Remarks by Deputy Assistant Secretary for International Financial Markets Nicholas Tabor Digital Money in Seoul, South Korea

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As Prepared for Delivery

Thank you very much to the Ministry of Economy and Finance, the Bank of Korea, the Financial Services Commission, and the IMF for hosting me today. This conference is a timely opportunity, to discuss how best to ensure that monetary innovation supports a stable, well-functioning global financial system and economy. My contribution to that discussion, focusing on cross-border payments, will be brief. My remarks elaborate on the speech that Jay Shambaugh, Under Secretary of the U.S. Treasury for International Affairs, delivered in October.

Today's topic is the future of money, but I want to begin in the past. At some point, most U.S. students of financial regulation encounter an essay called, "Are Banks Special?" It is a 1982 article from Gerry Corrigan, who was then president of the Federal Reserve Bank of Minneapolis. Most discussions of the article stop after the title—and it is a good title, asking why we treat banks differently than other financial institutions.

Read past the title, however, and a different, more familiar story emerges. In the late seventies and early eighties, across the United States, new "non-banks" had begun offering "'bank-like' services at a lower cost (or higher rate of return)." Banks hadn't "stood still" in the face of this change; financially, at least, they were faring "rather well." But the resulting dynamic, and perhaps also the root cause, was an unlevel playing field, which to put more regulated players at a disadvantage.

Corrigan asked the question: Was there anything left that could justify banks' having both special privileges and unique, costly obligations? And in response, he also offered a clear root answer: payments.

"Only banks issue transaction accounts," he wrote, "that is, they incur liabilities [that are] payable on demand at par and are readily transferable by the owner to third parties." Non-banks had their own payment products, which "appear[ed] to have some or all of the characteristics" of bank accounts. But none of those products had public support, in the form of deposit insurance and the lender of last resort. Banks did, and it gave them an ability that nonbanks lacked—the ability to process payments consistently and under almost all circumstances, even during a crisis. That, in turn, made banks a critical source of backup liquidity to the financial sector and the real economy, as well as a key transmission mechanism for monetary policy. As long as that difference existed, it warranted regulatory recognition, including both the benefits of a banking charter and the costs, from regulation and supervision, to limitations on commercial activities.

With that context, the question "are banks special?" takes on a different meaning—it asks, instead, what the future of payments should be. Should that privilege, rooted in payments and the public support behind them, stay as it is? And is it possible to foster "competition and innovation," and to support a "growing and stable domestic and international economy," without changes that render the banking and financial systems unstable?

Corrigan's world followed very different rules, methods, and norms for financial regulation and financial stability. But the question he asked is relevant for us today. We are also experiencing a period of meaningful financial innovation. Payments issues are also at its heart. Competing visions and arrangements promise to finally address longstanding, even intractable problems. Diverse public and private initiatives, using a range of technologies, claim an opportunity to make cross-border payments faster, cheaper, more transparent, and more accessible. Policymakers must evaluate these claims and choose which approaches to pursue or permit. And the stakes of those choices extend far beyond payments—to the future of money, financial services, and international financial stability.

Cross-border payments are a focus in this debate, because there is so much room for improvement. These payments are too often slow, expensive, opaque, and hard to access, especially for customers in emerging market and developing economies. Three years ago, the G20 endorsed a road map of actions to address these challenges, with strong support from the United States. G20 members have prioritized concrete work on legal, regulatory, supervisory, and data issues, as well as interlinking existing payment systems, over ideas for new transformational platforms and other arrangements. There has been significant and measurable progress. But there is abiding interest in further experimentation—above all, because of a genuine desire to apply novel and promising technologies to the underlying problems. Any policy approach must recognize both this interest in further experimentation and the important needs that it reflects.

The long-term nature of the cross-border payments challenge also has an advantage: There are lessons to be learned from past attempts to resolve it. I will offer three, which can apply equally to both improvements in existing payment systems and the exploration of new solutions.

First: The most important payments innovations are never solely, or even primarily, technological. The best example of this, to me, comes from outside the financial sector: "electronic data interchange," or EDI. EDI was an effort, starting in the late 1960s, to convert complex business contracts into machine-readable formats. From 1969, when IBM launched a "law and computers" division, through the late 1970s, thousands of companies launched EDI projects. Their goal was to let contract terms update dynamically and automatically, on a consolidated platform, between two counterparties. Automation would increase contracting efficiency, taking human judgment out of the process.

EDI did increase efficiency, but not through automation—quite the opposite. EDI platforms were expensive, and firms only built them for their deepest, most reliable counterparties, where the odds of litigation were low. For those relationships, firms were more comfortable letting line managers change contract terms, without lawyers sitting in the middle; EDI gave them an available, efficient way to do that. New technology let firms explore new operating relationships, but only when supported by a clear understanding of each other's operations, priorities, risk appetite, and goals for the relationship.

The same constraints and opportunities apply to payments. As the Committee on Payments and Financial Market Infrastructures (CPMI) said in a recent report to the G20, the first key considerations for any operators pursuing interlinkage are "strategic alignment" and a "common long-term vision and objectives." These foundations support every other feature of a shared payment arrangement, even the most basic, like a shared legal, regulatory, or governance framework. Technology can make it easier to explore, discover, or act on alignment; it can't create alignment where none exists.

A second lesson: Cross-border payments implicate a wide range of domestic and international policy issues. This includes banking regulation, just as it did for Corrigan. But it also includes questions about transparency and privacy, national security, economic and financial inclusion, and a jurisdiction's role in the global economy. Payment systems are primarily the purview of central banks, but payments policy touches on issues outside a central bank's traditional mandate. As a result, making progress on payments policy also requires engagement from a broad set of public and private actors.

To that end, the U.S. Treasury and Biden Administration have been pursuing a complementary role to the Federal Reserve. Since last fall, Treasury has led a working group on of the future of money and payments. This group considers the implications of new payments technologies for broader U.S. policy objectives, like the smooth functioning of the international financial system, national security objectives, and privacy and financial inclusion; in so doing, it dovetails with the focus and independent work of the Federal Reserve.

Treasury's work has two core goals: to improve cross-border payments; and to ensure that new payment systems and other innovations are secure, resilient, and reflective of democratic values and core U.S. interests. Within that, our work also has more specific goals. We aim to ensure the dollar continues to fulfil all its functions in ways that are mutually beneficial to the United States and the rest of the world. We aim to support the security and resilience of future payment systems, while in parallel improving the speed and efficiency of existing payment infrastructure. We aim to ensure that new payment technologies protect users' privacy, minimize the risk of illicit financial transactions, and promote equity and inclusion in the delivery of payment services.

A third lesson is an axiom of Treasury's work on this topic: Robust international standards are essential, both to progress in cross-border payments and to broader financial stability. It is no coincidence that the 1974 failure of Herstatt Bank led to the creation of both the Basel Committee and the CPMI. Herstatt showed that strong supervision and reliable payment systems are both essential to managing the unique and complicated risks of cross-border financial intermediation. Standard-setting is a critical tool for achieving broad consensus on the measures that preserve that stability, and the utility of international standards over other, more hypothetical instruments and arrangements, has been borne out over decades.

The consistent application of strong standards—like the Principles for Financial Market Infrastructures (PFMI)—to new technologies and across jurisdictions can reduce risks, uphold a level playing field, and reduce frictions between new and legacy systems. Where standards are absent, we should look to experienced institutions to guide and develop them, like the G7, the G20, the CPMI, and the Financial Action Task Force. And in either case, the United States has an interest in preserving and promoting standards that are consistent with democratic values, including sound economic governance, financial stability, individual rights, and the rule of law. This is true regardless of the technologies we choose for our domestic payment systems or cross-border payment arrangements.

Standards are also critical for a broader reason: There is no “clean slate” in payments. The complicated, imperfect payments architecture has grown and changed, episodically and over time, facing many challenges that have persisted for decades. It is also, simultaneously, the architecture on which virtually all day-to-day economic activity relies. Governments do not have the option of designing real-world networks seamlessly, flawlessly, and from scratch. New systems and technologies will need to enter into, and coexist within, this broader architecture. They will need to interact with legacy systems, and payment systems with different technical designs will still need to interoperate across borders. Adherence to and, where necessary, the development of standards will facilitate this kind of legal and technical interoperability.

Making further progress under these conditions will necessarily be complicated. The easy steps towards improving cross-border payments are behind us; the hard, detailed work of identifying and addressing frictions is what remains. It will require sustained support, attention, and engagement from a range of countries and public and private actors. The potential gains are well worth the cost; we should, and will, continue to pursue them.

Thank you.

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