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Ask the Expert: Marching Toward Faster Payments

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In the United States, when you use your credit or debit card to make a payment, up to several days can pass before the payment is settled. Most of the time we don't even notice, but if we're late paying a bill, for example, that lag can make a difference—we may be charged an add-on "convenience" fee.

But more than 35 other countries have what is called "faster payments," meaning payments are settled instantaneously, or near-instantaneously. This fall, the United States will move one step closer to faster payments when same-day ACH begins rolling out. Nancy Condon, executive editor of Economy Matters, recently talked with Julius Weyman, vice president in the Atlanta Fed's Retail Payments Risk Forum, about what faster payments are and what they will mean in the long run.

Nancy Condon: *What does it mean specifically when the payments industry talks about "faster payments"?*

Julius Weyman: When we talk about faster payments, we're talking about retail payments—things like check, cash, cards, ACH. [Automated clearinghouse, or ACH, payments include direct deposit, direct payment, recurring payments, some credit and debit transactions, and more.] Retail payments are those made by consumers and businesses for everyday needs and purposes like groceries, fees, bills of just about all kinds, and other basic, recurring things.

Faster payments are as much a direction as they are a destination. Same-day ACH, which will emerge as a possibility for us this year, is faster payments. It will clearly be faster than next-day ACH, which is where we are now, and it's a great step. But same-day ACH is nothing close to the retail payment speeds possible in several countries, where transactions occur within minutes or seconds.

To avoid leaving you with that answer only, here are two definitions of faster payments from other sources plus the one I offer for this context.

The Fed's Board of Governors has emphasized that a faster payment entails "the near-real-time posting and availability of funds to both the payer's and payee's accounts." NACHA's Global Payments Forum [has said a faster payment](#) is "an interbank account-to-account payment that is posted and confirmed to the originating bank within one minute."

My definition for a faster payment is this: An intermediated electronic payment that has the same effect as a cash transaction. If there is a destination for faster payments, it's that.



Condon: *What is driving the push toward faster payments?*

Weyman: One often-cited reason is that the United States is falling behind other countries that have faster payments. The last time I checked, more than 35 countries have some form of faster payments, with the number growing each passing year.

It's been possible to do faster for a century and more. But for retail, no one did it before the '70s. That's when Zengin, Japan's system that facilitates faster payments, demonstrated it was possible to make retail payments faster. Now it is imminently feasible and, as more do it, increasingly necessary. Zengin's launch did not have the effect that Sputnik had on the space race.

But jumping to 2008, the UK's launch of their version of faster retail payments had much more of a Sputnik effect. The PR campaign they put on caused key people to take notice. What they saw was high-speed data networks that were everywhere; computing devices that were smarter, mobile, and also everywhere; and information that was generally being processed in real time—again, everywhere.

Moreover, nonbanks were increasingly entering the payment business. Their products have a range of features, but one of the consistent ones is “fast.”

I think “falling behind” is key, and it applies to a broader scope than just a comparison to other countries. It's about banking and payments spilling out of the traditional banking space. It is natural that bankers would wake up to it and want to give chase.

Condon: *Are there any risks involved in speeding up the transaction time?*

Weyman: Two primary risks revolve around operational and settlement matters. What limits are imposed on the system to ensure it is stable, reliable, and offers a consistent, trusted experience while balancing the cost of its implementation and ongoing maintenance?

Continuous operations are challenging and risky. Faster messaging without coincident settlement is risky.

Security is a concern and a sizable unknown at this point. With respect to the battle against fraud, we have scarce data on experiences others have had as they have advanced faster payments. The thing is, we are unique. Any question or issue is bigger for the United States because we are so much bigger and more complex than those that have gone before us. So it's a little troublesome to have no stronger insight than we do into what the fraud challenges and risks look like with respect to faster payments.

That leads up to the biggest risk. The United States has no single public authority with broad power over payments systems. That makes rule-making as well as ongoing governance a concern—and, hence, a risk. What's at risk is everything from how and what to launch or push to how to make what is launched both trustworthy and certain.

Condon: *What will some of the benefits of faster payments be, to consumers and to businesses?*

Weyman: Benefits include making more money available faster—or, from the other side of things, the opportunity to keep more money longer, presuming one can send a payment on time but not sooner than required.

Some tangible examples include emergency payments of all sorts—for crisis or hardship circumstances to cover a need where a transfer of value is necessary, as opposed to just the promise that payment will occur. There are others—circumstances that require a value transfer to occur before goods can be safely or reasonably shipped or released.

These are arguably niche examples and perhaps not reason alone to make such a sweeping change. What may be key in considering benefits that accrue to payments makers and receivers is that the change is almost certain to usher in more add-ons, enhancements, and features that are difficult to bolt onto today's payment schemes or instruments. New features or enhancements will almost surely come with a new platform and will mean more convenience and simplicity in addition to more options—based on a building-block principle of facilitating payment at any time, in any place, under any circumstance to someone or something. As more creative, inventive types contemplate that building block, they'll build a better list of benefits than I can offer myself.

Condon: *What is the timeline for having a faster payments system in the United States?*

Weyman: That's tricky. I expect we'll see continuous advance and progress. At least one advancement is assured—NACHA's rollout of same-day ACH, which is effective in September this year. Aside from that, and not accounting for private efforts that could unfold more quickly, the Fed's strategy leaders initially released a paper in 2013 that called for a 10-year time horizon for a new scheme; that puts the window at 2023. Many people called out that window as too long, so I think it may shrink. We'll have to see what takes shape.

Condon: *What is the Fed's role in promoting faster payments?*

Weyman: Our role is to engage with stakeholders to pursue a set of strategies to improve the payments system in the United States. These strategies will require collaboration and action from a range of payments participants. At this stage, the Fed's role is chiefly one of convening, driving discussion, helping build consensus around solutions, and pushing for collaboration or encouraging independent actors to develop solutions to the problem of making payments faster, among other improvements—chiefly, making them more secure.



Nancy Condon
Managing Editor of *Economy Matters*
