

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

Description:

---

Comment ID: 133043

From: First Central State Bank, Brigham Tubbs

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

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

---

Comments:

Date: Dec 12, 2018

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

Document ID: OP-1625

Revision: 1

First name: Brigham

Middle initial: L

Last name: Tubbs, CEO

Affiliation (if any): First Central State Bank

Affiliation Type: Commercial (Com)

Address line 1: 914 Sixth Ave.

Address line 2:

City: DeWitt

State: Iowa

Zip: 52742

Country: UNITED STATES

Postal (if outside the U.S.):

Your comment:

Our bank supports the Federal Reserve faster payments initiative to take action in implementing an interbank settlement for faster payments-RTGS [OP-1625] in order to stay competitive with the current payments industry. Over the past several years we have seen a variety of non-bank payment systems evolve. While these continue to grow in use with younger users, it diminishes the community banks positions to attract and retain younger account holders. To match customer demand, and keep up with global standards, the RTGS should be 24x7x365.

As demonstrated through the massive adoption of Zelle and Venmo, the market has shown there is sufficient demand for instant, free, and transparent payments in the US. The demand is not there for corporations as much as for retail, so low dollar value transactions should be the first payments to be adopted. Failure to provide this service promptly will erode customer confidence in the banking system to fulfill their wishes and they will turn to external sources making the banking system more volatile. RTGS is the appropriate foundation because the demand is there from the general public. Consumers are driving innovation by constantly expecting faster, easier, more transparent processes in everything they do. Not being able to provide these features as a financial institution puts the banks at a reputational risk against the general public. Online capacity and responsiveness drives consumer behavior and is demonstrated in many industry studies. Having a RTGS would be a major differentiator for an FI and it is the Fed's job to protect the overall safety and soundness of the banking system by ensuring payment systems are properly monitored. Leaving this large of a service to a private entity runs the risk of making RTGS unaffordable for community banks.

The adjustments can be reasonable and incremental to meet the most pressing, small dollar volume demand first. Having master accounts at the Fed for clearing that count toward reserve balances incentivizes the banks to properly fund their account and make the system more efficient.

The United State's Central Bank not only lags foreign countries in RTGS, it is also getting beat out by private industry in the US. RTGS in the forms of Zelle and Venmo are surging in adoption rates and are

at risk of being too sticky for customers to want to change. This fragmented ecosystem in payments has the potential to extinguish deposit dollars from FIs making lending more expensive and riskier. It is in the best interest of the public if the Fed provides a RTGS settlement service to keep public confidence in all financial institutions not just the ones that can afford to offer the private service. A consolidated, 4 headed banking system in the United States will not benefit the American public. Using the existing real time settlement of debit card network can serve as a model. Typical community banks depend largely on their core service providers to memo post transactions throughout the day and many functions can be scheduled as automatic and unattended after normal banking hours. Clear, real time messaging will also be paramount to the relationship between counterparties of the transaction.

The past several years of research have brought the Federal Reserve to this point, but we feel this is now at a critical tipping point for action.

Thank you