

Business Demand for Immediate Funds Transfers

...and can the U.S. RTGS adapt to meet the need?

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The views expressed in this presentation are those of the speaker and do not necessarily reflect the views of the Federal Reserve Bank of New York or the Federal Reserve System

IFT for US Dollars: Today vs. the future

Existing systems	Examples
RTGS / Wire transfers	Fedwire®, CHIPS
“Closed loop” networks	PayPal, Western Union, “on us” proprietary bank products
Potential Future Systems	Examples
“Integrated system” (high and low value on one system)	SIC (Switzerland); SPEI (Mexico)
Near real time retail payments	FasterPayments (UK)
Broader closed loop networks	“On we” networks, i.e., ClearXChange
Mobile payments	M-pesa (Kenya)

“Fedwire” is a registered service mark of the Federal Reserve Banks.

IFT vs. RTGS

Attribute	Desired state for IFT	Does RTGS meet desired state?
Certainty	Payment guaranteed to receiver	Yes, with immediate finality
Speed	Within minutes (or faster)	Immediate for interbank; <i>For end-user, it varies</i>
Security	Low / limited fraud	Yes
Control of Timing	Payer controls timing	Payer controls timing to bank; <i>Bank controls ultimate timing</i>
Universal Acceptance	Easy to send; Easy to receive	Yes for interbank; <i>More complex for end-user</i>
Versatility	Ability to use for most payment types	Potentially, yes <i>In practice, more limited</i>
Low cost / transparent pricing	Pricing is low and is easy to know up front	Low cost & transparent for banks; <i>Higher costs & less transparent for end-user (sender & receiver)</i>

Adapted from “Emergence of immediate funds transfer as a general-purpose means of payment,” Bruce J. Summers and Kirstin E. Wells, Federal Reserve Bank of Chicago, 2011.

Barriers to using wire transfers for general purpose IFT in U.S.

- **End-user pricing is high and often not transparent**
 - Reducing wire transfer costs was cited as the #1 reason that would influence corporations to send more wire transfers*
- **End-user speed and control varies considerably**
 - Wires are not always posted to end-user accounts immediately
 - Even if posted, real-time information systems are often lacking
 - Payments can be held up in credit, liquidity or compliance queues
- **End-users often find wires cumbersome to use**
 - Need to know receiver's banking details
 - Lack of information makes it not only difficult to automate, but also difficult to know why a wire was received in the first place

Today, the value of RTGS is often diluted and the price is higher as you move away from the direct RTGS participants

* - See http://www.frbervices.org/files/communications/pdf/research/wire_transfer_research_final.pdf

Evidence of Existing Demand for IFT from U.S. Corporations



- **Despite the barriers to using wire transfers for IFT, a significant portion of all Fedwire traffic is B2B payments**
 - More than 50 percent of Fedwire payments (by volume) are below \$20,000
- **Corporations – who are not direct users of Fedwire – came directly to the FRBs to champion product enhancements on Fedwire**
 - Aimed at enabling straight-through-processing and reducing manual exception processing
- **Fedwire is implementing changes that will enable banks to improve the wire transfer process for corporations**
 - Business remittance payments (November 2011)
 - Payments notification (November 2011)
 - For more information, see:
<http://www.frbervices.org/campaigns/remittance/>

Evidence from abroad: Adapting RTGS for IFT

Desired attribute	SPEI (Mexico)	SIC (Switzerland)
Payment guaranteed to receiver	Yes	Yes
Within minutes (or faster)	<ul style="list-style-type: none"> •Settle every ~20 seconds •Banks post to customer account within 5 minutes 	•Immediate
Low / limited fraud	Yes	Yes
Payer controls timing	Yes	Yes
Easy to send; Easy to receive	Yes	Yes
Ability to use for most payment types	Yes	Yes
Pricing is low and is easy to know up front	Yes	Yes with lower pricing for non-peak times and for lower value payments

Can the U.S. RTGS be adapted for IFT?

- **Technical feasibility looks promising, but more information is needed**
 - *Potential demand:* FedACH processes over 40 million transactions per day. Do all transactions require immediate settlement?
 - *Potential supply:* Significant excess capacity exists on Fedwire; technology can be harnessed to increase capacity and pricing can be developed to smooth processing flows
- **Business case feasibility is less clear. U.S. banking system needs to coalesce around a common solution, but views (and interests) are diverse**
 - What will induce banks to invest in an enhanced user experience (e.g., real-time information & posting, end-user directory, etc)?
 - Will pricing practices change (e.g., lower and more transparent end-user pricing)?
 - How will these changes be developed, implemented & coordinated?