



President's Message: Ensuring that payments keep pace with technology

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Technology is changing the way we do business and how people conduct transactions. Today, faster payments services are emerging that allow individuals and businesses to pay one another instantly, 24 hours a day, seven days a week, 365 days a year. Unfortunately, these services, and their benefits, don't reach everyone, and these transactions are often initiated outside of the banking system, without the safety net that a strong regulatory framework can provide.

For example, if someone sends you money through a phone app, it can take more than a day for your bank to actually receive those funds. As a result, banks take some risk by extending credit to make these payments immediately available to their customers.

For consumers and workers, delays in the payments system can have significant financial consequences. A worker waiting for a paycheck to clear could face overdraft fees, insufficient balance penalties and other costs that are the result of a slow settlement system. For small businesses, which must compete in a "just-in-time" environment, having a payment immediately available can mean the difference between making payroll this month or having to rely on short-term credit to get through a temporary crunch.

In short, some parts of our payment system are still too slow for the speed of today's economy. Aligning settlement speed more closely to the speed of transactions would provide a safe and efficient foundation for the next generation of payment services.

The U.S. payments system supports the world's largest economy and has a long history of evolving to meet changing needs. As the U.S. central bank, the Federal Reserve operates check, ACH and wire transfer systems and provides mechanisms for settlement of payment transfers between banks. The Fed also has been a leader and catalyst for change in payments. In 2013, we initiated a broad improvement collaboration initiative with payment stakeholders. Since then, we've worked in tandem to advance payment speed, security, efficiency, cross-border access and industry collaboration.

As the next step in this effort, the Fed is now considering new or enhanced services to address the mismatch between faster payments and slower settlement—and has asked for the public’s views through a comment process. It makes sense for us to look at how changes in the settlement process can encourage faster payments and enable everyone to gain the benefits of a more efficient system. Please visit fedpaymentsimprovement.org for the latest updates on these efforts and to learn more about a *Federal Register* notice outlining the Federal Reserve’s proposal.
