

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

Description:

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From: Community First Credit Union of Florida, Jennifer Butler Foiles

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

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Comments:

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Proposal: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments [OP-1625]

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Your comment: 1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not? Yes, Real Time Gross Settlement would prevent, if not eliminate, credit risk to financial institutions who want to participate in Real-Time Payments. Consumers and businesses already expect immediate gratification or fulfillment when it comes to sending and receiving payments. Therefore, in order to meet customer demand many financial institutions take on that risk in today's payments environment. There are existing payment systems that utilize deferred settlement so without improving interbank settlement through RTGS, RTP does not improve efficiency and safety in the payment system. That being said, deferred net settlement may be an introductory approach in order for Fed and participating financial institutions to accelerate implementation, specifically if the initial anticipated volume is of lower value. 2. Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not? Yes, it will allow financial institutions of all sizes, as well as their customers, to participate in a real-time payments network which will "even the playing field." It will also create a ubiquitous payments infrastructure. Many financial institutions already rely on the Federal Reserve for other payments channels so they have an established reputation as a trusted and reliable service provider. Lastly, by having a centralized governing body operating the RTP network it will maintain stability and control not only over the payment network but also over the economy as a whole. 3. If the Reserve Banks develop a 24x7x365 RTGS settlement service, a. Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments? Yes, there is sufficient demand for faster payments in today's environment. The sources of demand are consumers, businesses, and financial institutions alike. Transaction types are likely to include consumer-to-consumer, consumer-to-business, business-to-business, and business-to-consumer. b. What adjustments would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are

these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not? It depends on the size of the financial institution and their current processes. Many financial institutions already operate in a "real-time" environment. In addition, many financial institutions have automated processes so adjustments may be incremental for those institutions. However, there may be substantial adjustments for smaller institutions who rely on manual processes, or for those who still operate in an environment that "rolls over to the next business date." In any case, the benefits of being able to participate in the RTP network should outweigh the costs and potential disruptions. If the Federal Reserve and financial institutions are unable to make these adjustments they could become obsolete. Fintechs and other payment disruptors are likely to provide alternative solutions for businesses and consumers to send and receive faster payments. Lastly, the financial services industry must introduce a governing body (similar to NACHA) to establish, implement, and maintain rules or regulations for all participants (banks, customers, etc.) in the RTP network.

c. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain. The traditional financial services industry (Fed, banks, credit unions, etc.) must evolve and meet customer demand as soon as possible because there are competitors and innovators already developing solutions for faster payments. Although there are significant changes to consider the ideal timeframe should not exceed five years. Because many financial institutions have an existing relationship with the Federal Reserve, whether directly or through an intermediary financial institution, their action in faster payment settlement will hasten industry adoption. There are currently too many challenges for the majority of financial institutions to participate in The Clearing House's RTP network, whether it is due to fees, complexity, or overall lack of access.

d. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement? Depending on the RTP volume some adjustments may include core software updates, online banking and mobile application updates, additional staffing and extended hours of operation, updates to policies and procedures, customer education, deposit or membership agreements, ability to monitor fed accounts and transfer funds accordingly, enhancements in automated processes, and remote access capabilities. At this time, alternative solutions are unknown and the option to defer receipt of such information would need to be explored in further detail.

e. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks' master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement? Unfortunately further discussions is needed. No opinion at this time.

f. Regarding auxiliary services or other service options, i. Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as e-mail address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service? This could complicate the process. How would end-users update their information? What happens to end-users payments if and when the recipient's alias is incorrect or no longer accessible (ex: old email address or phone number)? In contrast, if a proxy database or directory were available to route end-user payments using an alias it could support financial needs for the unbanked community. That being said, it may result in compliance issues such as USA PATRIOT Act, Know Your Customer, and/or Customer or Member Identification Programs. If RTP utilizes existing bank routing and account information then implementation and industry adoption would be accelerated.

ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them? Third-party service providers already provide such services. As long as the RTP files are in a compatible format the current service providers could meet the fraud prevention/monitoring need.

However, if Fed provides a tool for financial institutions to communicate in real-time through a RTP directory it would assist in detecting and mitigating RTP fraud. Furthermore, the proposal for a shared database of fraudulent accounts would provide additional resources and safeguards for financial institutions.

iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted? Transaction limits are needed for initial implementation. It is comparable to Same Day ACH which initially set lower limits to accelerate industry adoption. As the industry becomes accustomed to Same Day ACH, transaction limits have been reevaluated and rules have been approved to increase those limits. Fed should take the same approach with RTP. Fraud detection tools and directory services are not critical for initial implementation and industry adoption. Bank and routing information can be used to send and receive payments. In addition many financial institutions have existing fraud detection tools.

g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity? Extremely critical. Interoperability equates to ubiquitous payments.

h. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should its use be restricted and, if so, how? Other purposes are unknown at this time. No opinion.

i. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation of a 24x7x365 RTGS settlement service? Yes, the Fed should establish focus groups for all those specific areas.

4. Should the Federal Reserve develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Reserve Banks? Why or why not? Yes. If Fed takes the RTGS approach for the RTP network then a liquidity management tool is critical so participants can monitor and manage their settlement accounts outside standard business hours. If this tool is unavailable, and the financial institution is unable to meet its obligations to fund RTP, then the end-user's transactions would be declined making the service worthless.

5. If the Reserve Banks develop a liquidity management tool, a. What type of tool would be preferable and why? i. A tool that requires a bank to originate a transfer from one account to another ii. A tool that allows an agent to originate a transfer on behalf of one or more banks iii. A tool that allows an automatic transfer of balances (or "sweep") based on pre-established thresholds and limits iv. A combination of the above v. An alternative approach Further discussion is needed but at this time a tool that allows banks to originate transfers from one account to another, or possibly a sweep account would be preferred. A sweep account may require less monitoring and management, specifically during non-business days and hours.

b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available? Further discussion and understanding of the functionality is needed. No opinion at this time.

c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how? No opinion at this time.

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why? The service and tools should be developed in tandem. If RTP operates as described the services go hand-in-hand. If one service supersedes the other then the 24x7x365 RTGS settlement should be the priority. Financial institutions may have an internal alternative solution to manage liquidity, whereas many financial institutions are unable to participate in the current RTP environment due to the exclusivity of the network.

7. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways? Yes, if the Federal Reserve pursues a 24x7x365 RTGS settlement service it would help achieve ubiquitous, nationwide access to faster payments. As previously stated, many financial institutions have relationships with and rely on the Federal Reserve as the Operator for other payment systems. There is trust, reliability, and efficient processes established. Because of these relationships participation and industry adoption would be greater than the existing RTP network. The existing RTP model provided by The Clearing House does not achieve ubiquity because there are so few participants. There are many challenges and extensive

fees involved in order to participate in that network. It is very exclusive. As a result, if any payments are submitted through the existing RTP network they are often routed through another legacy payment system such as debit card rails or through the ACH network. The Federal Reserve should facilitate RTP in order to provide widespread access to all end-users. 8. 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? No opinion at this time. 9. Beyond the provision of payment and settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system? No opinion at this time.