

Real Time Payments Initiatives

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Technological advances have made it feasible to create a *real time payments* (RTP) network between financial institutions in which the recipient of an electronic payment would receive funds in seconds, compared to the current practice of later in the day or the next day. RTPs could potentially be introduced by the [Federal Reserve](#) (Fed), private-sector competitors, or both. What role, if any, the Fed should play in RTP development is a matter of debate.

Background

This Insight discusses payment and settlement systems that allow individuals and businesses to complete payments across different financial institutions and platforms. To simplify, a payment has three parts. First, the payer initiates the payment through an *end-user service*, such as an online payment service or mobile app, instructing a bank to make a payment to the recipient. (The payer and recipient only interact with end-user services.) Second, the payer's bank sends a *payment message* involving the payment details to the recipient's bank through a payment system. Finally, the payment is completed when the two banks transfer funds through a settlement system. These parts could potentially be divided between different systems, and different providers could potentially compete with each other to provide each part.

The Fed operates its own payment and settlement systems that connect banks and selected other financial institutions with Federal Reserve accounts. It also regulates competing systems that are privately operated. For example, the Fed and the private-sector [Electronic Payments Network](#) (owned by [The Clearing House](#)) operate competing [automated clearinghouse \(ACH\) systems](#), which are payment systems that allow banks (and certain other financial institutions) to send direct debit and credit messages that initiate funds transfers. The Fed also operates [Fedwire Funds Service](#), a wholesale settlement system that allows banks to accumulate and net multiple transfer requests and transfer funds in bulk to each other, and offers the [National Settlement Service](#) to facilitate multilateral settlement between financial institutions with Federal Reserve accounts. The Clearing House Interbank Payment System (CHIPS) is a competing

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private-sector gross settlement system. (The Fed does not operate any end-user service directly accessed by individuals or nonfinancial businesses.)

Several private-sector [initiatives](#) are underway to implement faster payments. Notably, the Clearing House introduced its RTP network in November 2017; [according to the Clearing House](#), it currently “reaches 50% of U.S. transaction accounts, and is on path to reach nearly all U.S. accounts in the next several years.” Other countries have [already introduced or are in the process of introducing](#) RTP.

With these private initiatives underway, the Fed is considering what faster payment services it should provide directly, and what support it should offer to foster private-sector provision. The Fed has [proposed](#) expanding same-day payments settlement on Fedwire and the National Settlement Service. In November 2018, the Fed issued a [request for comment](#) on what role it should play in fostering RTP in the United States. It sought comment on the possibility of the Fed creating a “service for 24x7x365 real-time interbank settlement of faster payments; and a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Federal Reserve Banks.” The Fed is evaluating whether it could introduce an RTP that was safe, efficient, and provided equitable access.

The Fed and/or private-sector companies can also set joint standards, rules, and a governance framework to facilitate the adoption of faster payments, whether those systems are operated by the Fed or the private sector. The Fed convened the [Faster Payments Task Force](#), composed of more than 300 stakeholders, which has issued a number of [recommendations](#) to facilitate the adoption of faster payments.

Policy Issues

Businesses and consumers would benefit from the ability to receive funds more quickly, particularly as a greater share of payments are made online or using mobile technology. [Some](#) have argued that RTP would be especially beneficial to low-income or other liquidity-constrained households. But stakeholders are divided over what role, if any, the Fed should play in moving to RTP. [Some](#) fear that if the Fed offered RTPs, it could hold back or crowd out private-sector initiatives already underway and could be a duplicative use of resources. The Fed is required by [statute](#) to charge user fees to cover the costs of its systems. [Others](#), including [small banks](#), fear that aspects of payment and settlement systems exhibit some features of a natural monopoly, and over time private-sector solutions could result in monopoly profits or anticompetitive behavior, to the detriment of financial institutions accessing RTPs and their customers (merchants and consumers). In 2017, the Justice Department sent the Clearing House a [letter](#) stating that it did not plan to challenge the Clearing House’s RTP system on antitrust grounds, based on the Clearing House’s plans at that time. From a societal perspective, it is not clear [whether it is optimal](#) to have a single provider or multiple providers in the case of a natural monopoly. Multiple providers could spur competition that might drive down user costs, but more resources are likely to be spent on duplicative infrastructure.

If RTP is offered by the private sector, how would it be regulated? The Fed already [regulates](#) and supervises payment systems for risk management. RTP could potentially alleviate some existing risks (for example, if settlement is in real time, credit risk is reduced for the recipient institution) while posing new risks (for example, RTP requires more active liquidity management). Any RTP system and regulation would need to account for these changing risks. In addition, an RTP system could potentially be [designated as a systemically important Financial Market Utility \(FMU\)](#) by the [Financial Stability Oversight Council](#) on the grounds that “the failure of or a disruption to the functioning of the FMU could create or increase the risk of significant liquidity or credit problems spreading among financial institutions or markets and thereby threaten the stability of the U.S. financial system.” FMUs are subject to heightened regulation and supervision. Policymakers could consider whether systemic risk concerns are

better addressed through Fed operation of payment and settlement systems or Fed regulation of private systems.

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