

Department of the Treasury - Bureau of the Fiscal Service

Federal Reserve Payments System Improvement Public Consultation Paper

The Department of the Treasury's Bureau of the Fiscal Service (Fiscal Service) historically is an early adopter of electronic payment solutions such as the Automated Clearing House (ACH) network and check conversion functionality and a leader in moving from paper to electronics. Recent initiatives including the All-Electronic Treasury effort have resulted in extraordinary increases in electronic disbursement of federal payments as well as the collection of federal revenue, both leading to significant cost savings and convenience for American taxpayers. Yet, more is to be done to further reduce the reliance on paper checks for collections and disbursements and to expedite the processing and settlement of electronic payments. Accordingly, the Federal Reserve's effort to improve the U.S. payments system through a ubiquitous electronic retail payment network is of significant interest to the Fiscal Service.

Any solution the industry considers should achieve near-real-time funds availability, rather than simply result in near-real-time authorizations. The federal government's cash management activities depend on actual funds transfers – as opposed to funds merely being authorized or guaranteed. Since no same day solution has yet gained sufficient acceptance in the market, the Federal Reserve could initially improve the payments system by facilitating same day ACH functionality for participation by all financial institutions beyond the existing opt-in model. This additional functionality will also benefit the broader market at large.

Secondly, the Fiscal Service has had great success in increasing electronic payments for recurring federal benefit payments and, in certain instances, payments to vendors who have access to EDI platforms that facilitate end-to-end processing. Future payment systems need to make it easier to include accompanying data with payments or make it easier to reassociate payment data in the payment stream.

The remaining paper check volume disbursed by the U.S. Treasury is primarily one-time payments where collecting banking information is oftentimes the primary obstacle to an electronic payment. Most notably, tax refunds fall into this category and are increasingly the largest volume of check payments disbursed by the U.S. Treasury. Historically, it has been cited that reluctance to provide banking information to a government entity is the reason for lower EFT participation (as well the non-recurring nature of the payments). Designing a system where bank account information does not need to be revealed in order to make or receive a federal payment electronically would be most beneficial in converting millions of remaining paper checks to EFT. Also such retail payment options would facilitate the collection of revenue for the government potentially offering cost savings and efficiencies over existing revenue collection mechanisms.

Privacy, security, and consumer protections are of particular concern. We note the need to have a secure environment for near real-time payments. Such a secure environment would have an overall positive impact and enhance consumer trust thereby supporting the federal government's

efforts to further engage and expand electronic transactions with the public. Accordingly, greater emphasis should be given to fraud detection and mitigation. As the industry begins to adapt and address near real-time payments that are inclusive for all segments of our society, new enrollment methods require the development of a new security framework to prevent fraud and protect privacy. Innovative real time payments systems not strictly reliant on bank account numbers could be subject to fraud and identify theft. The replacement of bank account information with alternative identifiers is no panacea and still raises security and privacy concerns. Therefore, supplemental authentication measures and appropriate consumer protections are needed.

Another key area of interest for the Fiscal Service and Treasury generally, is the development of electronic payment solutions useful for the unbanked and underserved in our society. Any success in moving to a near real-time environment should not have the unintended outcome of widening the disparity of viable options for this demographic. Commitment is needed to develop unique solutions for those who may not fully understand the ubiquitous payment system (whose banking options are limited or do not have regular access to computers or the internet). Designing a system that makes use of non-traditional account processors, such as e-Wallet or mobile payment solutions, where bank information (or even a bank account) is not required to receive federal payments electronically needs to be a priority. The consumer protections noted above would help support acceptance of alternate electronic payments systems for the most vulnerable in our society and their need to be able to access their funds quickly and conveniently. The access to funds through non-traditional account processors, may also temper the cashing out of government pre-paid debit cards.

A final area of Fiscal Service interest is international payments. We encourage the Federal Reserve and the industry to continue to research and pilot initiatives that will make it easier to process cross border/foreign currency payments.

While not a specific Fiscal Service need, we support a future payment system that facilitates person to person payments. This would build a more comprehensive payment infrastructure providing benefits to all participants.

The Fiscal Service supports a central coordination entity in moving to a near-real-time environment. This body is necessary to represent the divergent interests of all stakeholders for success to eliminate barriers for the expanded use of electronic payments. The move to near-real-time payment capabilities and open payment networks requires innovation and risk mitigation. Between the Federal Reserve, the federal government and the industry, the Fiscal Service believes the appropriate balance of innovation and risks can be achieved. Lastly, in support of this initiative, the Fiscal Service is willing to partner with the Federal Reserve on efforts to further improve the payments system.

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