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The Federal Reserve is seeking comment on if it should provide real-time interbank payments. As a matter of public policy the Federal Reserve shouldn't be a payments operator where the private sector can adequately and competitively serve. Where the private sector isn't serving, the Fed should first look to facilitate the private sector doing so, rather than delivering payment systems itself. But, if the Fed not providing real-time interbank payments means a Clearing House monopoly, the Fed should step up.

Large banks' cooperative the Clearing House and the Fed are the only traditional US ACH operators. Part of the rationale for the Fed providing ACH processing is to ensure smaller banks have adequate access and that there's a modicum of competition.

In 2017 the Clearing House introduced a real-time interbank payments service, priced identically for large high-volume and small low-volume banks, at least partly to signal the Fed there was no need for it to enter the market.

However, having a sole provider, even for what some might view as base payments infrastructure, isn't desirable. The Fed would be a logical second real-time-payments processor.

Still there are private-sector payment networks and processors serving US banks with the wherewithal and perhaps the interest to compete in the US instant interbank payments market. Mastercard is the UK's monopoly interbank real-time payments processor. It has direct or indirect processing relationships with US banks large and small. And interbank processing while not retail, decidedly, is a network business. Assuming it's not restricted by its relationship with the Clearing House, Mastercard would bring much to the domestic interbank payments market plus have a plausible path(s) to interoperability with national payment systems planet-wide. Other possible providers include Visa, FIS, Fiserv and even software gorilla ACI Worldwide.

There is downside to the Fed entering the market. If the Fed competes in instant interbank payments it would deter other private-sector parties from undertaking to serve the market.

The Fed could sell its entire interbank payment processing business to a private-sector payments processor or network with the condition the buyer offer real-time interbank payments.

The objective should be multiple (ideally private-sector) providers, but having the Fed compete to provide real-time interbank payments, would be better than relying on one private-sector provider.