

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

Description:

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From: First National Bank and Trust, Gregory Saville

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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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First name: Gregory

Middle initial: S

Last name: Saville

Affiliation (if any):

Affiliation Type: ()

Address line 1: 225 State St

Address line 2:

City: Phillipsburg

State: Kansas

Zip: 67661

Country: UNITED STATES

Postal (if outside the U.S.):

Your comment: Ms. Misback,

Thank you for the opportunity to provide input to the Board regarding the faster payments initiative. Generally, I am in support of the Reserve Banks' development of a 24x7x365 RTGS system. In the absence of another existing mechanism, I am also in favor of a liquidity management tool. Our retail and commercial customers already have the expectation of "real-time" availability on deposits and with other payment services. It would be beneficial for them to have this "real-time" availability for payments through our Bank. Additionally, as a small, rural community bank, we would be grateful to have this service available from an entity that is not a "mega" bank.

I have three thoughts I believe the Faster Payments Task Force (FPTF) and the Reserve Banks should consider in the development of a "real-time" payments system.

First, I believe the development of faster payments services should not focus solely on "real-time" payments. Continuing effort should be made to improve the availability of existing payment methods, such as Same-Day ACH, by extending current settlement hours. Many of our customers utilize ACH services and they would immediately incur benefits from faster ACH settlement. Admittedly this would not be "real-time" but it would significantly enhance current availability. To be clear, enhancing ACH availability is not a replacement of the "real-time" payments initiative but rather a complementary service to provide faster availability as "real-time" payments are developed. Additionally, once "real-time" payments are in place, I anticipate our industry will still have millions of commercial customers utilizing batch ACH processing who will continue to benefit from this enhanced availability.

Second, it is critical for the Reserve Banks to realize the implications and challenges of a liquidity tool for small community banks as detailed in Section III.B Real-Time Gross Settlement of Interbank Obligations on page 57359. As stated, "RTGS arrangements inherently avoid interbank settlement risk because funds are made available to the recipient only after interbank settlement has occurred." I interpret this to mean if the bank doesn't have the funds in the settlement account customers'

transactions will be declined. If the liquidity tool is not designed properly, this could create unnecessary complications for small community banks that are unable to move funds into the settlement account during non-business hours.

Lastly, the importance of the Reserve Banks' role in this process cannot be understated. The Reserve Banks have established a solid reputation with industry and society that we can count on payments to be processed efficiently, securely, reliably and timely. This reputation is well-deserved and comes with responsibility. Reserve Banks should not abdicate this responsibility to the "markets". Debit/credit cards are a current example of the markets operating "freely" with an unbalanced apportionment of liability to financial institutions while retailers/merchants incur relatively little fraud/loss liability. I believe if the "markets" are left to develop a "real-time" payments system, this imbalance will continue. It should be the responsibility of the Reserve Banks to design a "real-time" payments system that equitably distributes risk.

In conclusion, I support the Reserve Banks' efforts to develop a "real-time" payments system and liquidity management tool. In the process of development, efforts should continue to enhance availability of existing payment systems and careful consideration should be given to the structure of the liquidity management tool as it applies to community banks.

Sincerely,

Greg Saville

Executive Vice President

First National Bank and Trust

P.O. Box 627 | 225 State Street

Phillipsburg, KS 67661

785.543.6511 - Telephone

785.543.6516 - Fax

www.agbank.com