

# The Banking Law Journal

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# Faster Payments Task Force Sets Goals and Recommendations for Faster Payments by 2020

*Obrea O. Poindexter, Jeremy R. Mandell, and Calvin D. Funk\**

*In June 2015, the Federal Reserve convened the Task Force, comprised of representatives across the payments community, to review the U.S. payments system and identify approaches to making payments in the U.S. faster. The authors of this article explain the Federal Reserve's Faster Payments Task Force's recently released Faster Payments Task Force Final Report Part Two, which summarizes the specific faster payments solution proposals, and the Task Force's goals and recommendations for developing an ecosystem that is conducive to the development of faster payments solutions.*

The Federal Reserve's Faster Payments Task Force ("Task Force") recently released the Faster Payments Task Force Final Report Part Two ("Final Report").<sup>1</sup> The Final Report is a follow-up to Part One of the Faster Payments Task Force Final Report,<sup>2</sup> which was published in January 2017 and provided an overview of the Task Force's objectives and a description of the payments landscape. The Final Report summarizes the specific faster payments solution proposals submitted to and analyzed by the Task Force, as well as the Task Force's goals and recommendations for developing an ecosystem that is conducive to the development of faster payments solutions, with an ultimate goal of developing a payments system that is faster, ubiquitous, and secure by 2020. The work of the Secure Payments Task Force, the other arm of the Federal Reserve's Payments System Improvement initiative, remains ongoing.

## **BACKGROUND**

In June 2015, the Federal Reserve convened the Task Force, comprised of representatives across the payments community, such as financial institutions,

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<sup>1</sup> <https://fasterpaymentstaskforce.org/wp-content/uploads/faster-payments-task-force-final-report-part-two.pdf>.

<sup>2</sup> <http://fasterpaymentstaskforce.org/wp-content/uploads/faster-payments-final-report-part1.pdf>.

consumer groups, federal and state government agencies, fintech companies, and payment service providers, to review the U.S. payments system and identify approaches to making payments in the U.S. faster. The Task Force established a set of effectiveness criteria with six categories:

- (1) speed;
- (2) efficiency;
- (3) ubiquity;
- (4) safety and security;
- (5) legal; and
- (6) governance.

The Task Force solicited proposals for faster payments solutions that met the effectiveness criteria, which were independently assessed by an outside consulting company and then presented to the Task Force.

### **THE FINAL REPORT**

The Final Report contains descriptions of the faster payments proposals and summarizes the lessons learned from the proposals. The proposed approaches were diverse, with some building off of existing centralized payments systems while others would utilize new systems including distributed networks. Additionally, some proposals were based on traditional assets held in transaction accounts, while others were based on digital currencies. Furthermore, proposals varied in their stages of development, with some being conceptual while other proposals are in active development or already available.

Neither the independent consulting company nor the Task Force picked any winners among the proposals, but instead assessed all solution proposals against the effectiveness criteria and allowed proposers to refine their proposals in light of the feedback they received. The Final Report does not contain any of the scores assigned by the independent consultant, which scored the proposals against the effectiveness criteria, or any proposal-specific assessments from the Task Force; however, some proposers have published their scores or the comments they received on their proposals. Ultimately, any ratings by the Task Force are insignificant, as the market will determine eventual winners and losers.

The Task Force also indicated that while other countries have mandated a certain faster payments solution or developed a faster payments infrastructure with a single operator, facilitating competition among various solutions to drive innovation is an important factor for the Task Force. The Task Force

recognized, however, that this pro-competitive approach requires a certain level of industry collaboration to ensure broad adoption, safety, integrity, trust, and interoperability among solutions. In the Final Report, the Task Force invited industry participants to collaborate to address these foundational issues that will create a framework in which new faster payments solutions can become a reality. As a means of developing this framework, the Task Force set forth a number of specific goals and recommendations for governance, infrastructure, sustainability, and evolution of a faster payments system.

### **TASK FORCE'S GOVERNANCE RECOMMENDATIONS**

- Stakeholders should establish a voluntary, industry-led faster payments governance framework by 2020. To advance the governance framework, the Task Force established an Interim Collaboration Work Group (“Working Group”), which includes representatives from large, medium, and small financial institutions, non-bank providers, business end users, consumer groups, state and federal government agencies, and the Federal Reserve. The Working Group will develop an initial faster payments governance framework and establish the framework and membership.
- Stakeholders should establish faster payments rules and standards that support broad adoption, safety, integrity, trust, and interoperability among solutions.
- The Federal Reserve should initiate efforts with regulators to assess payment regulations and recommend changes.

### **TASK FORCE'S INFRASTRUCTURE RECOMMENDATIONS**

- Stakeholders should establish a directory working group to recommend a directory design that is interoperable across solutions using non-personally identifiable information identifiers (e.g., aliases) that would allow a payer, for example, to send payment without being required to provide the payee's account information.
- The Federal Reserve should implement a 24/7/365 settlement service that supports a faster payments system.
- The Federal Reserve should explore and assess the need for operational roles in the faster payments system, such as provision of directory services, transaction processing, network access, security, and/or cross-border payments.

## **TASK FORCE'S SUSTAINABILITY AND EVOLUTION RECOMMENDATIONS**

- Stakeholders should develop and implement methods of fraud detection, reporting, and information sharing to build integrity and trust among end users. The Task Force also suggested the application of new security technologies for more secure faster payments.
- Stakeholders should develop education and advocacy programs to increase awareness and adoption. The Task Force noted that such education and advocacy programs should not be a substitute for strong rules on end-user protections.
- Stakeholders should conduct research and analysis to understand and address gaps (e.g., differences in messaging standards, languages, character sets) in cross-border functionality and interoperability.
- Stakeholders should continue to research and analyze emerging technologies to better understand both their risks and their benefits.

When the Task Force concludes its work, the Working Group will step in to build off the work of the Task Force with the broad objectives of developing and establishing an initial faster payments governance framework and organizing the membership of the framework. Like the Task Force, the Working Group will be composed of stakeholders across all segments of the payments system. While the Task Force envisions the Working Group's role to be limited to the development and establishment of a governance framework, the Task Force recommends the formation of additional informal working groups to help accomplish some of the other goals of the governance, infrastructure, sustainability, and evolution recommendations.

While the Task Force believes that these goals and recommendations can help guide a path toward a faster payments system by 2020, the precise approach for creating a faster payments system is yet to be determined. For example, it is unclear what role the Federal Reserve will play in the faster payments system. It appears that the Federal Reserve will issue a proposal for 24/7/365 settlement; however, any faster payments solutions that propose an expansion of the Federal Reserve's role deserve careful consideration in light of the Federal Reserve's general policy regarding its role in the payments system.