

Regulators Should Cheer Faster Payments Effort from Sidelines

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Instant electronic payments are a sine qua non of modern life. Real-time card-authorization systems were implemented in the mid-seventies and, in an era of mobile ubiquity, enable commerce anywhere, anytime. In contrast, payments between bank accounts generally aren't instant.

Regulators, however, have been pushing for "faster-payments" infrastructure.

All well and good: regulators have an indispensable role, but market actors, innovation and competition should determine faster-payments paths, services delivered and ultimate success. While there's a danger that suggestions from the Federal Reserve will be received as diktats, thus far the Fed has struck a reasonable tone, nudging the industry and providing a forum for stakeholders.

Regulators' role affects the pace, quality and ultimately the value of faster-payments innovation. On one end of the continuum regulators are night watchmen, which is their proper role in a mature, competitive industry. On the other they are central planners. Central planning is a path to making the payments industry a sclerotic public utility. In between, however, there are instances where discrete interventions to improve competition or to non-prescriptively open the door to change can be helpful.

In her 1998 book "The Future and Its Enemies", former Reason magazine editor Virginia Postrel argues for a limited state role in innovation in business and technology. She laid out two opposing poles of innovation: stacist and dynamist. Under the former, smart guys centrally engineer the right answer. In contrast, under seemingly chaotic dynamism, competing players innovate by trial and error. Open, market-based systems out-innovate and outperform central planning. The state played no role developing global card networks, digital wallets or mobile payments.

Yet the belief by some that enlightened regulatory overlords can better direct innovation than the market is longstanding and particularly tempting in payments infrastructure. Those favoring direct involvement of government planners view market coordination as too messy and inefficient, where multiple competitors solve the same problem, price and self-interest dynamically allocate resources, and winners and losers are rewarded and ruthlessly punished, respectively, by the market.

Regulators on both sides of the Atlantic are jawboning for improvements to domestic interbank account-processing systems (the ACH). Each country has at least one that reliably and cheaply delivers nonspontaneous payments between known parties such as payroll and bill payments. Historically, these transactions have been on a one- or two-day lag.

For the moment, the United Kingdom leads. Under pressure from the Office of Fair Trading and HM Treasury, the bank-owned Vocalink implemented near-real-time ACH processing in 2008. British banks have also launched a new payment service Paym, providing mobile-phone-based money transfer, and soon will debut a retail-payment system Zapp to compete with MasterCard and Visa. British regulators are also pushing banks to spin off the not-for-profit Vocalink with a laudable view toward spurring payments-infrastructure competition.

Meanwhile, the European Central Bank is being more prescriptive, actually defining requirements for instant interbank euro-payments. The EU's central bank aims to have its payment-scheme rules implemented by November 2017.

In the U.S., the Fed wants to shepherd banks to enabling faster interbank payments. While the Fed has no statutory authority to require faster payments, it is using its bully pulpit to good effect. A committee spearheaded by the Fed including regulators, banks, networks, processors and retailers is developing nonbinding faster-ACH standards.

While faster interbank payment-processing infrastructure implemented abroad will tempt some to call for a Washington mandate, treading lightly is warranted.

Interested firms in the U.S. are already moving. Bank-owned processor The Clearing House engaged Vocalink to support faster ACH in the U.S., while

the Federal Reserve Bank of Atlanta recently hired IBM to enhance its processing platform. In addition, processors FIS and Fiserv are leveraging their debit networks NYCE and Accel, respectively, to deliver instant interbank payments. And bank cooperative ClearXchange launched real-time P2P payments with Bank of America and U.S. Bank. It's also likely that Facebook, Google and Square will harness real-time ACH for their P2P services.

If regulators don't foreclose or deter new and nontraditional entrants, the field of potential innovative competitors is broad. MasterCard reportedly is bidding on Vocalink, with which it could deliver real-time ACH globally. Payments software gorilla ACI Worldwide has stepped up its processing presence and is in an interesting position to deliver multinational instant payments.

Faster-payments schemes and processors will be incented to interconnect to deliver genuinely ubiquitous national and multinational services.

Competition and experimental innovation by private parties vying to deliver winning P2P payments solutions will produce superior results. To help make instant account-to-account payments a reality in the U.S. and worldwide, regulators should encourage multiple competitors and approaches. And that means avoiding the temptation to mandate a single solution.

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