



December 14, 2018

Via Electronic Submission

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

Re: Docket No. OP – 1625; Request for Comment to Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Early Warning Services, LLC¹ thanks the Federal Reserve for the opportunity to respond to a request for comment issued by the Board of Governors of the Federal Reserve System ("**Board**") regarding potential actions by the Federal Reserve that serve to modernize our nationwide infrastructure for the real-time payments era. As operators of the **Zelle Network**®, one of the pioneering faster payments networks, we are staunch advocates for ubiquitous access to fast, safe, and easy digital payments for financial institutions of all sizes, and the consumers and corporations they serve.

Recognizing the leadership role of the Board, and the importance of industry collaboration, we participated in several Federal Reserve-sponsored payment initiatives. We provided insight into the Faster Payments and Secure Payments Task Forces. We joined the Governance Framework Formation team. We are founding members of the U.S. Faster Payments Council.

It's upon this foundation of constructive dialogue that we share our perspective on the potential actions referenced in the request for comment. Our perspective comes from witnessing firsthand the difference faster payments can make, not only to financial institutions, but in the lives of consumers across the nation.

We are proud of the progress we've made and inspired by the potential for a faster future. But, as our journey to faster payments reaches this critical juncture, we encourage the Federal Reserve to take into consideration the following points in its evaluation of two potential Federal Reserve services to support faster payments -- a 24x7 real-time gross settlement ("**RTGS**") service and a potential liquidity management tool ("**Liquidity Service**").

Summarized here, but discussed in detail below, Early Warning:

- 1. Believes a duplicate real-time gross settlement service to the existing RTP® system from The Clearing House could stagnate current positive market momentum towards ubiquitous real-time digital payments**
- 2. Expresses concern that the additional investment required to support two U.S. real-time gross settlement services has the potential to slow the migration of thousands of smaller financial institutions to real-time digital payments and detract from more important customer and client facing investments**

¹ For more than 25-years, bank-owned Early Warning Services, LLC has provided payment and risk management technology services to U.S. financial institutions. Early Warning operates the Zelle Network® - a leading real-time payments platform used by U.S. banks and credit unions.

3. **Supports the development of an automated Liquidity Service that will operate 24x7x365, and since the Federal Reserve is uniquely positioned to offer this service, advocates for this service to be the Board's priority**
4. **Suggests any future interoperability mandate between overlay systems, under described rules and guidelines, could impose significant additional costs and reduce or slow innovation**
5. **Recommends that the Board continue to promote innovations in real-time fraud protection through the domain of the competitive private sector**

1. A duplicate real-time gross settlement service to the existing RTP® system from The Clearing House could stagnate current positive market momentum towards ubiquitous real-time digital payments

In the third quarter of 2018, the Zelle Network® processed more than 160 million transactions, totaling more than \$32 billion dollars. Consumers from more than 35 financial institutions of all sizes used their current mobile banking applications, or our *Zelle* app which supports consumers from more than 5,500 financial institutions, to send money in minutes from one U.S. bank account to another, sharing only a registered mobile phone number or e-mail address. Leveraging this same real-time infrastructure, corporations are currently disbursing funds to consumers for a variety of common, everyday use cases, including payroll payments, merchant refunds, and student financial aid. Today, more than 50 financial institutions are live on the *Zelle Network*, with an additional 150+ under contract, and in various stages of implementation. Thousands more financial institutions, especially community banks and credit unions, are accessible through our partnerships with the nation's most important and influential core processors, including Co-Op, Fiserv, FIS, and Jack Henry.

Faster payments are here, and gaining momentum.

Early Warning continues to invest to benefit all participants large and small, in hardening the *Zelle Network* and fraud and risk data sharing among participants to protect against ever-evolving threat vectors. This reinvestment also supports the research and development of new real-time payment services, including support for small business transactions and corporate and bank bill pay. These upfront investments, made by some of the largest financial institutions, pave the way for smaller financial institutions to make fast, safe, and easy real-time payments, and are the foundation for ubiquity. It is our goal that all customers are able to participate in *Zelle* through their primary financial institution, therefore our goal for ubiquity is that *all financial institutions are enabled to become participants in the Zelle Network*.

These monumental strides our nation has made towards faster payments are at risk of stagnation. Despite considerable consumer demand, and available faster payment solutions with demonstrated market traction, financial institutions, large and small, are opting to "wait and see" what the Board will do. Momentum is slowing, further inhibiting progress towards the Faster Payments Task Force stated goal of ubiquitous faster payments in 2020.

We recommend that the Board be thoughtful, but at the same time swift, in its communication around key decisions as a result of its comment request, to continue established momentum in the marketplace.

2. The additional investment required to support two U.S. real-time gross settlement services has the potential to slow the migration of thousands of smaller financial institutions to real-time digital payments

Early Warning works at the behest of the many financial institutions that we serve. We believe real-time payments should be available and accessible to all financial institutions – regardless of size. For some capital-constrained financial institutions, particularly smaller banks and credit unions, cost to implement is often cited as a gating factor to deploying real-time payments. The addition of a secondary option for RTGS will inject the burden of additional industry investment in these early and important days of our journey toward ubiquitous faster payments, while funds are needed to solve for more pressing customer and client facing use cases.

Investments required by financial institutions to participate in faster payment solutions should be top of mind

Our experience operating the *Zelle Network*, thus far on-boarding over fifty financial institutions and millions of consumers, has taught us many things about real-time payment systems. In contemplating an additional RTGS offering in the U.S. payments ecosystem, the Board should consider the work effort required by the financial institutions as top of mind. Our analysis shows that the most significant investments in these early stages of faster payment solutions are not in support of real-time settlement. Regardless of the underlying real-time system, to support a safe and secure faster payment solution, each bank or credit union must have the following capabilities in place:

- the integration of core deposit systems to ensure funds availability in real-time;
- the enhancement of end-user accessible applications, including both online and mobile banking;
- collaborative real-time fraud and risk management capabilities (both technology and human operations)
- real-time risk based step-up authentication, executed not only at login or the point of registration/enrollment but also at the point of payment or changes to profiles, and other critical transactions;
- enhanced customer notification systems that ensure both sender and receiver are aware of the payment status at all times;
- integration of AML services;
- real-time monitoring and reporting;
- customer servicing including automated, self-service, as well as re-trained contact centers;
- development and deployment of customer education and protection programs;
- and finally, integration with other existing payment and settlement products while the transition to faster payments continues

While these investments are all essential for a safe and sound faster payments solution, none of these are addressed through the addition of a second RTGS solution. On the contrary, the addition of *another* clearing and settlement alternative will detract from these higher priority investments in the mid to long term.

The Board must also consider additional investments required for an RTGS to support multiple overlay solutions

RTGS systems include both clearing and the settlement capabilities. As such, all information required for invoking an overlay service, such as *Zelle*, must be included with the clearing and settlement message. Although the ISO 20022 standard allows some flexibility for competitive services to include proprietary information, the Board must not underestimate the significant investments needed to ensure that multiple product providers can be served by the clearing message and are enabled to continue to enhance their offerings with new features and functionality as well as raise the bar on increased safety and security. Examples of information which may be required for multiple overlay services might include an account token or end user alias; links to images, voice recordings, bill detail or special messages; transaction types and codes; details about the various touchpoints and entities through which the transaction was serviced; fraud and risk data; or specific application and payment instructions.

Examples of work effort categories to support multiple solution providers using the proposed RTGS service may include:

- ensuring the governance framework supports competitive and unique frameworks
- enabling different authentication, fraud and risk tolerances depending upon the overlay program
- supporting multiple different transaction limits for send and no limits on receive
- supporting multiple ways disputes and exceptions are handled
- service level agreements with each of the providers
- treatment of blocking or rejecting payments
- real-time reporting of transactions

Finally, the addition of a second RTGS system will likely *bifurcate the market in the medium-term*, with some financial institutions choosing to be serviced by The Clearing House's RTP system, and others electing to be serviced by the

Federal Reserve. Given Early Warning's goal is to service all financial institutions, if The Clearing House and the Federal Reserve are not able find a way to interoperate at the launch of the Board's proposed RTGS service, the investment will have to be made by overlay service providers such as Early Warning/Zelle, our partner processors, or the financial institutions we service. Although faster payments transaction volumes are growing, they are currently insufficient to cover the financial institution investments required. A second RTGS system will add unnecessary costs to U.S. payment systems, potentially more negatively impacting smaller financial institutions which are less capable of investing.

Being responsive to financial institution demands, if Early Warning must replicate our investment to support an additional RTGS system, estimated costs for our company alone (not including financial institution or partner investments) will be significant and will detract from the development of additional customer and client facing solutions that leverage real-time payments capabilities.

3. The development of an automated Liquidity Service that operates 24x7x365 is beneficial to the faster payments ecosystem and should be the Board's priority

Our on-going analysis of the net settlement positions of *Zelle* participating financial institutions reveals that the overwhelming majority of financial institutions are daily net receivers of funds, or generally neutral where funds sent and received approach equal amounts. Currently, end of day settlement risks for *Zelle* are concentrated in a few of the larger financial institutions. In moving *Zelle* to real-time settlement, most of our smaller participating financial institutions will have to fund a real-time settlement account based on the intraday peak volume of funds moved, versus the end of day net position. This will require a more significant use of capital, thereby increasing costs to the institution. A Liquidity Service offered by the Federal Reserve can address these concerns.

When a financial institution does not meet the *Zelle Network's* counterparty risk criteria, in order to protect other *Zelle Network* participants, we require funds to be set aside in a collateral account. The total collateral is calculated to meet requirements for peak days including weekends and inclusive of federal holidays. A Liquidity Service from the Federal Reserve will negate the need for this cumbersome and expensive collateral process, freeing industry investments for other much needed services.

As larger dollar use cases such as disbursements and bill pay become more prevalent within *Zelle*, we expect the capital needs associated with real-time gross settlement accounts to increase, particularly during the first of the month, mid-month, and other common payment cycles. The Board's potential Liquidity Service should enable financial institutions to participate without creating an unnecessarily significant capital burden and without risking interruption of customer access to faster payments if not managed appropriately.

We recommend the Liquidity Service be the Board's priority and that it be built independent from the RTGS service.

4. Future interoperability mandates between overlay systems, under described rules and guidelines, could impose significant additional costs and reduce or slow innovation

Question 3f.i in the request for comment asks, "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 number needed for a 24x7x365 RTGS settlement service?"

Our view is these services exist in the private sector today. The directory is a competitive overlay as opposed to a feature in the RTGS offering. A directory isn't necessarily needed for a RTGS system, but a RTGS is needed to support an overlay service. Directory entries are only as good as the fraud and risk intellectual property that secures and manages updates to the directory.

Federal Reserve staff have voiced a strong preference for interoperability between multiple overlay solutions and have used *Zelle* and other solution providers as examples. Today, *Zelle* partners with Mastercard (Mastercard Send™) and Visa (Visa Direct) to facilitate interoperability. We believe partnership opportunities will increase, and will

be contracted under appropriate business models and terms, with rules and operating processes that protect consumers.

5. The Board should continue to promote innovations in real-time fraud protection through the domain of the competitive private sector

Question 3f.ii. asks, "Are fraud prevention services that provide tools to detect fraudulent transfers needed for a RTGS settlement service? How should such tools be provided and who should provide them?"

Any faster payments product will need to address real-time fraud interdiction and we believe this is another area for the competitive overlay of services. We believe real-time fraud and risk management capabilities are essential to ensure the safety and security of real-time payments, and collaborative risk data sharing, as long as it is done in a safe and secure manner, benefits all parties. The Board should continue to promote innovations in real-time fraud and risk services, but leave this in the domain of the already highly competitive private sector.

Early Warning has provided fraud and risk management capabilities since 1990. Our real-time risk services include:

- validation of identities for the purposes of opening and managing a variety of banking and corporate account relationships;
- authentication services which incorporate knowledge about devices, accounts and people; and
- assessments of the likelihood of payment (sufficient funds) for transactions which cannot settle immediately

Our risk management services are driven by a collaborative cooperation of the entities that we serve, including financial institutions of all sizes such as credit unions and community banks; major billers such as credit providers, electric utilities and cellular providers; merchants large and small with physical and virtual businesses; and also local, state, and federal government entities. Our collaborative fraud and risk prevention model currently benefits more than 2,400 customers across the nation, and through our resellers we also service hundreds of thousands of merchant locations and websites.

Early Warning's collaborative fraud and risk services are built on a "give to get" model where each entity must contribute information to the collaborative effort in order to receive the benefits. We operate as a trusted custodian of risk related data. Contributed data assets required to operate the services do not become assets of our company nor our owners, but instead remain the property of the contributing financial institution. Early Warning only uses data for fraud and risk management services and never uses financial institution data for marketing or customer acquisition purposes.

Fraud and risk uses of data is governed by a series of financial institution working groups, advisory committees and advisory boards who decide how data can and cannot be used. These advisory groups support representation from large institutions, community banks and credit unions. Given the importance of real-time authentication, real-time fraud screening, and real-time risk services in a faster payments world, this same collaborative model is being leveraged to ensure Zelle transactions are safe and secure.

We believe fraud prevention services are a competitive space of private industry and should remain a competitive offering in order to ensure continued improvement.

Conclusion

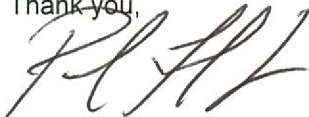
In conclusion, Early Warning:

- 1. Believes a duplicate real-time gross settlement service to the existing RTP® system from The Clearing House could stagnate current positive market momentum towards ubiquitous real-time digital payments**

2. Expresses concern that the additional investment required to support two U.S. real-time gross settlement services has the potential to slow the migration of thousands of smaller financial institutions to real-time digital payments and detract from more important customer and client facing investments
3. Supports the development of an automated Liquidity Service that will operate 24x7x365, and since the Federal Reserve is uniquely positioned to offer this service, advocates for this service to be the Board's priority
4. Suggests any future interoperability mandate between overlay systems, under described rules and guidelines, could impose significant additional costs and reduce or slow innovation
5. Recommends that the Board continue to promote innovations in real-time fraud protection through the domain of the competitive private sector

We appreciate the opportunity to provide our comments and concerns, and will make ourselves available for further dialog as the Board considers ways to advance faster payments in the U.S.

Thank you,



Paul Finch

CEO, Early Warning Services, LLC