



## U.S. path to faster, secure payments: Task forces forge forward with plans for modernization

by: Kevin Wright, Editor

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Fall 2017 | The Federal Reserve has been working with two task forces the past two years to realize a vision for a U.S. payment system that is faster, ubiquitous, broadly inclusive, safe, highly secure and efficient by 2020.

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Former Senior Vice President Barbara Pacheco remembers meeting an economist in 2010 who had joined the Research Department at the Federal Reserve Bank of Kansas City.

“He was from Europe and moving to the United States,” she said. “He was just getting a bank account and couldn’t understand why he couldn’t initiate a payment to anyone for anything at anytime.”

Pacheco says that’s what the Federal Reserve’s initiative to improve the U.S. payment system is all about: putting the control of making a payment in the hands of the consumer. It’s about allowing consumers not only to pay someone at any time in a secure environment, but to know the status of their payment, their bank account and other pertinent payment information in real time.

“Why can’t we have that kind of control and convenience, to get that immediacy that technology provides us now?” said Pacheco, who has provided program management leadership for the Federal Reserve System’s payment system modernization initiative. “That was one of the questions going into this initiative.”

The U.S. payments system is complex, involving 13,000 financial institutions that provide traditional bank accounts and nonbank providers such as PayPal, Apple Pay and Amazon Pay that interact with consumers and businesses in providing payment services. And even with more U.S. companies implementing innovative payment methods, the economist Pacheco described, like many people who come from countries with modern payments systems, learned that the payments process in the United States is slow, costly and provides limited data on the purpose of the payment.

In early 2015, the Federal Reserve issued “Strategies for Improving the U.S. Payment System,” a paper that outlined the collective thinking of U.S. payment system stakeholders and the Federal Reserve on desired outcomes for improving the payment system. The paper outlines suggested improvements in speed, security, efficiency, cross-border payments and

industry collaboration.

For the past two years, members of two task forces—more than 300 members on the Faster Payments Task Force and more than 180 on the Secure Payments Task Force, both made up of parties with a stake or interest in the payments industry—have met to establish a framework for modernizing the system.

The Faster Payments Task Force released its final report, “U.S. Path to Faster Payments Part Two,” in September. In the report, the task force is calling upon all payments stakeholders to realize the vision for a payment system in the United States that is faster, ubiquitous, broadly inclusive, safe, highly secure and efficient by 2020.

The task force recommends a formal governance framework to develop and support faster payments solutions, as well as address evolving security threats. The Federal Reserve affirms the task forces’ recommendations in its recently released paper “Strategies for Improving the U.S. Payment System: Federal Reserve Next Steps in the Payments Improvement Journey.”

The task force and the Federal Reserve both call for the governance framework and approach to modernizing the payment system to be market driven and void of government mandates. This will rely on individuals, companies and others within the U.S. payment system to voluntarily collaborate to meet objectives by 2020.

“This unprecedented collaboration has led to significant progress, but work remains to implement safe, ubiquitous and real-time retail payments and to enhance the safety, efficiency and resiliency of the U.S. payment system,” said Esther George, president and chief executive officer of the Kansas City Fed and executive sponsor of the payments improvement initiative.

The Federal Reserve’s paper presents refreshed strategies and describes nine new tactics the Fed will employ, in collaboration with stakeholders, to make further progress toward improving the speed, safety and efficiency of the U.S. payment system.

These strategies and tactics address the following outcomes:

- Faster payments tactics include efforts to facilitate industry development of a faster payments ecosystem, as described by the Faster Payments Task Force in its final report on July 21. The Federal Reserve is chairing and facilitating an interim collaboration work group chartered by the task force to establish a governance framework and will support other collaborative faster payments work efforts.
- Federal Reserve plans also call for pursuing settlement services that address the future needs of a ubiquitous real-time retail payments environment and exploring and assessing the need, if any, for Federal Reserve engagement as a service provider, beyond providing settlement services, in the faster payments ecosystem.
- Federal Reserve work to reduce fraud risk and advance the safety, security and resiliency of the payment system will expand beyond its Secure Payments Task Force to include a comprehensive analysis of payment security vulnerabilities, potential

mitigation approaches, and misalignment of incentives that may hinder progress.

- Efforts to enhance the efficiency of both domestic and cross-border payments will continue to focus on collaborating with stakeholders to better understand barriers to improvement and pursuing adoption of standards and other solutions to address them.

“My Federal Reserve colleagues and I recognize the tremendous contributions of leadership, time and effort dedicated so far to improving the nation’s payment system,” George said. “We look forward to continuing our collaboration to implement improvements that meet evolving payment needs and serve the public interest.”

## **A modern U.S. payment system is achievable**

Barbara S. Pacheco says the Federal Reserve System’s Payments Task Force was one of the key highlights of her 35-year career, which also has included leadership responsibilities in check, card and digital payments initiatives for the Federal Reserve Bank of Kansas City and Federal Reserve System. Pacheco, a senior vice president who retired at the end of September, provided program management leadership for the Federal Reserve’s payment system modernization initiative and led the Kansas City Fed’s Payments System Research Department.

“The payments initiative combined a brand new and innovative way of looking at the current payments system that’s never been done before,” she said. “I loved being involved with all the stakeholders and seeing the many creative ideas to help improve the nation’s payments system.” This creativity and willingness to improve helped push forward the initiative to modernize the payments system, Pacheco said.

“The faster payments initiative and the reports that were just issued is one stream of work or one strategy that’s part of broader payments system modernization that includes safety, security and efficiency,” Pacheco said. “I think this faster payments strategy has gotten the most attention because of the potential impact on consumers and businesses.”

The fact that consumers and businesses already are being affected has made it urgent for the Federal Reserve to push the effort to modernize.

“In last few years, we’ve seen innovations that have already changed the way consumers make transactions,” Pacheco said.

These innovations were driven by technology and came in the way of person-to-person transactions such as PayPal and mobile payments like Apple Pay.

“Prior to 2012, the Fed’s focus was on bank-to-bank transactions; now we’re looking at it end to end, involving the entire system,” Pacheco said.

The main concern going into the payments modernization initiative, however, was whether all stakeholders—including large and small businesses, emerging payments firms, card networks, payment processors, consumers and financial institutions—would be willing to participate in modernizing the payments system of one of the world’s largest and most complex economies.

“It’s not going to be easy, but if the participation and cooperation I’ve seen so far with stakeholders continues, I believe we’re definitely going to see positive change in the payments system,” Pacheco said.

## Further Resources

[Faster Payments Task Force Final Report](#)

[The Secure Payments Task Force](#)

Federal Reserve paper: ["Strategies for Improving the U.S. Payment System: Federal Reserve Next Steps in the Payments Improvement Journey"](#)

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## Media

