

General Discussion

Conference Wrap-Up

Mr. Burns: I loved that “dilemma” part because I’ve been thinking about this for a number of years. So what is the way out of here? This is a question of how do you get the Reserve Banks, to the extent that’s desirable, involved in a broader view of the retail payments system? So, we have the Reserve Banks participating in an FOMC-type of an environment, a monetary policy set. They are involved in various aspects of central bank governance through the offices of the president and so on and all these various committees. How can that be extended into the retail payments oversight environment?

Mr. Summers: I don’t think I have an authoritative answer to that question. I would say—and I welcome others to bring their thoughts forward—there is a standard model now for the exercise of payments system oversight. Ron did a terrific job of outlining how that standard model is deployed, not in a utopian sense, but in a very practical, hands-on sense. I would simply offer there isn’t a lot of competition to get into the check business today, right?

When you look at the trends in payments systems, the way I interpret the data, ACH is not the fastest growth area today. So, it could be that the Fed could continue to play a very effective role in those limited spaces and still take on an active oversight role. But it has to be very, very careful in doing so.

One thing we didn’t talk about is the pitfalls of being an overseer and an operator. I won’t go into it, and I won’t open that Pandora’s Box now, but there are real challenges.

Any other observations on that question that was raised?

Ms. Masi: Just a qualification on a much stronger role of the central bank in consumer protection, because in Europe several central banks do not enter into consumer protection because they are overseers and so they have to care about the efficiency and safety of the system as a whole, which might sometimes be in contradiction with defending only one stakeholder, which is the consumers.

Mr. Summers: You're highlighting the potential contradictions and the difficulties in being a consumer protection agency and an effective overseer as a central bank. Maybe that helps explain why there is diversity in this public policy space.

More than one person from the private sector at this conference identified a fairly strong demand for some type of intervention on the part of the Fed as the central bank and as an overseer of the payments system in the United States, either with a light hand or with a heavy hand. Then there was discomfort expressed for the invisible hand, which is the currently defined role.

I would observe that with the Dutch central bank—we saw it here—the objects of oversight are listed, and they include retail payments systems. You can go out to the Federal Reserve Board website and the objects of oversight are listed, and I don't think they include retail payments systems. I just think there is an issue there. I would encourage bilateral or multilateral dialog with the authorities to make sure that's not an overlooked matter.

Mr. Berndsen: I want to respond to your question about the systemically important payments system and other systems. What I didn't allude to in my talk is that we internally distinguish between two types of goals. The first one is systemically important. Then, you have a direct link to financial stability. If financial stability is at stake, you have a systemically important payments system and that is a different type of goal of oversight than the other one I talked about, which is system-wide risk for retail payments. Yes, you don't have the financial stability aspect, but you have the aspect of creating big disturbances in the economy or directly to hurt consumers. But we can distinguish between those two types of goals.

Mr. Moore: We're looking at ways of oversight and maybe a light touch. There have been a lot of worries about systemic risk and worries about the security of the system.

It was telling that you mentioned worries about journalists bringing up the issue. Part of the reason why journalists feel compelled to do this is because a lot of the information on incidents when they happen is kept hidden from public view as much as possible. This leaves us in a situation to speculate what the magnitude of the risk is. Perhaps a good role for the Fed—or for some government organization—is to start collecting data on the incidents and frauds we are seeing and tracking that over time.

There are other countries that are doing this to one degree or another—the UK Payments Association does it and the Bank of France does it. If we can move toward a situation where we are collecting and disseminating aggregated information on fraud rates, we can have a rational response public policy-wise further down the line. At this point, it is still a fairly light-handed approach.

Mr. Summers: Transparency is good.

Mr. Bolt: To me, it seems there is still this problem of regulatory capture in the sense that if the central bank is also a player in the payments landscape, but at the same time—and I think Josh alluded to that—is also the overseer, then it is not completely obvious to me that is a conflict of interest. On the one hand, if you are player in the same area, you can always hope the authority is credible and completely trustworthy. On the other hand, the other parties could always accuse a central bank—if it's also doing something in the payments business—of regulating, overseeing, or making changes that affect the other players in the game.

So, there is always this tension between regulation and being a player yourself in the payments landscape. You have to be careful, I guess.

Mr. Summers: I certainly take that point. Thank you very much.

