

For release on delivery  
10:00 a.m. EDT  
September 25, 2019

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.

Over the past decade, cell phones and other online capabilities have made it more convenient to send and receive payments. Although these mobile apps appear to provide for an immediate transaction, the underlying infrastructure is not designed to immediately move money between banks, creating notable delays between the initiation of a retail payment and its receipt.

To support the demand for real-time payments in the United States and to address this gap, last month, the Federal Reserve's Board of Governors (Board) announced that the Federal Reserve Banks would develop a new service called the FedNow Service.

Since its founding more than a century ago, the Federal Reserve has provided payment and settlement services as part of its core function of promoting an accessible, safe and efficient payment system for the nation. 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 established criteria were met.

The first of these criteria is that it is a service that other providers alone cannot be expected to provide 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, the Federal Reserve's 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 this degree of 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 Federal Reserve be able to fully recover its cost over the long run. The U.S. payments infrastructure today includes alternative payment choices and providers. Today, the Federal Reserve and The Clearing House 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. In this regard, even as we develop the FedNow Service, the Federal Reserve will continue to explore ways to support the market's existing private-sector real-time payment service including through expanded Fedwire Funds Service and National Settlement Service hours as described in the recent Federal Register notice.

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, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities."<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.

Finally, I found it gratifying after the Federal Reserve started the conversation about faster payments in the U.S. and led four years of stakeholder engagement that culminated in the overwhelming majority of 400 comments from industry, consumer, and small business expressing support for the Federal Reserve's role as a faster payments provider.

---

<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>.

I am confident that by working with all payment system stakeholders, 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.