



Montecito Bank & Trust's response to the Federal Register's  
Request For Comments

Docket #OP-1625

Q1) Is RTGS the appropriate approach for interbank settlement of faster payments?

- A. Montecito Bank & Trust believes a FRB-provided RTGS system of interbank settlement is critically needed, particularly by smaller financial institutions (FIs), to support efficient universal access to faster payment options for our customers and to reduce risk for all. The Fed must control the payment system if it hopes to solve faster payments for all financial institutions, making access to faster payments equitable and ubiquitous across the US.

Q2) Should the FRB develop a liquidity management tool?

- A. Yes. Although most financial institutions likely have already implemented various tools by which to manage their liquidity positions, the introduction of real time payments would increase the need for real time liquidity management. Having a universal platform or tool would insure that the Fed and other regulatory bodies have visibility into the liquidity positions of all financial institutions.

Q3) How should a 24/7/365 service be developed?

- A. The primary imperative for the development of 24/7/365 RTGS is speed to market. Major financial institutions have already implemented Zelle; consumers have adapted very quickly to the ability to move money on demand and the demand for implementation by smaller FIs has been so overwhelming that the waiting list to implement Zelle through their core providers is more than 12 months. Montecito Bank & Trust recommends the Fed evaluate how it could partner with a trusted fintech provider of real time payments while owning and implementing the service. In doing so, the Fed could efficiently increase the speed to implementation, while taking advantage of existing, proven, as well as emerging technologies, that support fraud detection and mitigation, messaging, and speed of settlement.

Q4) What is the ideal timeline for implementation?

- A. This service should already be available through the Fed. The availability of Zelle, PayPal, Venmo, and other competitive payment systems has set an expectation for all consumers that everything should be “real time” and anything less is unacceptable. Community Banks without the resources to develop their own systems rely completely on their core providers and other fintech resources to help them compete. The costs are escalating annually to the extent that many smaller banks just cannot meet the demand for technological change. Community Banks who opt in to participate in the Zelle network are further disadvantaged by the expense of participation in the system. The Fed should own the system, making it accessible to all FIs at the same price point. The US is lagging behind other countries in this regard and consumers are seeking this service through alternative options offered by private payment service providers. Some banks have invested in privately-developed clearing networks like The Clearing House. Delivery of a fully functioning RTGS system must happen within the next 12 months.

Q5) What adjustments would banks need to make to accommodate the changes?

- A. Where there is money there is fraud. Fraudulent payments will quickly become a concern. Banks would have to create or contract the capacity to perform review and decisioning of payments that have been flagged as potentially fraudulent on a 24 X 7/365 basis. Artificial Intelligence (AI) could be a potential solution, and would be another opportunity for partnership with proven and trusted fintech providers. In a real time environment, it would not be acceptable to place suspicious transactions into a queue to be decisioned at a later time. 24X7/365 customer service would also be needed to support and troubleshoot payments happening in a “no downtime” environment.

There would likely be a need for increased resources within the FI to address the changes that would necessarily be a part of such a revolution to the payment system. The Fed could convene a working group of representatives from interested FIs to help develop the roadmap and implementation considerations.

Q6) Are fraud prevention services needed?

- A. Yes! Fraud is one of the biggest challenges that a RTGS payment system poses. It will be critically important to have at the very least, baseline fraud detection and mitigation capabilities inherent in an interbank real time settlement service. Likely, individual banks will also layer on additional fraud tools, but the real time settlement service must have real time fraud detection and disposition capabilities integrated into the system.