

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

Comment ID: 132945

From: Anthony Leem

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Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Comments:

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Dear Ann Misback,

In regards to the proposal for faster interbank settlement, I would like to rebut an argument (against the proposal) raised by Mr. Davey of The Clearing House in an October 2018 article on Digital Transaction News (<http://www.digitaltransactions.net/as-the-fed-mulls-an-entry-into-real-time-payments-a-tch-executive-flashes-a-caution-flag/> [http]).

In the article Mr. Davey argues that a solution for faster payments would have a difficult time competing against the "Real Time Payments" (RTP) system developed by the Clearing House. He cites that RTP's pricing is already very low and that the costs involved in developing proprietary technology would be too high.

While Mr. Davey's arguments may be valid, I disagree with his position, which is predicated on the notion that a solution developed by the Federal Reserve would directly compete against that which has already been developed by The Clearing House.

The reason for this is simple. RTP, as it is built today, cannot support the various features that ACH accommodates, such as (1) ubiquity and (2) debit transactions based on prior authorization.

(1) RTP requires bank participation for both the sender and the receiver on a new "rail". Because RTP is predicated on a secure communication channel through which "requests for payments" must be initiated and received, many community banks and credit unions would be excluded, if their technology was not fully integrated to allow for online money management services and secure message portals.

(2) RTP requires that a "request for payment" be initiated by the sender. There is no way for the sender to directly debit a customer's bank account using prior authorization and his/her bank account details. Instead, RTP is a system by which the receiver must participate on every transaction. While this is in line with CFPB guidelines and therefore ideal for P2P and even supplier payments, which are inherently sporadic and on-demand, many accounts receivable departments across the country would still favor ACH, especially if their customers were enrolled in autopay. It seems like RTP would only allow for credit transactions (from receiver to originator), which limits the scope of RTP.

Therefore, given that there is still no perfect alternative to ACH, I am in favor of any measures that may be taken by the Federal Reserve to speed up interbank settlements over the ACH Network. I believe the solution would require the following: (1) expanding same-day ACH beyond the \$25,000 limit, and (2) instant account (and balance) verification to eliminate certain ACH Return Codes, chief among them, R01-R04. The latter would require the buy-in of all RDFIs, but the technological prerequisites would be fewer than RTP's. It is my understanding that NACHA's Payments Innovation Alliance is already developing standardized open-source APIs for all depository financial institutions, which could help make this a reality.

These are my personal opinions, qualified by my involvement in the ACH Network, as a third-party sender.

Thank you,

Anthony Leem[http]