

May 1, 2019

# An Open Letter to Members of Congress: Stop the Fed's Real-Time Payment Takeover

Dear Members of Congress,

On behalf of the undersigned organizations, we write to urge you to oppose the Federal Reserve's proposal to operate a real-time payments system (RTP) that would operate in direct competition with today's existing private sector solution and potentially cost taxpayers hundreds of millions of dollars. Under the Fed's mandate as defined in the Monetary Control Act, it should only intervene if, "the service is one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity."<sup>1</sup> Today, the market is providing a diverse and rapidly-evolving set of RTP services for both consumers and banks. The Clearing House's (TCH) system currently serves roughly 50 percent of all checking account volume in the U.S., a figure expected to reach two-thirds by the end of 2019, and near ubiquity by 2020. By the end of 2019, approximately 90 percent of financial institutions will be able to connect to TCH's RTP services. From PayPal's latest real-time offering, to Mastercard Send, Visa Direct, and Zelle, there are no shortages of existing faster payment options in the market.

The Fed's potential entry into RTP—as both a regulator and a competitor—will only serve to distort the existing market, keep smaller financial institutions on the sidelines of a dynamic playing field, and add a duplicative layer of payment rails that will do nothing to drive innovation. As TCH has already spent millions of dollars building RTP rails in the U.S., and core processors are starting to connect smaller financial institutions, a Fed RTP effort would add a duplicative set of rails. Instead of engaging in mission creep that will likely raise fresh questions of the institution's transparency -- not to mention privacy and data security concerns over its untested project -- we believe the appropriate role for the Fed is to support private sector innovation in this field and manage liquidity.

Advocates of the Fed's proposal claim its intrusion into the market will create another participant and act as a counterweight to TCH and other competitors. However, policy experience from the Fed's influence in the ACH market indicate otherwise, since the Fed offers steep discounts based on volume. By contrast, TCH as a RTP facilitator, treats all customers the same and does not offer volume discounts. This was a crucial factor in the Department of Justice's approval of TCH's rules and operations. If the Fed enters the market, there is a risk it will try to unfairly undercut its competitors on price while regulating both its competitors and customers.

Innovation doesn't wait in our economy. If the Fed were to act now, it would likely take three to four years to establish its duplicative RTP system. Based on reported past implementation costs for TCH as well as estimated costs from banks for connecting to such a network, the RTP project could amount to hundreds of millions of dollars, likely with little additional marginal effect on payment systems that true private-sector entities would otherwise achieve on their own during that time. Furthermore, these misprioritized expenditures would ultimately be a loss to taxpayers – an especially important consideration as the Fed returns to more normalized monetary policy and, in turn smaller overall payments to the Treasury. For all these reasons, we urge policymakers to reject the Fed's attempt to act as a competitor and a regulator in today's vibrant real-time payments market.

Sincerely,



National  
Taxpayers Union



Alabama Policy  
Institute



Alaska Policy  
Forum



American Commitment



American Consumer  
Institute

<sup>1</sup> Federal Reserve System, Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comment (Oct. 3, 2018), at 8 (citing Board of Governors of the Federal Reserve System, "The Federal Reserve in the Payments System," Issued 1984; revised 1990).



Americans for Tax Reform



Bluegrass Institute  
for Public Policy  
Solutions (KY)



California Policy  
Center



Center for  
Individual  
Freedom



Center for Freedom and  
Prosperity



Civitas Institute  
(NC)



Council for Citizens Against  
Government Waste



FreedomWorks



Georgia Public Policy  
Foundation



Granite Institute  
(NH)



Heritage Action  
for America



Idaho Freedom  
Foundation



Institute for Liberty



James Madison  
Institute (FL)



MacIver Institute for Public  
Policy (WI)



The Latino  
Coalition



Less Government



Libertas Institute  
(UT)



Maine Heritage  
Policy Center



Maryland Public  
Policy Institute



Mississippi Center for  
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National Center for Public  
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Nevada Policy Research  
Institute



Rio Grande Foundation  
(NM)



R Street Institute



Tax Education  
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