

Statement by

Esther George

President, Federal Reserve Bank of Kansas City

on behalf of

The Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

September 25, 2019

Chairman Crapo, Ranking Member Brown and members of the Committee, thank you for this opportunity.

Chair Powell has asked me to speak to you today in my role as the Federal Reserve Bank leader responsible for the Federal Reserve's payments improvement initiative since its beginning and as chair of the Financial Services Policy Committee (FSPC). The FSPC oversees the provision of payment services to depository institutions and the United States Treasury by the 12 Federal Reserve Banks. I am pleased to offer my statement for the record as well as an in depth statement on the role of the Federal Reserve in faster payments and the recently announced proposal by the Federal Reserve to support faster payments through the development of a new service called the FedNow Service.

Since the Federal Reserve's founding more than a century ago it has provided payment and settlement services as part of its core function of promoting an accessible, safe and efficient payment system. Today, the Federal Reserve is continuing this important operational role and preparing to support the modernization of our nation's payment system with capabilities that allow payments to move quickly through a safe and efficient foundation, on top of which innovation and competition can flourish.

This decision was made only after three criteria were met.

The first of these criteria is that other providers alone cannot be expected to provide the service with reasonable effectiveness, scope and equity.

Of notable importance related to this criterion is the Federal Reserve's ability to connect to more than 10,000 financial institutions. Through these connections, our existing payment services allow banks of every size to serve the needs of thousands of communities across the United States with competitive, fair and transparent access. Providing comprehensive

nationwide reach is something that we believe will present significant challenges to other providers in the current market landscape. Coming from a region of the country with a significant number of small community banks serving rural areas of the central United States, I can tell you the Board's decision to provide this new service has been well received.

The second criterion is that there will be a clear public benefit, including promoting the integrity of the payments system and reducing payments system risk.

The Federal Reserve must continue to play an important role in promoting the safety of the U.S. payment system by providing liquidity and operational continuity in response to financial turmoil, terrorist attacks, natural disasters and other crises. The FedNow Service will allow the Federal Reserve to retain its ability to provide stability and support to the banking system, as well as promote the development and implementation of industry-wide fraud-mitigation standards. Development of the service will also enhance safety of the U.S. payment system by promoting resiliency through redundancy.

The final criterion is that the Fed be able to fully recover its cost over the long run.

The U.S. payments infrastructure today includes alternative payment choices and providers. The Federal Reserve and The Clearing House today operate competing and interoperable services, which bring important benefits for resiliency and competition. In all of our services, we have been able to meet the requirements of the Monetary Control Act for cost recovery that ensures competitive fairness while fulfilling our public policy goals. We fully expect this will be the case with the FedNow Service.

As was explained in a 2016 GAO study, the Federal Reserve's role as an operator has long been judged as effective in promoting accessibility, safety, and efficiency for the nation's

payment system and its customers<sup>1,2</sup> Last summer, the U.S. Treasury recommended that “the Federal Reserve move quickly to facilitate a faster retail payments system.”<sup>3</sup>

We are engaging now with stakeholders for their input on features of the FedNow Service through the Federal Register notice issued last month.

I am confident that together we can achieve our public policy objectives for broadly accessible, safe and efficient faster payments.

Thank you. I am happy to respond to your questions.

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<sup>1</sup> “Federal Reserve’s Competition with Other Providers Benefits Customers, but Additional Reviews Could Increase Assurance of Cost Accuracy.” U.S. Government Accountability Office. August 30, 2016.

<https://www.gao.gov/products/GAO-16-614>.

<sup>2</sup> “The Federal Reserve in the Payments Mechanism.” Federal Reserve System. January 1998.

<https://www.federalreserve.gov/boarddocs/press/general/1998/19980105/19980105.pdf>

<sup>3</sup> U.S. Treasury, “A Financial System That Creates Economic Opportunity: Nonbank Financials, Fintech, and Innovation,” (July 2018) at 156. Available at <https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi.pdf>.