

Improving Through Collaboration: The Federal Reserve's Perspective

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The views expressed by the author are her own and do not necessarily reflect those of the Federal Reserve System, its governors, officers or representatives.

Good morning. It is my pleasure to be here to offer my observations on what may be one of the most ambitious undertakings in the history of our national payment system—the public-private engagement that is taking shape to improve the system’s speed, efficiency and security. This engagement is designed to meet the growing demands of American consumers and businesses that continue to shift toward e-commerce and Internet-enabled technologies in their daily transactions.

To some, it may seem like an unusual approach that we’ve taken, but it is not a new one at its core. Based on a history of mutual cooperation on payments issues between the Federal Reserve and the private sector, we have seen public-private engagements yield important gains for the country. Such collaboration in the past produced outcomes that contributed to a more resilient payments system and provided significant benefits to the public, such as the development of routing numbers, the growth of the automated clearing house network, and the crafting of Check 21 legislation.¹

I’m encouraged by the recent progress that we’ve made with the current effort, and it is my own conviction that the prospects for achieving the goals we’ve set out are best realized by working together. The organizers of this conference used the right word in naming it. It is *imperative* that we modernize the payments system, and also that the Federal Reserve and the industry join together in this effort.

In my remarks this morning, I will preface my observations about the status of our work by reflecting on the nature of the challenges we face and the strategies that have been framed to address them. These strategies, as you know, are the product of the Federal Reserve’s deliberate and broad consultation with a multitude of stakeholders

¹ See: Medley, Bill. [*Highways of Commerce: Central Banking and the U.S. Payments System*](#). Federal Reserve Bank of Kansas City. 2014.

involved in payments system modernization. That input importantly shaped the paper issued in January of this year by the Federal Reserve Board and the Reserve Banks, titled *Strategies for Improving the U.S. Payment System*.

The challenge

Since e-commerce took hold in the United States more than 20 years ago, it has grown rapidly in volume, speed and capability and has transformed retail and business-to-business commerce. Among the most profound and pervasive changes has been the rising expectation of consumers and businesses for continuous improvements in speed and efficiency. People who have come to expect regular upgrades in computers and communications technology have also come to expect more functionality from their computers, tablets and smartphones to help them buy things. And so, same-day delivery of almost anything, for example, has become a way of life that most of us could not have imagined even a few years ago.

It was also some 20 years ago that online banking became commonly available, and here, too, there has been significant growth in speed, volume and the range of services that banks provide. Simply put, Americans who demand fast and dependable delivery of what they buy and sell want their payments to keep up. An analysis commissioned by the Federal Reserve found that each year there are 29 billion payments for which real-time or near-real-time delivery would be desirable to end users. One-third of consumers and fully three-fourths of businesses want real-time payments, and they are now willing to pay for them.

The growth of e-commerce and advances in communication have spurred innovation and new business opportunities in the United States. Some of the most valuable, innovative and admired businesses in the world are technology companies that were founded here and remain here. But the sizable and widespread economic gains from these advances require a payment system that meets the demands of consumers and businesses. We have seen a number of other countries move forward with faster and more-efficient payment systems to better serve their citizens and compete with the United States for new and expanding business. With this advanced capability, however, has come a significant and evolving threat to the security of banking and commerce. The need to stay ahead of this threat alone is a compelling reason to modernize the payment system.

Desired outcomes

These challenges prompted the Federal Reserve to undertake careful study several years ago and to seek extensive public input about the need to improve the U.S. payment system. By 2013, the Federal Reserve identified certain desired outcomes, based on its own analysis and private sector input.

Let me describe those desired outcomes as a way to remind you of where we are headed. First and foremost is the development of a safe and faster electronic solution for making a variety of business and personal payments that is both ubiquitous and available on demand. Such a system would be supported by a flexible and cost-effective means for payment clearing and settlement that would be rapid and final.

Our second desired outcome is a payment system that remains safe and resilient. Any enhancements to speed and efficiency must maintain both the privacy and integrity of our system and allow for continuous improvements to security as threats emerge and evolve. Specifically, we anticipate potential improvements to the Federal Reserve's publicly available payment fraud data as well as additional payment security research. We also look forward to sharing our results with payment stakeholders because we believe they will help inform future industry actions and policy decisions.

Efficiency is a third desired outcome. A reliable alternative to the 18 billion paper checks written each year could reduce the average end-to-end cost of payment transactions and allow innovative payment services to deliver better value to consumers and businesses alike.

Our fourth desired outcome focuses on access and efficiency in cross-border payments. A new payment system should offer better choices for U.S. consumers and businesses to send and receive convenient, cost-effective and timely cross-border payments. We heard widespread support for this goal among stakeholders. Although there is a range of views about the priority for such payments, few dispute that the cost and convenience of cross-border payments have not kept pace with the impact of globalization.

Our fifth desired outcome is simple: We need to work together. The Federal Reserve cannot implement meaningful payments improvement on its own, and the competitive forces driving industry innovation mean the private sector's ability to meet the public's needs would benefit from the kind of coordination and collaboration that the Federal Reserve is uniquely positioned to provide. Working together, we believe the

private sector can and should be able to provide the innovation necessary to address the needs of the market.

Making progress toward these goals

Following our review of public comments and lengthy consultation with stakeholders, the Federal Reserve Board and the Reserve Banks issued in January of this year a paper that outlined strategies for improving the payment system.

These strategies represent the first steps in a roadmap for payments modernization, and they define the approach for how the Federal Reserve will work with the private sector. We expect and encourage private industry to advance these goals by offering its own ideas and plans. But we also expect to see cooperation and, at some point, visible evidence of both commitment and progress from all stakeholders.

Since the strategies paper was published early this year, active engagement has taken shape with the creation of two task forces. One is focused on faster payments and the other on the security of payments.

One way of describing the breadth of this effort is that many in this audience already are members themselves or part of organizations represented on one or both task forces. At last count, the faster payments task force has more than 320 members and the secure payments task force more than 170. There are representatives of technology providers; small, medium and large financial institutions; payments networks; trade associations; business end users and consumers; and a small number of government officials. Each task force has chosen a steering committee, and work streams are underway.

The Faster Payments Task Force, with its large and diverse membership, began work on criteria that will describe the standards for effectiveness in delivering faster payments. Members of the Secure Payments Task Force and a work group of legal subject matter experts are providing specialized input to that work. When finalized, these criteria will serve as both a description of stakeholder needs that the market can use to guide faster payments innovation and a tool for the task force itself to assess alternative approaches for faster payments solutions.

The task force also has developed and approved a decision-making framework. This framework ensures that its decisions and work products have broad support of the task force membership, including support within and across the different stakeholder groups represented. Just yesterday, the Faster Payments Task force posted to the [FedPaymentsImprovement.org](https://www.fedpaymentsimprovement.org) website the latest draft of the criteria along with a survey to gather even broader public input. This effort to finalize the faster payments effectiveness criteria in the coming months remains on track.

To prepare for the evaluation of different approaches to payment modernization, the Faster Payments Task Force is currently working to carefully define a process for encouraging the best ideas to come forward and assessing them against the effectiveness criteria. In addition to identifying effective solutions for faster payments, the task force will note the foundational aspects of a faster payment system that no single solution provider can deliver independently, and when implemented, will enable those providers to interoperate and deliver to end users a consistent, accessible and universal faster payments experience. Finally, the task force will highlight strategic issues and gaps that it

believes must be addressed to pave the way for successful implementation and widespread adoption of these solutions.

Turning to the Secure Payments Task Force, its work has begun with a focus on the security needed for faster payments solutions, including a high priority on identity management and authentication and finding more effective ways to protect sensitive information that travels through the payment system. Importantly, however, the work of the Secure Payments Task Force extends beyond the security needed for new faster payments. It is also focused on current payment networks and channels. As threats change, they are considering better ways to share fraud and cyber-threat information and to analyze such data. Finally, the Secure Payments Task Force will advise the Federal Reserve on priorities related to payments security standards, research and education in order to promote enhanced safety of payments systems old and new.

As the task forces continue their work, the Federal Reserve will do its part to ensure that the process is progressing smoothly toward the desired outcomes I noted earlier. Task force membership will continue to be representative of diverse stakeholder perspectives and interests, and we will recruit when appropriate to fulfill that goal. We want active task force participation that contributes to and takes ownership of work products and decisions. We will facilitate interaction and ensure processes and tools are in place to support the development of high-quality work products that achieve task force objectives. In all of this, we want to promote a process that carefully considers the interests of all stakeholders, objectively evaluates different proposals, and arrives at an approach that will have broad support. The hallmark of this process will be transparency and good communication, which are essential to reaching consensus.

Let me conclude by emphasizing that the progress achieved so far has been impressive and encouraging. I remain confident that this collaborative approach to payment system reform maximizes our chances for success. I am also realistic. The task forces have made substantive progress, but there is some distance to go before realizing our goals. I fully expect that we will face challenges along the way. But I am convinced the end is worth the journey, and the Federal Reserve is committed to working with industry stakeholders to get there for the public's sake.