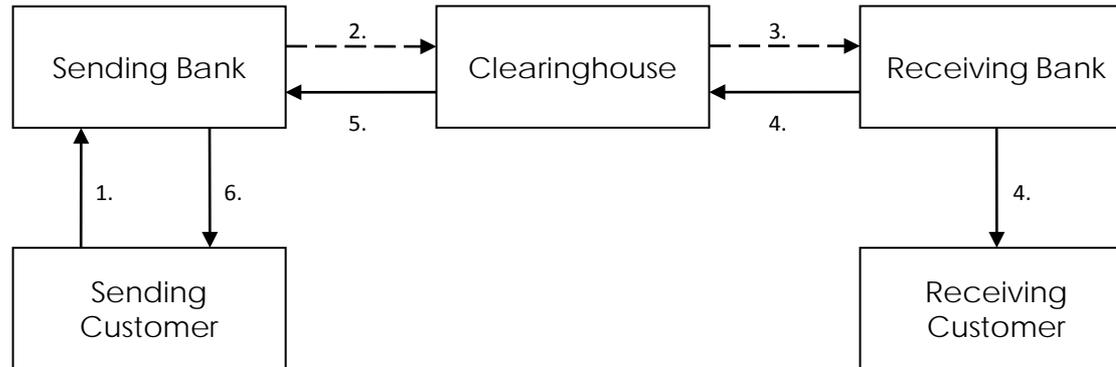
Public Policy Considerations

- Payment system public policy has an international basis
- The general-purpose payment system requires policy attention
- There are four main public policy considerations
 - *Financial stability* depends on the predictability of final consumer payments
 - *Operational reliability and security* is an end-to-end consumer experience
 - *Effectiveness* requires speed and universal coverage
 - *Efficiency* is determined by prices and operational standards

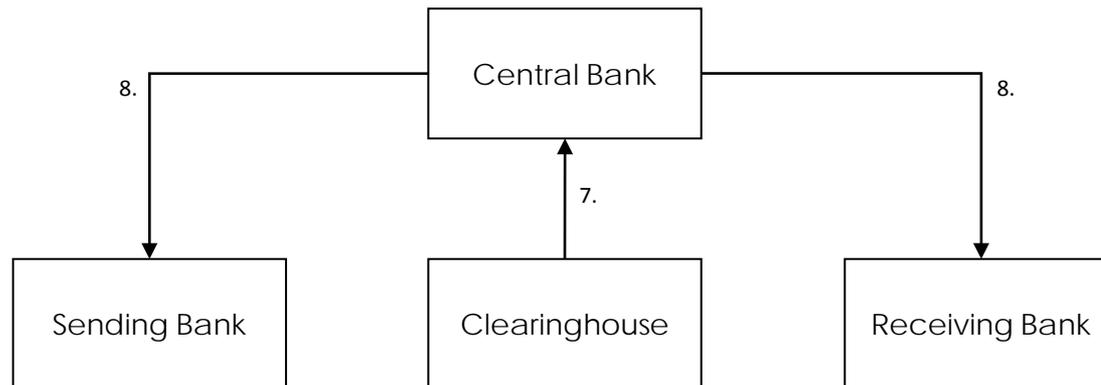
Clearing and Settlement Reference Model

Immediate Funds Transfer

Panel A



Panel B



Payment System Governance and Innovation

- Market acceptance, technology, and cost do not appear to be barriers to rapid adaptation of the U.S. payment system to the digital economy
- Principal barriers involve *cooperation* in planning and developing clearing and settlement infrastructure and related *end-to-end* payment schemes that threaten existing business models
- Governance lies at the heart of payment system development
 - Example of the UK Payments Council
- The U.S. payment system lacks national governance

Payment System Governance and Innovation

- Understanding today's payment system governance in the U.S. requires awareness of its historical antecedents, especially the origins of the Federal Reserve System
- The paper evaluates the potential for public and private governance responses that result in needed innovation
 - Federal Reserve Board
 - American Bankers Association
 - The Clearing House
 - National Automated Clearinghouse Association

Payment System Governance and Innovation

- Congress holds the key to stronger payment system governance
 - National commission with the mandate to analyze needs from a public policy perspective and recommend action to address public policy concerns
- National Commission on Electronic Fund Transfers 1974/1977
 - Consumer-centric vision and foundation of IFT
 - Absence of public interest governance recommendations
 - Competition and regulation rather than cooperation

Conclusions

Despite a vision provided 35 years ago, and despite evidence of consumer demand dating back a decade or more, and notwithstanding successful commercial experience in a number of countries around the world, the U.S. payment system does not appear close to implementing IFT-like capabilities.

Recommendations

1. Federal Reserve Board should clarify its role and that of the Reserve Banks in the existing and any future general-purpose payment system.
2. Federal Reserve Board and/or U.S. Treasury should engage the appropriate Congressional committees about the need for a national commission on payment system innovation in the digital economy.
3. Federal Reserve Banks should perform a benchmark assessment of implementing end-to-end clearing and settlement for IFT-like payments.
4. Federal Reserve Board should develop a special-purpose bank charter for payment services providers.