

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

Description:

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

Comments:

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You may have received comments from SHAZAM on this issue. Germantown Trust & Savings Bank (GTSB), a \$375mm community bank located in Clinton County, Illinois whole-heartedly agrees with SHAZAM's position on faster payments for these reasons:

Question 2 - Should the Reserve Banks develop a 24x7x365 Real Time Gross Settlement (RTGS) service? Why or why not?

Question 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. Like SHAZAM, GTSB agrees there should be 24x7x365 settlement of payments. For community financial institutions this type of system would mean equal and fair access to real-time payments and real-time settlement, offering choice and flexibility in the faster payments ecosystem. The Federal Reserve providing RTGS is absolutely essential to the future of community banking.

Why? If the Fed does not provide this service, community banks, like ours, will be forced to give up their information to be serviced by solution providers owned and controlled by the largest financial institutions in the country. When faster payments are concentrated through a single solution provider, community institutions will lose choice and innovation will be hampered.

Our ability to efficiently and effectively manage an RTGS system would require a liquidity management tool. We applaud the Fed for recognizing this important element of this service. The result will be better service to our customers.

Question 3f-i - Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as email 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?

Yes. GTSB also strongly believes the Fed must provide an open and interoperable directory service (database) that payment and financial service providers and financial institutions can access to determine how to route a faster payment. This directory would allow payments to perform as text messaging does now. Consider how individuals can send and receive text messages, regardless of the carriers used on either end of the text message.

If the Fed does not provide a directory service in which all faster payment solutions can integrate, the ability to determine how to access consumer accounts will be controlled by a single solution provider. Community institutions will lose choice and innovation will be hampered.

We believe such a directory is vital for establishing interoperability. It would provide all institutions access to real-time payments - regardless of their solution - further encouraging the adoption of real-time payments among all financial institutions.

Question 3g - How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

The question of interoperability is the linchpin for the kind of faster payments ecosystem the Fed envisions. Currently, there are multiple P2P payment solutions in the marketplace and none are interoperable. To illustrate, P2P solutions that the bank uses, SHAZAM BOLT\$, is often denied routing P2P transactions to DDA accounts of large financial institutions. This effectively requires that our

customers use the large institution's P2P solution to meet their payment needs. It's critical the Fed understand that the faster payments system, as it currently exists, is fragmented. This fragmentation restricts access, limits competition and creates a burden for our community institution. As a result of this fragmentation, in order to serve our customers, may be forced to sign up for an option, like Zelle which is owned by the nation's largest banks. Obviously, this relationship presents tremendous risk to our community bank, as taking this step will provide customer information to a consortium of the country's largest institutions. We don't believe it's acceptable for our bank to have to "default" to using these applications and technologies to meet the needs of our customers. Germantown Trust & Savings Bank will lose choice and innovation will be hampered.

In Conclusion

For over 100 years, residents, farmers and businesses from our community have relied on the safety and soundness of Germantown Trust & Savings Bank for their financial needs. At Germantown Trust & Savings Bank, our mission is to efficiently offer advanced technology and up-to-date banking services, while retaining a personal touch to further meet all of our customers banking needs. If the Federal Reserve does not offer the faster payment services listed above, it will make it difficult for GTSB to remain relevant in the payment system. A payment system that has always worked because of the backing of all banks, the Federal Reserve, and the US Government. Allowing only a consortium of the country's largest institutions to benefit from the strength and safety of the US Dollar will not benefit all of America. If we are excluded from the payment system, GTSB will have its deposit taking ability hampered and consequently will not be able to deliver lending services to our residents, farmers and small businesses in Clinton County, Illinois. Furthermore, allowing this consortium sole-control of payment systems going forward will be detrimental to our bank and will add unnecessary, proprietary payment system costs to US consumers.

Some would argue that allowing, or even promoting, this relationship is advantageous as it helps achieve ubiquity. However, if ubiquity is achieved by forcing community institutions to use the large bank consortiums then the public's payment needs are not properly being served. Only ubiquity obtained through multiple service provider interoperability properly serves the public's payment needs. The market strength of these large organizations and the consortiums they own is allowing the country's largest banks to position their products and technologies as the only available solutions that can access the megabanks' DDA account base. The marketplace does not, and will not, function properly without Federal Reserve intervention. Without this intervention the ability for community financial institutions to compete will become nearly impossible. It's critical the Fed continue its faster payments leadership and become an operator of faster payments. We believe that without the Fed playing a significant operational role in the creation and implementation of standards and rules - and laws and regulations when needed - the essential goals of safe, universal and equitable access will not be achieved. Germantown Trust & Savings Bank and our customers will be at a competitive disadvantage.

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