Payments
Modernization
Alliance

December 14, 2018

Ms. Ann E. Misback
Secretary
Board of Governors of the
Federal Reserve System
Washington, DC 20551

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

Dear Madam:

We are pleased to submit this comment letter to the Federal Reserve Board (the "Board") regarding its Request for Comments on Interbank Settlement. The Payments Modernization Alliance ("PMA") supports the Federal Reserve Banks in their initiative to provide a real-time, always-available, 24x7x365 interbank financial settlement system. This service is a necessity in modernizing the banking and payments infrastructure within the US, and the Federal Reserve is the only entity with the reach to make such a system ubiquitous.

The PMA wholeheartedly supports the modernization of payments infrastructure in every method and form. History has shown that there is no "silver bullet" in payments. With hundreds of different use cases and payment scenarios that transpire every single day, the Board's efforts to improve the foundations of this country's payments modalities needs to consider this great breadth of uses. Further, the Board should look to the private sector and support innovative new strategies that the market brings forth, and the Board should concentrate its efforts on low-hanging fruit to provide the most benefit for the least cost to the Federal Reserve, private sector payments providers, and especially for the end users of our payments systems.

In the US, for consumer payments, cash remains the undisputed king. Recent research by PYMNTS entitled "The Global Cash Index: US Edition" concludes that: "While Americans' digital transactions are now powered by a variety of payment methods … no single digital payment method has managed to match or unseat cash usage levels."

Meanwhile, for business payments, the paper check has reversed its declining trend and is now gaining market share of business payments, according to the Association for Financial Professionals (AFP). The AFP concludes that paper checks have found a resurgence because businesses perceive massive hurdles in adopting electronic payments mechanisms. According to Wells Fargo Treasure Insights, the key reasons for lack of adoption of electronic payments are:

1. The technology of electronic payments is too complicated. This goes to the design of electronic payments systems. From ACH to Wires and all the way to Bitcoin, many electronic payments systems are machine-centric rather than human-centric. Such an approach creates fear, uncertainty, and doubt within the businesspeople who are asked to change their ways.
2. The cost of implementation is too high. For a business adopting electronic payments, this goes beyond the IT investment needed to integrate the new payment software, but includes the retraining and retooling costs inherent in completely changing the business' back office processes and procedures.
3. The need to obtain the account number of the payee. Given the rightful fear of fraud and the financial catastrophe that could ensue, businesses are reluctant to share their sensitive bank account information with their clients.
4. The loss of necessary remittance information. Electronic payments methods from ACH to Wires to Cards all lack the ability to provide anything more than very limited remittance information with the payment. For a business to adopt an information poor payment mechanism compared to their existing method oftentimes is simply too large a hurdle to jump.

In order for a new Interbank Settlement system to be successful, it needs to support end-user payments methods that address these key 4 concerns. We would like to draw the Board's attention to the absence of "settlement speed" as a hurdle to adoption of electronic payments. So, while we firmly believe that the US as the world leader in technology and innovation does absolutely need to update our payments systems to join the rest of the world in real time interbank settlement, we want to offer that processing speed alone will not drive the adoption of this new payment infrastructure.

Furthermore, we are concerned that the focus on a credit-push only system will severely hinder adoption of real-time payments within the business world. The United Kingdom (UK) has provided real-time credit push capabilities for over 10 years, and so the UK serves as a useful example from which we can draw key insights. And, the conclusions to be drawn from the UK experience portend a dismal future for credit-push payments. Over the past 10 years, not only have the total number of debit-pull payments dwarfed credit-push payments by a ratio of 4.5-to-

1, but the growth of debit-pull payments has outpaced that of credit-push payments by 9.2 times. That is, not only are debit-pull payments greatly preferred over credit-push payments, but the preference for debit-pull is actually strengthening, despite the introduction of real-time credit push.

While the guidance to the Faster Payments Task Force remained neutral on the question of credit-push versus debit-pull, the platforms that have emerged out of the efforts by the task force have exclusively focused on credit-push. We believe this presents a tremendous opportunity for the Board to intervene and through the Federal Reserve Banks to support and provide a more broad-based and inclusive view of real-time payments, one that supports both credit-push and debit-pull modalities.

With that in mind, the PMA would like to address the Board's specific question: "What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?"

In order to achieve broad, ubiquitous coverage, the Board should first consider the most likely adopted methods of real-time payments. The greatest adoption will occur where the value is greatest while the investment in terms of cost and time by the end-users is minimized. Today, businesses rely on paper checks. Over 50% of large corporate payments are done by paper check; Roughly 65% of payments by mid-sized companies are done by paper check; and over 85% of SMB payments are still made by paper check, according to Phoenix-Hecht. Therefore, for a real-time payment system to be successful, it needs to be a reasonable alternative to paper checks. As outlined above, credit-push systems (such at ACH and Wires) have not supplanted paper checks despite decades of industry effort. Making such options faster are unlikely to change that outcome.

Instead, the PMA would like to recommend that the Board take a fresh look at new alternatives and cast a wide net over all digital payments concepts in order to span this divide and empower businesses to leave behind their paper checks and embrace digital payments. It is our belief that Electronically Created Items (ECIs) provide the best possible option for mass adoption of digital payments by businesses. ECIs mitigate the 4 key objections that have historically hampered the adoption of electronic payments. ECIs require little to no investment on the part of the business payor to adopt. ECIs work within a businesses existing back office processes. And, ECIs can provide the same rich remittance information that businesses expect to receive with their business payments.

In recent research publish by BAI, small business owners were asked about their interest in ECIs, and the results were shocking. The survey asked, "How interested would you be in using digital checks (ECIs) to make payments?" 100% of businesses surveyed responded as either very or somewhat interested. Not a single business was uninterested in migrating from paper checks to ECIs. Meanwhile, 70% of small business owners indicated that they would be willing to pay for bank products (like ECIs) that save time and increase convenience.

Given the market failure of credit-push systems here in the US and across the globe, and the market appetite for ECIs, we at the PMA urge the Board to support this new alternative digital payment mechanism. Coupled with the real-time gross settlement system contemplated, the Board has a once-in-a-lifetime opportunity to drive payments modernization and help businesses save over $29 Billion annually in unnecessary costs.

We at the Payments Modernization Alliance applaud the Board for its courage to undertake the hard work of improving our payments infrastructure, and we thank for Board for this opportunity to provide comments regarding interbank settlement changes being contemplated.

Sincerely,

Kenneth D. Kruszka

Chairman

The Payments Modernization Alliance is a payments industry consortium of organizations and individuals with deep experience in banking, payments, and money movement. Our members span all forms of payments, domestic and international, including credit cards, debit cards, electronic funds transfer, remittances, and blockchain. Our members have played leading roles in the crafting of the legislation and regulation from Electronic Funds Transfer Act of 1978 to the Dodd-Frank Wall Street Reform and Consumer Protection Act and beyond. We are dedicated to building and improving payments experiences and infrastructure for the benefit of all parties in order to remove unnecessary costs and eliminate payments fraud.