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

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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
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Real-World Examples

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

Albania	ECCB	Macao	Rwanda
Angola	Egypt	Madagascar	Saudi Arabia
Bahamas	El Salvador	Malaysia	Solomon Islands
BCEAO	Germany	Malta	Sudan
Belgium	Ghana	Mauritius	Tanzania
Belize	Guyana	Mozambique	Thailand
Bhutan	India	Myanmar	Trinidad and Tobago
Cambodia	Indonesia	Nepal	Uganda
Cape Verde	Israel	Netherlands Antilles	United Arab Emirates
China	Italy	Nicaragua	Uruguay
Colombia	Jordan	Oman	USA
Costa Rica	Kenya	Paraguay	Venezuela
Cyprus	Kuwait	Portugal	Yemen
D. R. of Congo	Lebanon	Qatar	Zimbabwe
Dominican Republic	Lesotho	Romania	

Source: The World Bank. 2008. "Payment Systems Worldwide—A Snapshot"

Real-World Examples

Table 2: Central Bank Operates ACH System

Afghanistan	Egypt	Latvia	Serbia
Albania	Estonia	Lithuania	Slovenia
Austria	Germany	Mauritius	Solomon Islands
Azerbaijan	India	Moldova	Tanzania
BCEAO	Indonesia	Mongolia	Uganda
Belarus	Italy	Mozambique	USA
Belgium	Kazakhstan	Netherlands Antilles	Venezuela
Colombia	Kenya	Oman	
Costa Rica	Kyrgyz Republic	Portugal	

Source: The World Bank. 2008. "Payment Systems Worldwide—A Snapshot"

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?