

Overview of the approach to strategy setting for payment systems in selected jurisdictions

FINAL REPORT FOR PAYMENT SYSTEMS REGULATOR

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* Views expressed in this report are those of the authors, and they should not be attributed to any organisation(s) with which the author is associated.

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Summary

Technological developments, including the creation of new digital payment services and methods, as well as changes in end-user preferences are impacting on the way in which payment systems operate, and are developed, in many parts of the world. In the three comparator jurisdictions examined in this Report – Australia, Canada and the United States – these factors have led to a perceived need to articulate a ‘vision’ or ‘strategy’ for payment system development, as well as to the introduction of various institutional changes focused on facilitating wider engagement and participation in the strategy setting process.

Different approaches to payments system strategy setting can be seen across the comparator countries. These differences appear, in part, to reflect the specific institutional, oversight and structural characteristics of the payment services sector in each country, not all of which will have relevance to the U.K. For example, in both the U.S. and Australia, the current focus on a payments system strategy appears, in part, to reflect a desire to accelerate the development of a real time or faster payments system. The structure of the industry also differs across the comparator countries. In Canada, a single public purpose organisation operates the main wholesale and retail payments systems, while in the U.S., the payments system landscape is broad and complex and comprises over ten thousand depository institutions, hundreds of payment service providers, and dozens of proprietary payment networks.

Notwithstanding these important differences in context, a number of general observations in relation to strategy setting in payment systems in the comparator countries can be made:

- Across the comparator jurisdictions, it is recognised that there is sometimes a need to foster strategic collaboration among payments industry participants in order to overcome various coordination problems that can arise in relation to collective investments in payment systems.
- Responsibility for the articulation of a vision or strategy for payments system development rests with various bodies in the jurisdictions examined. In Australia, the Payments System Board (part of the Reserve Bank of Australia) is responsible for setting strategic objectives. In the U.S., the Federal Reserve is developing a roadmap for payment system improvement and sees its role as ‘a catalyst for collaboration’. In Canada, the strategic vision is articulated by the Canadian Payments Association (CPA), while a senior level advisory committee (FinPay) chaired by the Ministry of Finance acts as the forum to discuss industry developments.
- In all jurisdictions, the process for the development of a vision or strategy typically involves extensive consultation with the industry and other relevant parties. In the U.S. this process has occurred through various ‘Town Hall’ meetings, the creation

of a dedicated payments improvement website and extensive consultation with a wide range of payments participants. In Australia, a consultative process is undertaken by the Payments System Board and the Reserve Bank to hear a range of different points of view, and includes consultation with the newly created Australian Payments Council.

- There is a general trend towards broadening involvement in strategy-setting by including non-traditional players, such as: non-bank payment service providers; payment processing companies; technology providers; telecommunications and network companies; major retailers and payment consultants. This recognises that a range of entities are increasingly involved in the delivery of payments services to end-users, and that proposals for innovation in payment systems can come from discussion among a diverse group of payment participants.
- In Australia and Canada, there has also been an interest in reforming the governance arrangements for payment systems. In part, this has reflected concerns that a small group of stakeholders had an undue influence on strategic decisions, or that insufficient regard was being paid to public interest considerations in decision-making.
- Various wider institutional changes have been introduced, or are being considered, to facilitate the development and implementation of payments strategy. In Australia, two new entities – a Payments Community and an Australian Payments Council – have been created toward this end. The U.S. is considering whether to establish a Payments Advisory Council which would be responsible for guiding industry direction on strategic issues, and influencing the implementation of the Federal Reserve’s roadmap. In Canada, the Parliament is currently considering a Bill which will change the governance arrangements for the CPA, including reducing the size of the board, and making the majority of board members independent directors. It is also proposed that a Member Advisory Council be established to provide advice to the CPA board on technical and operational aspects of payment systems and the development of new technologies.
- The potential use of specialist advisory councils or working groups to advance specific areas of work, and to assist in the execution of specific strategies, is a feature of both the U.S. and Canadian arrangements. In the U.S. it is proposed that these councils/working groups might focus on five specific areas. In Canada, the FinPay advisory committee can establish working groups as appropriate to further its objectives.

1. Introduction

1. Payments systems are experiencing a period of rapid and significant change in many parts of the world. Demographic changes, and the development and widespread use of new technologies that facilitate a range of different payment means and methods, is changing the way payment services are supplied in many countries. End-user expectations have also changed; with the shift towards electronic-based payment mechanisms, it is now expected that payments be transmitted and processed with shorter delays and through a range of mediums. The supply process for end-to-end payment services has also become more complex, with a wider range of participants becoming involved in different aspects of the supply of payment services.
2. Against this background of evolving supply mechanisms and changes in consumer preferences, there is a view across many jurisdictions that innovation and investment in payments systems is critical for future economic performance and growth. To this end, a number of jurisdictions have identified a need to establish some form of coordinated ‘strategy’ or ‘vision’ for the development of payments systems in order to overcome some of the potential coordination failures and other barriers that might impede or frustrate innovation and investment in the sector.
3. The need for a strategy or vision for the development of payments systems is recognised at the multilateral level,¹ and even by countries which, historically, have relied principally on the market in relation to the development and implementation of new payments systems technologies (such as the United States).²
4. This Report provides an overview of the approach to strategy setting for payments systems in three comparator countries: Australia, Canada and the USA. These countries have been selected because they have each recently undertaken a review of strategy and innovation in payment systems. For each country we consider: (i) the general approach to the setting of high-level strategic objectives, and (ii) institutional developments related to the strategy setting process. This Report has

¹ See for example: World Bank, 2012. “Developing a Comprehensive National Retail Payments Strategy”, October 2012 which notes, that there are ‘*multiple challenges and roadblocks*’ associated with the development of retail payments systems, and that ‘*[n]avigating through these challenges requires a comprehensive and strategic approach*’. More generally, the World Bank recommended that an important part of implementing reforms to retail payments systems involved developing a common vision of the desired end-state. This is because, in their view, “*envisioning the desired state of retail payments systems assists in catalysing actions and serves as a reference point for all future endeavours.*” See also World Bank, 2011. “Payment Systems Worldwide: A snapshot”.

² See Federal Reserve Banks (2013) “Payments System Improvement – Public Consultation Paper” September 10, 2013. Page 1.

been prepared principally on the basis of desk research using information that is available in the public domain.

2. Australia

5. Strategy setting in the Australian payments system is changing following the 2012 Strategic Review of Innovation in payment systems. That review found that there were a number of fundamental impediments to innovation in payment systems, including:

- (i) coordination problems, which made it difficult for industry players to agree to implement innovations that require a collective effort to succeed.
- (ii) existing commercial arrangements, which made it difficult to build a business case for some innovations because new business arising from such innovations might attract business away from existing profitable business streams.

6. An overarching conclusion of the Strategic Review was that these impediments had meant that industry decisions did not sufficiently account for some key factors valued by end-users.³ In addition, the Strategic Review concluded that the existing governance arrangements in the sector were flawed and needed reform. Two problems in particular were identified:

- (i) That insufficient regard was being paid to public interest objectives because, under the existing arrangements, decision-making rested with commercial entities.
- (ii) That coordination problems had tended to hamper cooperation between industry players.

³ For consumers these factors might include the availability of alternative or improved payment services, which could provide greater convenience, time savings or certainty about funds availability. The relevant factors for businesses are those that might allow for greater efficiencies in their own systems, arising from more appropriate payment options and improved cash flow associated with more timely availability of funds. See Reserve Bank of Australia (2012) 'Strategic Review of Innovation in the Payments System: Conclusions'. June 2012. Page 3.

7. To address these issues, it was recommended that the relevant regulatory authority – the Payments System Board (PSB)⁴ – fundamentally change its relationship with industry, provide ‘external guidance’, and be ‘more proactive in setting out strategic objectives for the payments system’.⁵ Three specific initiatives were proposed:
- (i) That the PSB be responsible for setting the high-level strategic objectives for the industry in order to create a shared goal/vision for the industry and to allow the industry to allocate resources with greater certainty.
 - (ii) An ‘enhanced coordination’ body be established by industry which would interact with the PSB on behalf of the industry, and also provide cooperative agreement on issues which the PSB does not normally address.
 - (iii) A framework be established for the more direct interaction between the industry body and the PSB.

2.1 Approach to the setting of high-level strategic objectives

8. Strategic objectives are determined by the PSB based on its assessment of the public interest. However, strategic objectives are not determined in isolation from industry, but via a consultative process that ‘allows the Bank and the Board to hear and weigh all points of view’ including that of the newly created Australian Payments Council.⁶ The PSB anticipates that the process of setting objectives will occur every three years.
9. In relation to implementation, the PSB has outlined its expectations. Once the strategic objectives are established, there will be period of intensive industry discussions on how to best meet those objectives. Ultimately, the PSB expects to see a well-articulated proposal from industry for meeting the objectives, including key milestones, which the PSB will provide feedback on. Once a proposal has been agreed, the PSB expects to receive timely updates on progress with achieving the key milestones.
10. An interesting aspect of the Australian proposals is that they recognise that the industry may not be able to reach agreement in every case. In these circumstances,

⁴ The Payments System Board (PSB) of the Reserve Bank of Australia is responsible for the determination of the Bank’s payments system policy, while the Reserve Bank Board has responsibility for the Bank’s monetary and banking policies and all other policies except for payments system policy.

⁵ See Reserve Bank of Australia (2012) ‘Strategic Review of Innovation in the Payments System: Conclusions’. June 2012. Pages 1 and 18.

⁶ See Ibid. Page 20.

the PSB might consider ‘other means’ of achieving relevant objectives, including seeking to establish the infrastructure itself, or using its powers under relevant legislation to require that the objectives be met in specific ways.⁷

2.2 Institutional developments: creation of the Australian Payments Council and the Payments Community

11. Changes to the governance framework for strategy setting in the Australian payments system have involved the creation of two new bodies: an Australian Payments Council and a Payments Community.
12. Membership of the Payments Community is open to any organisation with a significant interest in Australian payments system (current members include financial institutions, card schemes, major retailers and other payments service providers, the Australian Payments Clearing Association and the Reserve Bank of Australia). The purpose of the Payments Community is to enable such interested parties to participate in the exchange of information relating to strategic matters, and to consult with the Australian Payments Council on its activities. Among its purposes will be to ‘keep informed and provide views’ on relevant issues to inform Payments Council deliberations.⁸ It meets at least once a year, and is chaired by the Chair of the Australian Payments Council.
13. The Australian Payments Council is envisaged as a more focussed, senior level body with representative membership drawn from the Payments Community on a rotational basis. The Chair is an independent non-executive, and the Council members are expected to be respected senior executives of the organisations they represent and have appropriate expertise. The Council will meet at least twice a year, and have a joint meeting with the PSB annually.
14. The purpose of the Australian Payments Council is to: constantly scan the payments environment to identify strategic issues and emerging trends; engage with the PSB on the setting and implementation of strategic objectives; generate common industry positions for action and adoption by the industry with the endorsement of the PSB; and identify and remove any barriers which may restrict collaborative innovation.

⁷ More generally, the World Bank has also recognised that there might be a role for Central Banks to develop and operate some retail infrastructures in circumstances where “*the private sector is unable to come to an agreement on developing these systems.*” Recognising that this is a highly interventionist move, the World Bank states that even in these circumstances the Central Bank should from the outset consider a manner which would allow it to transfer the ownership and responsibility to the private sector at some point in the future. See World Bank, 2012. “Developing a Comprehensive National Retail Payments Strategy”, October 2012, page 84.

⁸ Joint Consultation by the Reserve Bank of Australia and the Australian Payments Clearing Association ‘Establishment of an Australian Payments Council’. October 2013. Page 4.

However, the Council does not have any binding powers over industry participants, nor can it mandate participation in any initiative, which remains a commercial decision for industry participants. In short, the Council will have to achieve its goals through consensus and ‘buy-in’ on specific initiatives.⁹

15. In order to represent views from a balanced cross-section of the payments community, it is proposed that the composition of the Australian Payment Council reflect a range of pre-determined categories of interested parties,¹⁰ including:

- one representative from each of the four main banks
- two representatives from other financial institutions (credit unions, international institutions, regional institutions, building societies, service providers) - determined by that community (in association with the industry body)
- two representatives from payment schemes – selected by the Reserve Bank
- one representative from self-acquirers – selected by the Reserve Bank
- two representatives from facilitators and others (including, potentially, payment processors, telecommunications or network providers and technology providers) – selected by the Reserve Bank

16. In terms of engagement with the PSB, the Australian Payments Council will enter into a Memorandum of Understanding with the PSB setting out how the two bodies will engage with one another.

3. Canada

17. The payment system governance arrangements in Canada revolve around the Canadian Payment Association (CPA), which owns and operates the major wholesale and retail payments systems and operates pursuant to the Canadian Payments Act. The current membership of the CPA comprises 113 members including: the Bank of Canada, banks, authorized foreign banks, trust companies and loan companies, credit unions, securities dealers and other financial institutions.¹¹

18. The CPA has no owners and is a ‘public-purpose’ organisation which exists to meet various statutory objectives. Among the primary objectives of the CPA is to

⁹ Ibid. Page 2.

¹⁰ Ibid. Page 5.

¹¹ See < www.cdnpay.ca/imis15/eng/Membership/Member_List/eng/mem/Member_List.aspx>

‘facilitate the development of new payment methods and technologies.’¹² The enabling legislation also states, that in pursuing its objects, the CPA ‘shall promote the efficiency, safety and soundness of its clearing and settlement systems and take into account the interests of users.’

19. Although the CPA does not have any owners, it is argued that the structure of voting, and the arrangements for the payment of membership dues, treats the members as if they were owners.¹³ An implication of this structure is that the influence of members on major expenditures (such as investments) is roughly proportional to their size as customers of the CPA. In a Bill currently before the Canadian Parliament it is proposed that the voting arrangements be amended such that each member will have one vote.¹⁴
20. Under the current governance arrangements, the Bank of Canada appoints the Chair, and the Minister of Finance makes three non-member appointments to the Board, while the remaining 12 directors are appointed by members.¹⁵ The Minister of Finance also oversees the operations of the CPA in some important respects.¹⁶
21. However, there is currently a Bill before the Canadian Parliament which will change the governance arrangements for the CPA.¹⁷ Specifically, it is proposed that the number of board members be reduced from 16 to 13 members. Under this proposal the CPA board will comprise a President, five member directors (of which three are to be appointed by direct participants) and seven independent directors. In addition, the Bank of Canada will no longer sit on the board, and the Ministry of Finance will

¹² Section 5(1) of the Canadian Payments Act. The three objectives are: (a) establish and operate national systems for the clearing and settlement of payments and other arrangements for the making or exchange of payments; (b) facilitate the interaction of its clearing and settlement systems and related arrangements with other systems or arrangements involved in the exchange, clearing or settlement of payments; and (c) facilitate the development of new payment methods and technologies.

¹³ Canadian Taskforce for the Payments System Review (2011). *Policy Paper D: Infrastructure – A Reinvented Canadian Payments Association*. December 2011. Page 13.

¹⁴ See House of Commons of Canada, Bill C-43. ‘A second Act to implement certain provisions of the budget tabled in Parliament on February 11, 2014 and other measures’ First Reading, October 23, 2014. <<http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=6737565&File=4>>

¹⁵ At the time of writing, these 12 representatives comprised: 6 bank representatives, 2 Central/Credit Union representatives and 4 representatives from the remaining membership classes. However, see proposed changes under Bill tabled before House of Commons on 23 October 2014.

¹⁶ Under the Canadian Payments Act, the by-laws of the CPA are subject to approval by the Minister of Finance. The Minister also has the authority to ‘review new CPA rules or amendments to existing rules and, if appropriate, disallow the whole or part of a rule. The Minister also has the power to issue a directive with respect to CPA by-laws, rules or standards’. See <https://www.cdnpay.ca/imis15/eng/Act_Rules/Governance/eng/rul/Governance.aspx?hkey=984547cc-0c29-4669-a8dc-eb497eb0821a>

¹⁷ See House of Commons of Canada, Bill C-43. ‘A second Act to implement certain provisions of the budget tabled in Parliament on February 11, 2014 and other measures’ First Reading, October 23, 2014. <<http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=6737565&File=4>>

not make appointments to the board. Rather, all directors (including member and independent directors) will be appointed to the board by CPA members. The chairperson and deputy chairperson shall be appointed from among the independent directors.

3.1 Approach to the setting of high-level strategic objectives

22. The board of the CPA is responsible for establishing a strategic planning process and setting the strategic direction and priorities of the CPA. In this capacity the board is responsible for the consideration and approval of policies which are consistent with its strategic priorities. It also is responsible for ensuring that procedures are in place to implement the policies.¹⁸ The CPA sees the performance of this strategic role as complementary to the fulfilment of its statutory mandate.¹⁹ In February 2010, the CPA released a payments strategy statement known as ‘Vision 2020’. This report was intended to provide a long-term strategy for the development of the CPA clearing and settlement systems.
23. However, a 2011 review of infrastructure by the Task Force for Payment Systems concluded, among other things, that the existing governance arrangements had created barriers to entry for new participants and had hampered innovation. Specifically, the Task Force observed that ‘key systems are aging, and no provisions have been made for their upgrade or replacement’.²⁰ This included the investments necessary to introduce ‘immediate funds transfer’ (a form of faster payments). In addition, it was observed that the governance of the core infrastructure was ‘too narrowly focussed and was not able to identify appropriate next steps’, and, as a result, opportunities to develop a modern payments system were being missed.²¹
24. Of particular relevance was the observation that, although the CPA had developed a long-term strategic plan, *Vision 2020*, there was, in the view of the taskforce, ‘no clear signs that the CPA is planning to meet the identified needs.’²² A number of recommendations were proposed to address the issues identified including:

¹⁸ See CPA, ‘Governance’ <https://www.cdnpay.ca/imis15/eng/Act_Rules/Governance/eng/rul/Governance.aspx?hkey=984547cc-0c29-4669-a8dc-eb497eb0821a>

¹⁹ Specifically, the CPA has stated that: “*The CPA’s mandate and vision are complementary. Whereas the mandate provides the boundaries within which the CPA must operate, the vision provides direction for the future on how the CPA plans to satisfy its mandate.*” See: CPA, ‘Payments Strategy FAQs’ <https://www.cdnpay.ca/imis15/pdf/pdfs_news/payments_strategy_faqs.pdf>

²⁰ Ibid. Page 1.

²¹ Canadian Task Force for the Payments System Review (2011) *Policy Paper D: Infrastructure – A Reinvented Canadian Payments Association*. Page 11.

²² Ibid. Page 13.

- (i) changes to the governance arrangements for the CPA (including changes to board membership, size, veto power, expertise and fiduciary responsibility); and
 - (ii) that consideration be given to a new governance arrangement which would ensure that no set of stakeholders had control or undue influence over any decision, and that the board of directors were free of any conflict of interest.
25. In a speech in June 2014, the Bank of Canada set out its ‘vision’ for the Canadian Payments System which included various desired attributes of the system (in relation to speed, cost access, reliability, security).²³ Among other things, this vision recognises that, in the future, technological change will allow retail and wholesale systems to offer similar services and to compete more directly.

3.2 Institutional developments: CPA, FinPay and the changes to the governance and oversight arrangements

26. One of the recommendations of the 2011 Task Force for Payments Systems was that two new regulatory bodies be created: a new Public Oversight Body which would be charged with ‘protecting the public interest’, and a self-governing organisation (SGO) to provide a platform for strategic thinking for the industry as a whole and facilitate broad-based collaboration. The proposed Public Oversight Body was to recognise and oversee the SGO for the payments system.²⁴ The SGO, in turn, was envisaged as being significantly more inclusive than other international payments bodies and would include banks, other financial institutions, card networks, acquirers and new payment system providers as well as representatives from a range of users of payment systems (including consumers, merchants, SMEs, large corporations and government).
27. Ultimately, this proposed governance model was not adopted. However, following the publication of the Task Force report, a new senior level advisory committee was established. This committee (known as Finance Canada Payments Consultative Committee, or FinPay) is intended to act as a forum in which to discuss industry level developments in the Canadian payments system. Specifically, it is charged with:

²³ Bank of Canada, (2014). ‘A Dual Vision for the Canadian Payments System.’ Remarks by Lawrence Schembri, Deputy Governor of the Bank of Canada, 27 June 2014. Page 2.

²⁴ Canadian Task Force for the Payments System Review (2011) *Policy Paper B: Governance – Stakeholders and their Disconnect*. Page 2.

- advising the Department of Finance (Finance Canada) on the public policy aspects of developments in payments systems (including in relation to competition, innovation, user needs and safety etc);
 - discussing approaches to addressing ongoing and emerging opportunities and challenges in payment systems;
 - informing government policy-making about the Canadian payments system.
28. In furtherance of these objectives, FinPay can establish working groups as appropriate. FinPay meets at least bi-annually and is chaired by the General Director of the Financial Sector Policy Branch of Finance Canada. Finance Canada also performs the secretariat duties, and is present at all committee and any working group meetings. The membership of FinPay is determined by Finance Canada and includes a mix of stakeholders from the public and private sectors, including established players, new entrants, corporate users, merchants and consumers. From time to time FinPay may also seek expertise from industry experts outside the committee.
29. The Bank of Canada has recently stated that the arrival of new players on the retail payments landscape, and the potential for new systems to compete with existing core systems, required a ‘fundamental overhaul’ of the Canadian oversight framework.²⁵ Specifically, the Bank indicated that it may need to play a larger role in the oversight of ‘prominent’ payment systems (i.e.: non systemically-important systems), and that such oversight may also potentially extend to other national retail payment systems (which are not ‘systemically important’ or ‘prominent’) where end-user protection is of particular importance in a way proportional to the risks.²⁶ In the 2014 budget, the Canadian government announced that it was intending to develop a comprehensive risk-based approach to the oversight of the Canadian payments system and would consult on oversight of retail payments systems.
30. The Bank of Canada also addressed the question of how the ‘vision’ could be achieved, with the emphasis on the role of the CPA and the public agencies to coordinate and encourage collaboration by the industry. In particular, it was argued that the CPA and its members should take the lead by embracing new technology. In this respect, the CPA recently announced that it is adopting the ISO 20022 messaging standard – which operates independently of any specific technology platform – as part of a strategy to modernise the payment system. The adoption of

²⁵ See: Bank of Canada, (2014). ‘A Dual Vision for the Canadian Payments System.’ Remarks by Lawrence Schembri, Deputy Governor of the Bank of Canada, 27 June 2014. Page 5.

²⁶ Ibid. Page 5

the common standard is seen to potentially reduce the barriers that may prevent new players from using core systems for clearing and settlement.

31. Finally, in a Bill recently tabled before the Canadian Parliament a number of changes to the accountability framework and institutional arrangements are proposed. In particular, it is proposed that:²⁷

- A Member Advisory Council be established which, among other things, shall provide counsel and advice to the board on technical and operational aspects of payment systems and the development of new technologies. The Member Advisory Council shall be representative of the diversity of membership of the CPA.
- Each year the board of the CPA submit to the Minister of Finance a five year corporate plan.

32. The Bill also proposes that the Governor of the Bank of Canada's ability to designate payments systems be expanded, to include clearing and settlement systems which could give rise to 'payments system risk'.²⁸

²⁷ See House of Commons of Canada, Bill C-43. 'A second Act to implement certain provisions of the budget tabled in Parliament on February 11, 2014 and other measures' First Reading, October 23, 2014. <<http://www.parl.gc.ca/HousePublications/Publication.aspx?Language=E&Mode=1&DocId=6737565&File=4>>

²⁸ According to the Bill "*payments system risk*" means the risk that a disruption to or a failure of a clearing and settlement system could cause a significant adverse effect on economic activity in Canada by (a) impairing the ability of individuals, businesses or government entities to make payments, or (b) producing a general loss of confidence in the overall Canadian payments system, which includes payment instruments, infrastructure, organizations, market arrangements and legal frameworks that allow for the transfer of monetary value.' See House of Commons of Canada, Bill C-43. 'A second Act to implement certain provisions of the budget tabled in Parliament on February 11, 2014 and other measures' First Reading, October 23, 2014.

4. United States of America

33. The structure of payment systems in the U.S. is different to that of the UK and the other comparator countries insofar as there are over 14,000 depository institutions, hundreds of payment service providers, and dozens of proprietary payment networks.²⁹
34. A particular characteristic of the U.S. payments system structure is that many new electronic networks have been developed in a closed or limited participation way, and as a result the widespread adoption of such networks has been limited (i.e. both the sender and receiver must be part of the same network). This has resulted in an ‘in-network’/ ‘out-of-network’ distinction developing for some payment systems which makes it inconvenient or impossible for those in the network (in-network users) to receive or send payments to those not enrolled in the network (out-of-network users).³⁰ According to the Federal Reserve, the ‘breadth and complexity’ of the U.S. payments system landscape makes it difficult to coordinate payment innovations and achieve the coverage (ubiquity) necessary to fully realise potential network effects.³¹

4.1 Approach to the setting of high-level strategic objectives

35. The articulation of a vision for payment systems has been led by the Federal Reserve Banks (the Fed) who have published a series of reports and speeches over the years setting out what they consider to be ‘gaps and opportunities’ in the U.S. payments systems.³² In September 2013, the Fed published a public consultation paper on Payment System Improvement. The purpose of the consultation was two-fold:
- To articulate the Fed’s perspective on (i) key gaps and opportunities; and (ii) desired outcomes that close these gaps and realise these opportunities.
 - To solicit industry input on (i) the gaps and opportunities identified by the Fed; (ii) potential strategies and tactics to shape the future payments systems; and (iii) what the Fed’s role in implementing these strategies and tactics should be.

²⁹ Federal Reserve Banks, 2013. ‘Payment System Improvement – Public Consultation Paper.’ September 10, 2013. Page 1.

³⁰ Ibid. Page 2.

³¹ Ibid. Page 1.

³² See Federal Reserve Staff Study, 2002. “The Future of Retail Payments Systems: Industry Interviews and Analysis” Board of Governors of the Federal Reserve System, December 2002. See also the ‘vision’ for the industry articulated in the speech of the President of the Federal Reserve Bank of Cleveland, “Collaborating to Improve the U.S. Payments System”. October 22, 2012.

36. Three aspects of the 2013 consultation on a strategic vision are notable:

- First, unlike previous vision documents, which tended to focus on interbank issues, the 2013 consultation focused on the development and evolution of payments systems to facilitate end-to-end payments. This reflected a recognition that end-users now have access to powerful technologies which is changing the way in which payments systems are used, and that, accordingly, any next generation payments system needs to be able to accommodate these changes.
- Second, an emphasis is given to the ‘broader’ payments industry, recognising that a range of entities are involved in the delivery of payments services to end-users.³³ In this respect, the consultation notes that the most promising ideas for innovations in payment systems and strategic change come from discussion among diverse industry participants.
- Third, as noted, despite the fact that new electronic networks are proliferating, they have tended to be developed in a closed/limited participation way and, as a result, many of these networks do not have a broad base of customers. To this end, the Fed states that it wishes to foster an environment where innovative payments systems can be developed which can bring the efficiency advantages of near-ubiquity.

37. The 2013 consultation document set out five ‘desired outcomes’ to be achieved within ten years to address the gaps and opportunities identified. One of the desired outcomes is that a ubiquitous electronic near-real time payment capability for retail payments be developed. However, the consultation document acknowledges that ‘funding for the investments required may be hard to obtain, given competing priorities such as complying with new mandates’.³⁴

4.2 Institutional developments: a ‘Town Hall’ approach and the potential creation of a U.S. Payments Advisory Council

³³ This includes: depository institutions and their trade associations; nonbank service providers; payment processing companies; and payment consultants.

³⁴ Federal Reserve Banks, 2013. ‘Payment System Improvement – Public Consultation Paper.’ September 10, 2013. Page 6.

38. The Fed's 2013 consultation document states that key improvements for the future state of the payments system should be 'collectively identified and embraced' by payment participants and material progress made in implementation.
39. The Fed sees its role as 'a catalyst for collaboration', including through hosting meetings and forums with industry to gather input on the strategic vision. To this end, it organised six 'Town Hall' meetings in 2014 to discuss various improvements to U.S. payment systems. Over 250 attendees participated in these meetings, comprising representatives from: financial institutions (40%); business (17%); technology solutions providers/processors (15%); emerging payment providers (7%); payments rules and standards bodies (10%); government and regulatory agencies (6%); other industry (3%) and payments network operators (2%).
40. A dedicated website has been created (fedpaymentsimprovement.org) containing the user submissions to the consultation, summaries of the Town Hall discussions, additional reading materials and details of future industry events at which the Fed will be participating.
41. According to the payments improvement website, the Fed will use the research, conclusions and stakeholder feedback to develop a roadmap for payment system improvement.
42. In terms of execution of the roadmap, the Fed notes that this will require 'active partnerships' with industry stakeholders, and that a 'multifaceted engagement approach' will be applied during implementation to 'seek input, promote outcome and secure industry participation'.³⁵ More specifically, this will involve:
- Participation in industry meetings, speaking engagements and Fed events which will keep the industry aware of progress and promote outcomes.
 - The use of standing Fed- and industry-groups to provide input and support strategy work.
 - The creation of new advisory councils and workgroups to support specific strategic initiatives in areas where there is a need for sustained engagement and industry collaboration.
43. A related initiative consulted on involves the establishment of a U.S. Payments Advisory Council, the purpose of which would be to 'guide industry direction on strategic issues and influence the successful implementation of the Federal

³⁵ Federal Reserve Financial Services, 2014. 'Advancing the Federal Reserve Financial Services Strategic Direction'. Payment System Improvement Town Hall, June 2014. Page 47.

Reserve's "roadmap" for payment systems improvements.³⁶ In particular, the Council would be charged with helping to set priorities in relation to matters such as payment speed, safety/security and the efficiency strategies as contained in the roadmap. The Council would be comprised of CEO-level industry participants from across a broad spectrum of payments industry stakeholders. It would meet at least twice a year and, if needed, on a more frequent basis.

44. Alongside the Advisory Council, industry advisory and sub-working groups could be formed to advance specific areas of work and to assist with the execution of specific strategies in the roadmap. This might include: a Faster Payments Council (charged with developing a detailed roadmap and execution plan for faster payments); a Directory Working Group (to consider options, and develop a detailed design proposal, for directories); a B2B Vendor Council (to promote interoperability and adoption of B2B standards); a Payments Security Council (to consider and seek consensus on how to address security issues); and a Working Group on Mobile Payments Security (to develop a holistic framework for end-to-end mobile and digital payment security).
45. According to the Fed, the feedback received from the consultation suggested strong support for industry councils, with such councils and working groups comprising a diverse group of members of the payments community (including small businesses, small financial institutions and technology providers).³⁷ There was also a call for mechanisms to allow those not participating in the councils to have input, and for the councils to face aggressive time-frames to get things accomplished. Some questions were raised, however, about the restriction of membership of councils to CEO level (on the basis that payments were not a priority for most CEOs) and as to how the councils and working groups would coordinate themselves so that their work is complementary and directed toward the wider goals.

³⁶ Ibid. Page 48.

³⁷ Federal Reserve Financial Services, 2014. 'Advancing the Federal Reserve Financial Services Strategic Direction'. Payment System Improvement Town Hall, June 2014. Page 51.