



The Daily Dish

Real-Time Payments

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Eakinomics: Real-Time Payments

If you are like me, you don't think too much about how your payments are processed. You write a check, swipe a credit card, or use your PayPal account on a website and assume your transaction is complete. The reality is that there is a complex infrastructure for processing payments that has steadily evolved from hand-processed physical checks to electronic methods. But as Thomas Wade points out in his new [insight](#), for all the advances to date, the only really "instant" payment method is good, old-fashioned cash.

There are, however, cutting edge advances in electronic payment processing — so-called "real-time payments" (RTPs). As Wade notes, "The United States is considerably behind other developed nations regarding real-time payments, including the [United Kingdom and Mexico](#) where the government has provided real-time payment processing for retail consumers. Until recently the U.S. approach has been to allow for private industry to create solutions meeting consumers' needs. [With the support of the Federal Reserve](#) (the Fed), in 2017 The Clearing House (TCH) rolled out its real-time payment service. The TCH service now supports over half of all U.S. accounts and is expected to have total coverage by 2020. Although the most important actor in this space, it is not the only private provider of real-time (or nearly real-time) payment services, which include offerings from [PayPal](#), [Venmo](#), [Zelle](#), and [Mastercard](#)."

The interesting development is that the Fed itself is also considering building a RTP network, having asked for comments on the idea in October of last year. The comments should be simple: This is a terrible idea.

To begin, the Fed does not have a mandate to undertake such a venture. The [1980 Monetary Control Act](#) allows the Fed to offer services if "the service is one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity." There is

exactly zero evidence that this is the case.

Moreover, the Fed system would be costly — a cost ultimately borne by the taxpayers — and would take years to develop, perhaps [three to five years](#). During that period, other private entities might be reluctant to enter the RTP business because of the uncertain future playing field. It is one thing to compete against the current incumbents; it is entirely another to compete with the Fed. And this last point is probably the key. It is a clear conflict of interest for the Fed to be simultaneously a competitor in the RTP services industry and the regulator of its competitors.

RTPs are the future in the United States — a future that is best left to the private sector to build and innovate.