A transfer from a consumer’s bank or prepaid account involves three elements: (1) an end-user service, (2) a clearing service, and (3) an interbank settlement service. The Federal Reserve Board has described these services as follows:

An end-user service includes the tools that an individual or business uses to conduct a payment. For example, an individual wishing to pay a bill to a utility company or send money to a friend may be able to do so through a mobile phone application. Similarly, a business may be able to initiate a payment to a vendor through a bank’s website. Such services allow an end user to communicate with their bank about the need to make a payment and the details of that payment. In other words, end-user services support the exchange of payment messages and other information between a bank and its end-user customers. End-user services also include other critical aspects of the overall payment experience for an individual or business, such as error resolution procedures and security measures to mitigate fraud.

Clearing services and interbank settlement services constitute the infrastructure underlying payment services involving bank accounts. These services and the activities they perform may not be apparent to end users, but they are crucial to the transfer of information and value between banks, so that the sender of a payment can satisfy their obligation to the recipient of a payment.

In clearing services, the sending and receiving banks interact, possibly through an intermediary such as a clearing house, based on the payment information received from end users and the protocols associated with a payment service. A key element of this interaction is the exchange of the payment message between the sending and receiving banks. The payment messages that are exchanged contain the necessary information for banks to make appropriate debits and credits to the accounts of their end-user customers and to notify their customers of those adjustments to account balances.

Finally, in interbank settlement services, the sending and receiving banks transfer assets to each other to satisfy the interbank obligations that arise from end-user payments. Settlement takes place by adjusting the balances in banks’ settlement accounts on the books of a settlement institution. For example, interbank settlement can be performed by directly adjusting balances in accounts that banks hold with the central bank or a commercial bank.11

Footnotes


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