Negative: Fed Now Payment Processing – not a problem

By “Coach Vance” Trefethen

***Resolved: The United States Federal Government should substantially reform its banking, finance, and/or monetary policy***

Summary: The system by which banks settle the transfer of funds through checking accounts and other transfers is complex. People expect that when they deposit a check in their bank, they should have the money immediately, or when they do an electronic transfer it should arrive immediately. Making that happen is not as easy as it sounds. The Federal Reserve is rolling out a new system called FedNow to facilitate real-time, near instantaneous transfers of funds to make the banking system more efficient. AFF plan cancels this new program.

Negative: Fed Now Payment Processing – not a problem 2

HARMS / SIGNIFICANCE 2

1. A/T “Harms private sector” – Private sector endorses FedNow 2

Private sector LOVES FedNow, even banks want it because businesses and consumers benefit 2

2. A/T “Private sector” – FedNow makes private sector work better 2

Nationwide real-time settlement system would enhance services available from the private sector 2

3. A/T “Fed Now becomes a monopoly” 2

Already have a monopoly: One payment system run by big institutions. Fed Now SOLVES for monopoly 2

Private sector monopoly is worse than FedNow: They can discriminate against small banks, while FedNow serves everyone 3

SOLVENCY 3

1. A/T “Private sector solves better” 3

Private sector should have solved by now: We lag far behind other countries 3

DISADVANTAGES 3

1. Harms the poor 3

Link: FedNow is a big help to the poor because it gets their money available to them faster, in time to pay bills at the end of the month 3

Impact: Poor are harmed when money isn’t transferred promptly 4

Impact: Late fees and bounced check charges harm the poor 4

2. Alternative is FaceBook 4

Link: Purpose of FedNow is to give the public an alternative to Face Book for payment processing 4

Impact: Facebook will create high risk of financial system crash 4

3. Systemic Risk. Settlement system could crash in times of crisis if we don’t do FedNow 5

Link: Federal Reserve payment system would reduce the buildup of risk 5

Link: FedNow would be safer than Status Quo for avoiding systemic risk 5

Brink: Buildup of risk is growing, if we don’t come up with a 24/7 real-time system. 5

Impact: US economy crippled 6

4. Fragmentation & Inefficiency 7

Link: AFF wants to wait and let private sector come up with solutions 7

Link: Waiting and not-doing FedNow = fragmentation and inefficiency 7

Impact: Net Benefits. The entire banking system is better off with FedNow than without it 7

Negative: Fed Now Payment Processing – not a problem

HARMS / SIGNIFICANCE

1. A/T “Harms private sector” – Private sector endorses FedNow

Private sector LOVES FedNow, even banks want it because businesses and consumers benefit

CNN Business 2019 (journalist Clare Duffy) 5 Aug 2019 “The Fed is getting into the real-time payments business” <https://www.cnn.com/2019/08/05/investing/fed-real-time-payments/index.html>

Business leaders lauded the Fed's announcement. Retailers, community banks, technology firms and consumers have been asking for such a service, the Retail Industry Leaders Association said in a statement. It noted that the current system can force businesses to rely more heavily on credit, and impose higher fees for transfers or bill payment on consumers. And although the Fed's system could compete with the solution developed by large banks, the American Bankers Association also released a statement in support of the announcement. "We believe every bank in the country and their customers will benefit from a seamless and ubiquitous system," American Bankers Association CEO Rob Nichols said in the statement. "We hope today's decision by the Federal Reserve to create its own real-time payments network will speed that transition."

2. A/T “Private sector” – FedNow makes private sector work better

Nationwide real-time settlement system would enhance services available from the private sector

Lael Brainard 2018 (Governor on the board of the Federal Reserve) *Supporting Fast Payments for All 3 Oct 2018* <https://www.federalreserve.gov/newsevents/speech/brainard20181003a.htm>

The development of a nationwide real-time interbank settlement infrastructure could also support the development of private-sector faster payment services, thereby increasing innovation and choice in the market. Banks and technology providers of all sizes may be able to develop new services or enhance existing services by capitalizing on the underlying interbank settlement infrastructure. This could ultimately benefit all consumers by lowering costs, increasing choice, and improving quality.

3. A/T “Fed Now becomes a monopoly”

Already have a monopoly: One payment system run by big institutions. Fed Now SOLVES for monopoly

Ron Shevlin 2019 (Managing Director of Fintech Research at Cornerstone Advisors ) The Federal Reserve Is Too Late To The Real-Time Payments Party 12 Aug 2019 <https://www.forbes.com/sites/ronshevlin/2019/08/12/real-time-payments/#450c8f7c444f>

The Fed's announcement was heralded as a victory for community banks and credit unions who are, understandably, wary about playing ball with the large bank-owned The Clearing House, which already processes payments in real-time. [According](https://financialregnews.com/fed-to-launch-real-time-payment-and-settlement-service/)to Independent Community Bankers of America (ICBA) CEO Rebeca Romero Rainey:  
The Fed’s decision to develop a real-time settlement system will benefit consumers and serve as a launchpad to future payments innovations. A Fed-operated system will avoid the risk of having only one, for-profit settlement service run by the nation’s largest financial institutions. This will expand access to more banks.”

Private sector monopoly is worse than FedNow: They can discriminate against small banks, while FedNow serves everyone

Lael Brainard 2019 (Governor on the board of the Federal Reserve) 5 Aug 2019 “*Delivering Fast Payments for All”* <https://www.federalreserve.gov/newsevents/speech/brainard20190805a.htm>

FedNow will allow faster payments to reach banks of all sizes and their customers across the country, which is especially important for rural communities, who often struggle with access to financial services. Guided by our public mission, the Federal Reserve serves the needs of all banks, no matter how small or challenging to reach, and with competitive fairness. In response to our request for feedback last November, several commenters emphasized how much they value the Federal Reserve's mission of providing nationwide access on fair, transparent terms and expressed concern that a sole private-sector RTGS service provider may be less likely to exhibit the same commitment over the long run.

SOLVENCY

1. A/T “Private sector solves better”

Private sector should have solved by now: We lag far behind other countries

House Committee on Financial Services 2019 (report issued by the Committee, prepared with the assistance of Cheryl R. Cooper, Marc Labonte, and David W. Perkins from the Congressional Research Service) September 26, 2019, “The Future of Real-Time Payments”<https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-20190926-sd002-u2.pdf>

A thorough RTP system is still emerging in the United States. Fed Chair Jerome Powell stated, “the United States is far behind other countries in terms of having real-time payments available to the general public.” Nonetheless, there are several private sector initiatives underway, some which would make funds available to the recipient in real time (with deferred settlement) and some of which would provide real-time settlement. However, for the most part, a bank-to-bank electronic payment today, is settled on the same or next business day.

DISADVANTAGES

1. Harms the poor

Link: FedNow is a big help to the poor because it gets their money available to them faster, in time to pay bills at the end of the month

CNN Business 2019 (journalist Clare Duffy) 5 Aug 2019 “The Fed is getting into the real-time payments business” <https://www.cnn.com/2019/08/05/investing/fed-real-time-payments/index.html>

This new system would help cut down on the amount of time between when money is deposited into an account and when it is available for use. FedNow would operate all hours and days of the week, with an aim to launch in 2023 or 2024. Under the current system, the process of sending and receiving money can take up to 72 hours, leaving businesses and consumers, and especially low-income people, in limbo. For example, the current system can create problems for people paid by check at the end of a month, because they must deposit the check into their bank accounts and wait for it to be cleared before they can use that money to pay a utility bill at the start of the next month.

Impact: Poor are harmed when money isn’t transferred promptly

Lael Brainard 2018 (Governor on the board of the Federal Reserve) *Supporting Fast Payments for All 3 Oct 2018* <https://www.federalreserve.gov/newsevents/speech/brainard20181003a.htm>

While everyone stands to benefit from faster payments, the benefits could be especially important for households and small business owners who face cash flow constraints. We know from the Fed's Survey of Household Economics and Decisionmaking that four in 10 adults say they would need to cover an unexpected expense of $400 by borrowing or selling something, or simply be unable to pay. A forthcoming Fed research note estimates that a quarter of households have less than $400 combined in their bank accounts. For these households, the difference between waiting for a payment to clear and receiving a payment in real time is not merely an inconvenience; it could tip the balance toward overdraft fees, bounced checks, or collections fees.

Impact: Late fees and bounced check charges harm the poor

John Berlau, 2011. (director of the Center for Investors and Entrepreneurs at the Competitive Enterprise Institute.) “The 400 Percent Loan, the $36,000 Hotel Room, and the Unicorn” February 6, 2011. https://cei.org/sites/default/files/John%20Berlau-The%20400%20Percent%20Loan.pdf

Thus, the alternatives most in competition with payday loans are the unattractive options of bounced checks, overdraft fees, and late fees on bills. And if these charges were treated as “interest” rather than “fees,” and measured via the same APR sophistry that has been used to attack payday lenders, their APRs would often well exceed those of payday loans. As Federal Reserve Bank of Kansas City Senior Economist Kelly Edmiston points out, the median interest rate for bounced check fees—if they were measured as interest payments—would be “well in excess of 4,000 percent, or up to 20 times that of payday loans.”

2. Alternative is FaceBook

Link: Purpose of FedNow is to give the public an alternative to Face Book for payment processing

CNN Business 2019 (journalist Clare Duffy) 5 Aug 2019 “The Fed is getting into the real-time payments business” <https://www.cnn.com/2019/08/05/investing/fed-real-time-payments/index.html>

And individuals can now instantly transfer funds to one another through apps like Venmo and PayPal, although those services often charge customers to make those funds immediately accessible in their bank accounts. Existing real-time payment systems also typically notify payers immediately that their money has been received. But those perks have yet to extend to every financial institution and business across the country. That's been one of the arguments for blockchain-based payment systems like Facebook's ([FB](https://money.cnn.com/quote/quote.html?symb=FB&source=story_quote_link)) [Libra](https://www.cnn.com/2019/07/16/tech/facebook-libra-crypto/index.html), which would circumvent the need for third-party payment settlement. During [two Congressional hearings](https://www.cnn.com/2019/07/17/tech/libra-house-hearing/index.html) on Libra last month, some lawmakers called on the Fed to create a real-time payment system itself rather than having to rely on a network developed by Facebook.

Impact: Facebook will create high risk of financial system crash

David Z. Morris 2019. (financial journalist) “Facebook’s Libra Currency Could Threaten the Global Financial System. Here’s How“ 18 July 2019 (brackets in original; “Christensen” is Lars Seier Christensen, an experienced currency trader and founder of Saxo Bank, a Danish investment bank.)

Libra’s possibly huge size would make it a threat to more than just its own holders. “Let’s say one of these [Libra Reserve] assets began to fail, for whatever reason,” Christensen says. “Presumably, if people began to reclaim the counter value of the Libra, [the Reserve] would actually have to start wholesaling the other assets for the shortfall in the original failing asset.” A large enough selloff, even of national currencies and short-term government bonds, could be a shock to the broader market. A scenario along these lines seemed to be on the minds of House Financial Services Committee members on Wednesday. Rep. Gregory Meeks (D-N.Y.), for instance, recalled the “absolutely terrifying” unfolding of the 2008 financial crisis, and argued that if even 10 percent of Facebook users began using Libra, “that would absolutely make [Libra] a systemically risky financial institution, and we would expect FSOC [the Financial Services Oversight Council] to designate you as such,” subjecting Libra to heightened ongoing scrutiny by regulators.

3. Systemic Risk. Settlement system could crash in times of crisis if we don’t do FedNow

Link: Federal Reserve payment system would reduce the buildup of risk

Lael Brainard 2018 (Governor on the board of the Federal Reserve) *Supporting Fast Payments for All 3 Oct 2018* <https://www.federalreserve.gov/newsevents/speech/brainard20181003a.htm> (brackets added)

A 24/7 RTGS [real-time gross settlement] service provided by the Reserve Banks could significantly improve the prospect that banks of all sizes will have equitable access to a real-time interbank settlement infrastructure for faster payments in the long term. This common infrastructure would support connections across banks, and faster payment service providers acting as their agents, with the potential to weave together the current patchwork of systems. As a result, we would also expect the overall safety of faster payments to increase. The capability to finalize interbank settlement before funds are made available to the recipient would avoid an undesirable buildup of risk in the system. The more banks that have access to real-time as opposed to deferred settlement mechanisms, the lower the risk would be from deferring settlement to the payment system as a whole. Although RTGS may be operationally demanding, it offers clear benefits from a risk and efficiency perspective over the long term.

Link: FedNow would be safer than Status Quo for avoiding systemic risk

Lael Brainard 2019 (Governor on the board of the Federal Reserve) 5 Aug 2019 “*Delivering Fast Payments for All”* <https://www.federalreserve.gov/newsevents/speech/brainard20190805a.htm>

Safety is also vital. If the Federal Reserve does not establish the FedNow Service, there will be a single provider of real-time retail payment services. We are mindful of the serious safety issues associated with a single point of failure, a risk that will rise as faster payments grow. Stakeholders have noted the importance of having access to more than one real-time payment service for back-up purposes in order to provide resiliency through redundancy. In fact, many banks already take advantage of having connections to multiple operators today in check, ACH, and wire services. The Federal Reserve has always had a vital role in promoting the safety and stability of the U.S. payment system by providing liquidity and operational continuity especially in times of stress. The FedNow Service would allow the Federal Reserve to extend this role into the real-time retail payment market.

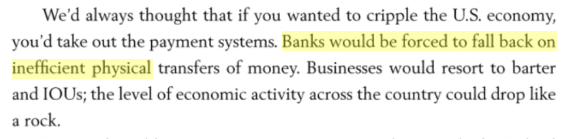
Brink: Buildup of risk is growing, if we don’t come up with a 24/7 real-time system.

Lael Brainard 2018 (Governor on the board of the Federal Reserve) *Supporting Fast Payments for All 3 Oct 2018* <https://www.federalreserve.gov/newsevents/speech/brainard20181003a.htm>

Today's systems that transfer funds between banks are not set up to work in a 24/7, real-time world. Instead, most faster payments settle funds between banks on a deferred basis. Deferred settlement entails a buildup of obligations--like IOUs between banks--that could present real risks to the financial system in times of stress. Although faster payment systems that rely on deferred settlements can incorporate certain measures to mitigate these risks, these measures may be appropriate for a nascent faster payment market only for a limited time. As we saw with the avalanche of paper checks prior to ACH, as the volume and value of faster payments grow over time, the potential risks of deferred settlement to the financial system are also likely to grow.

Impact: US economy crippled

Alan Greenspan 2007 (former chairman of the Federal Reserve) The Age of Turbulence: Adventures in a New World <https://books.google.com/books?id=WcebhdfeC34C&pg=PA2&lpg=PA2&dq=%22Banks+would+be+forced+to+fall+back+on+inefficient+physical+%22&source=bl&ots=Ls8I02YWVU&sig=ACfU3U0tkqQrCXoWVoFqQtAb0kLohgAlxg&hl=en&sa=X&ved=2ahUKEwjFn9y60pjoAhWyhXIEHW-qDbIQ6AEwAHoECAgQAQ#v=onepage&q=%22Banks%20would%20be%20forced%20to%20fall%20back%20on%20inefficient%20physical%20%22&f=false>



4. Fragmentation & Inefficiency

Link: AFF wants to wait and let private sector come up with solutions

That’s the goal of their plan.

Link: Waiting and not-doing FedNow = fragmentation and inefficiency

Lael Brainard 2018 (Governor on the board of the Federal Reserve) *Supporting Fast Payments for All 3 Oct 2018* <https://www.federalreserve.gov/newsevents/speech/brainard20181003a.htm>

The future of payments will be determined by the actions we take today. We can wait and watch how these issues evolve on their own. But this will likely result in a fragmented patchwork of systems that entails inefficiencies and risks and could leave behind many households, small businesses, and smaller banks. Alternatively, we can work with other stakeholders to embrace innovation and design a faster payments infrastructure for the future to promote broad access and resilience. As technological change continues to drive payments innovation, we continue to focus on the same basic objective that motivated our initial engagement in the payment system a century ago: promoting a safe, efficient, and accessible payment system that serves the interests of all Americans. The Fed has the unique ability to provide the infrastructure to reliably settle obligations between banks using balances at the central bank.

Impact: Net Benefits. The entire banking system is better off with FedNow than without it

Lael Brainard 2019 (Governor on the board of the Federal Reserve) 5 Aug 2019 “*Delivering Fast Payments for All”* <https://www.federalreserve.gov/newsevents/speech/brainard20190805a.htm>

 We received more than 350 comments on a Federal Reserve faster payment service, representing nearly 800 organizations. Fully 90 percent of these comments called for the Federal Reserve to operate a real-time service for faster payments. Support came from a wide range of stakeholders, including individuals, merchants, fintech firms, and banks.[4](https://www.federalreserve.gov/newsevents/speech/brainard20190805a.htm#fn4) Commenters noted that the Federal Reserve would ensure equitable access to banks of all sizes nationwide by operating a real-time service for faster payments alongside the private-sector system. Commenters highlighted the importance of safety in faster payments and noted the Federal Reserve's record of resiliency, especially during periods of stress. Commenters observed that a Federal Reserve real-time retail payment service would increase competition, decrease market concentration, and provide a neutral platform for innovation.