



THE VOICE OF FOOD RETAIL

Feeding Families  Enriching Lives

December 14, 2018

Ann Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.,
Washington, DC 20551

Re: Docket No. OP-1625; Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments

Food Marketing Institute (FMI) is pleased to share its comments on the Federal Reserve Board's "Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments." As the trade association representing the U.S. grocery and wholesaler industry, FMI thanks the Board for its continued interest in improving our payments system and active engagement with all stakeholders throughout the payments chain.

As a point of reference, FMI proudly advocates on behalf of the food retail industry, which employs nearly 5 million workers and represents a combined annual sales volume of almost \$800 billion. FMI member companies operate nearly 33,000 retail food stores and 12,000 pharmacies. FMI membership includes the entire spectrum of food retail venues; single owner grocery stores, large multi-store supermarket chains, pharmacies, online and mixed retail stores. FMI members report that 32% of transactions in their stores are processed using credit cards, coming in only second to the 36% of transactions that were debit cards.

In 2017, according to The Nilson Report, 54.37% of all electronic transactions were processed using credit cards. In dollar figures, U.S. retailers accepted \$3.597 trillion in credit card payments, up 7.3% from the prior year. While the increased use of credit cards in our members' stores have helped create some efficiencies for both the customer and grocer, many challenges remain. In addition to the continued and unchecked increase in cost of accepting credit cards, retailers are often left waiting multiple days before settlement and receiving payment for goods sold. While the grocery industry survives on a less than 2% profit, on average, this delay in settlement ties up billions of dollars trapped in transit between banks rather than being in a retailer's account to provide liquidity and resources needed to conduct and grow their business. Even more concerning is the growing disadvantage that delayed settlement is imposing on U.S. retailers in the global market. Once again, U.S. retailers find themselves at a competitive disadvantage while other countries move to innovate and implement real-time settlements. With the growth in e-commerce, this competitive disadvantage will only expand if it is not addressed now.

With these pain points in mind, FMI was pleased to see the Board's consideration in developing a 24x7x365 settlement service in order to implement real-time interbank settlement services. FMI also supports the implementation of the Real Time Gross Settlement (RTGS) model here in the U.S. Additionally, FMI supports the Board implementing add-on services, such as directories allowing users to use aliases or other credentials beyond account numbers. Time is of the essence, and FMI encourages the Board to move swiftly in building and launching a RTGS system without delay.

Launching a domestic RTGS system will have a clear public benefit, with the customer having real-time credit balance information and U.S. retailers with immediate access to funds and greater liquidity. Additionally, when a customer is issued a refund, he or she will have real-time access to those funds as opposed to waiting multiple days as they do today. Furthermore, we believe it is appropriate for the Board to implement this system, as no single private player in the market will achieve the ubiquity, scale and breadth demanded by our economy.

While FMI sees this as an essential first step to help our members continue to compete on the quickly evolving global market, we also see this as a first, not last step. FMI encourages the Board to continue to study other models across other markets including enabling non-banks to initiate payments using a common interface or set of open APIs, enabling even more robust competition and innovation.

In its request for comment, the Board thoughtfully asked what other ideas it should consider to achieve the broader goal of faster, ubiquitous payments. In that vein, we must look at the entire payments marketplace. Unfortunately, the U.S. payments industry lacks true competition, innovation and transparency, leaving legacy players content with the "status quo" of an unjustifiably expensive and antiquated payments system. FMI supports the Board, in addition to this work on real time payments, investigating the market inhibitors that have a chilling effect on competition and innovation. Building RTGS is a market-based approach, and we would encourage the Board to also consider leveraging its regulatory authority by revisiting Regulation II and further reducing the fee standard established by the Board to properly reflect the true costs of processing on behalf of the issuing banks and in turn spurring growth in competition and innovation.

Payments in the U.S. systematically lag behind our global competitors. In addition to the above topic of real-time settlement, the U.S. remains the global leader in payment card fraud. FMI is encouraged by the Board's interest in a multi-pronged approach to innovation that will address many of these pain points. Thank you again for the opportunity to share our thoughts on behalf of the grocery industry, and we look forward to a continued dialogue moving forward.

Sincerely,



Hannah Walker
Senior Director, Technology & Nutrition Policy