The Role of Central Banks in Retail Payments: The Central Bank as Operator

Payments Conference 2009
Federal Reserve Bank of Kansas City
Kansas City, Missouri USA
November 10, 2009

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Topics

- Operator Role: Theory and Practice
  - Objectives, roles, activities
  - Economic rationales, other considerations
  - Real-world examples

- Case study: Federal Reserve
  - Historical operator role
  - Operations and payments policy
  - Operator role options for the future
Objectives, Roles, Activities

- Objectives
  - Safety/Integrity
  - Efficiency
  - Accessibility

- Roles
  - Operator
  - Facilitator/catalyst
  - Overseer

- Operator activities
  - Settlement services
  - Direct clearing services
  - Provision of services to government agencies
  - Maintenance of security-related data bases
Rationales, Other Considerations

- Economic rationales for central bank involvement
  - Externalities, leading to:
    - Systemic and system-wide risk in payments systems
    - Underprovision of safety measures
    - Network effects and coordination difficulties
  - Noncontestable monopolies, leading to:
    - Monopoly or near-monopoly pricing, insufficient innovation, underprovision of safety measures, single points of failure
  - Asymmetric information, leading to:
    - Underprovision of safety measures

- Other considerations
  - Level playing field, full cost recovery
  - Operational, reputational, financial risk
  - Degree of reversibility
  - Anticipated private sector response
Real-World Examples

Table 1: Central Bank Operates Check Clearinghouse or Offers Other Check Services

<table>
<thead>
<tr>
<th>Country</th>
<th>Central Bank/Other Check Services</th>
<th>Country</th>
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<tbody>
<tr>
<td>Albania</td>
<td>ECCB</td>
<td>Macao</td>
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<td>Angola</td>
<td>Egypt</td>
<td>Madagascar</td>
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<td>Bahamas</td>
<td>El Salvador</td>
<td>Malaysia</td>
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<td>Lebanon</td>
<td>Qatar</td>
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Real-World Examples

Table 2: Central Bank Operates ACH System

<table>
<thead>
<tr>
<th>Afghanistan</th>
<th>Egypt</th>
<th>Latvia</th>
<th>Serbia</th>
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<tbody>
<tr>
<td>Albania</td>
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<td>Kyrgyz Republic</td>
<td>Portugal</td>
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Federal Reserve As Payments Operator…How Did We Get Here? 

* A Complicated Evolution

- Cornerstone in the law
  - Federal Reserve Act, Monetary Control Act, Expedited Funds Availability Act, Check Truncation Act
  - State versus national laws
- Vast geographic/population landscape
- Large and diverse array of financial institutions
- Historical “inertia”
- Managing payments technology
- Gaps in public policy and public infrastructure
Operations and Payments Policy

Synergies for Success

- Relationship management, service footprints, and technology (equal access)
- Support for standards (efficiency)
- Willingness to collaborate (efficiency)
- Security, technology, and reputational risk (integrity)
- Presence during times of stress (integrity)
Going Forward

An All Electronic World

- Does the case for Fed involvement diminish in an all electronic payments world?
- Does the Monetary Control Act maintain the level playing field?
- Does public policy around terrorism, money laundering, etc. impact opinions?
- Are retreat or expansion of the Fed’s role viable options?