

## The Federal Reserve's Role in the Payments System

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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.

I want to thank the program presenters and discussants for the insights they've brought to this most important and timely issue of retail payments security. The conference has highlighted encouraging areas of progress, including technology, information sharing and collaborative efforts among financial institutions, networks, consumers and regulators. It also has served as a reminder that sizeable challenges remain.

The Federal Reserve has a keen interest in promoting the safety and the security of the nation's payments system, given its impact on the broader economy and public trust. As both an operator and an overseer within the payments system, the Federal Reserve is prepared to leverage its central bank roles to bring about critical improvements for payments security.

Although the Federal Reserve is relatively unique among central banks in terms of its retail payments operator role, public authorities around the world have become more active in raising concerns about retail payments security. Some authorities play explicit roles with public mandates, while others rely on leadership to induce voluntary changes in the industry. In the United States, the central bank has chosen to serve as a leader for a collaborative approach, involving a wide range of payments participants as the path toward improving the system.

This is not a new role for the Federal Reserve. Since its founding, the public has looked to the Federal Reserve to provide leadership on advancing the safety, efficiency and accessibility of the nation's payment system. Congress initially designed the Fed to serve as a payments system operator through the regional Reserve Banks and as an overseer of the system through its supervision of financial institutions. These roles give the Fed relevant insights as we work with others to address the security challenges we face today.

For its own part as an operator, the Fed must consider and ensure the security of its own clearing and settlement activities, and this directly influences a large segment of U.S. retail

payments. The Fed's financial services business also provides resources to support development of payment standards, including those related to security. And, there are plans underway to work with the Fed's financial services customers to identify demand for enhanced risk-management products that complement the Federal Reserve's suite of wire, automated clearinghouse and check service offerings.

As a payments system overseer, the Federal Reserve and other agencies ensure banks protect their systems from unauthorized access to online banking systems and safeguard sensitive personal or account information. In the case of retail payment fraud, consumers have been protected from significant losses by regulations.

These roles have informed the central bank and enhanced its credibility where it plays a less formal but equally important role—that of leader and catalyst for change. The improvements we seek for greater security in the U.S. payments system do not stem from a specific mandate from Congress, but rather from an interest in ensuring stability and confidence in the payments system.

In this role, the Federal Reserve seeks to drive improvement in the payments system through a collaborative approach, which in the past has led to payments innovations that we take for granted today. Routing numbers on paper checks, the development of the ACH, and the implementation of Check 21 are all examples of diverse interests coming together to find a solution to common challenges.

It is in this spirit that we recently established two task forces to take on today's challenges. These groups are comprised of diverse and committed membership, which will ensure a broad range of perspectives are considered as we move forward.

One task force will focus on identifying and evaluating approaches for implementing a safe, ubiquitous and faster payments capability in the United States. The other task force will provide input on security aspects of a faster payments capability, and serve as a forum to advise the Federal Reserve on how to address security matters and to identify and promote actions that can be taken by payment system participants collectively or by the Federal Reserve System.

An important question is: How will we judge success of these efforts? Each task force will be asked to identify the criteria by which they will measure success. In the near-term, we will look to the secure payments task force to articulate key priorities. We will also be looking for evidence of commitment from payments system participants to take action on these priorities.

Longer-term, we hope to see this collaboration among industry participants continue, resulting in progress on the development and adoption of effective security standards. We would also hope to see robust research and implementation of processes that result in better data and the ability to closely monitor fraud and identify adverse trends, develop more effective responses, and track policy initiatives. Success will mean payments modernization in the United States is well on its way, with adoption that reflects the public's strong confidence in new capabilities.

Time will tell whether this collaborative approach can be successful or whether the Fed needs to take a different approach to foster a modern payments system that serves the needs of a dynamic economy.

It was ten years ago, in 2005, that the Federal Reserve Bank of Kansas City hosted its first payments conference titled, "Interchange Fees in Credit and Debit Card Markets." During the two days of presentations, discussion and debate among leading economists, industry leaders and policymakers, the need for intervention in the credit and debit markets was hotly contested. By 2010, Congress intervened with regulation.

As we conclude this conference on payments security, I sense a greater degree of consensus around the security challenges we face. As the Federal Reserve begins the work of convening and engaging with stakeholders to achieve a faster, more secure and widely available payments system, the pieces of the puzzle lie before us. Putting them together in a way that maintains the public's confidence is both our challenge and our opportunity.