December 14, 2018

Via *real-time* electronic submission

Ann E. Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
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Re: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Docket No. OP – 1625

Ladies and Gentlemen:

The member companies of Financial Innovation Now (FIN) appreciate the opportunity to respond to the Board of Governors of the Federal Reserve System (Board) request for input on potential Federal Reserve actions to promote ubiquitous, safe, and efficient faster payments in the United States by facilitating real-time interbank settlement of faster payments.[1]

FIN is an alliance of technology leaders, including Amazon, Apple, Google, Intuit, PayPal, Square, and Stripe. We are working together on policies that will help modernize the way consumers and businesses manage money and conduct commerce. We recognize the essential role that digital technology plays in the democratization of finance, and have brought to market some of the most innovative and secure financial technology products available to consumers and small businesses today.

We applaud the Board for thinking boldly and working to lead the United States towards a modern payments infrastructure that serves the needs of all Americans. We agree strongly with the Federal Reserve's proposal to develop a 24x7x365 real-time gross settlement (RTGS) service. Given the urgent need and growing demand for real-time payment options, we urge the Board to move expeditiously and consider ways to make any future RTGS system a platform for payment innovation.

I. Real-time payments will improve financial inclusion

Mobile financial technologies, particularly mobile applications that integrate real-time payments, help improve financial health because they enable instant access to money when most needed. Consumers increasingly want their payment services to be readily accessible and capable of real-time transmission, an expectation set, in large part, by innovative services that FIN member companies have brought to market in recent years. These non-bank technologies enhance financial capability directly, and they also enable traditional financial products more manageable, and help users to avoid high-cost alternatives.

[1] Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, 83 Fed. Reg. 57351 (November 15, 2018).

The Federal Deposit Insurance Corporation (FDIC) found that in 2017 nearly 25% percent of American households *remain* unbanked or underbanked, but also found that "use of smartphones to engage in banking activities continues to grow at a rapid pace…" and "this growth presents promising opportunities to use the mobile platform to increase economic inclusion."[2] The FDIC has also found that consumers agree that mobile banking services help "to address weaknesses in traditional banking," particularly by helping consumers "reduce fees, better track their finances, and improve on-the-spot decision making."[3]

While the mobile internet is improving *access* to money, the *speed* of money may matter more, particularly for the half of Americans who live paycheck to paycheck.[4] It does not make sense that, in our modern era of instant communications, it can still take up to five days for a paycheck to clear. This unnecessary delay causes many Americans to turn to high-cost check cashing or alternative financial services. People should not have to choose to pay high-cost fees to quickly access their money, especially when done to avoid late charges or overdraft fees. Real-time payments would help to alleviate these problems.

Small businesses, similarly, have been underserved by traditional payment services. An efficient, accessible, and affordable real-time payments option will enable technology companies to create more efficient, secure, and affordable digital payment solutions to best serve small and medium-sized businesses who utilize "Pay" services as a simplified way of getting their business ready to accept online payments. Real-time settlement will also help solve liquidity constraints of small businesses.

II. FIN member company payment services demonstrate strong demand

FIN member companies offer a wide range of innovative payment services to consumers and small businesses. These services include card processing for online merchants, person-to-person/person-to-business/business-to-person payments, mobile wallets, voice payments, and other services. While it varies by company and service, FIN member companies provide these services through our authorities as licensed money transmitters and/or under agreements with a number of U.S. financial institutions. FIN member companies are also end users of the current payment systems – ACH payments, card payments, wire transfers and checks – as payees receiving payments from customers and as payers making payments to individuals and businesses. FIN member companies are also facilitating the above services on behalf of a large ecosystem of innovative companies.

The adoption and growth of these services is strong. FIN member companies collectively are facilitating payments for hundreds of millions of consumers and small businesses worldwide, and in some cases, volume is more than doubling year over year. We expect this growth to continue and accelerate as more consumers and businesses move their payments to digital and mobile interfaces.

Despite strong growth in new payment services, the existing payment infrastructure constrains innovation and access. FIN member company payment services interconnect and operate in partnership with payment systems offered by financial institutions and card networks. Legacy payment

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[2] Federal Deposit Insurance Corporation, 2015 FDIC NATIONAL SURVEY OF UNBANKED AND UNDERBANKED HOUSEHOLDS (2016), https://www.fdic.gov/householdsurvey/2017/2017report.pdf

[3] Federal Deposit Insurance Corporation: OPPORTUNITIES FOR MOBILE FINANCIAL SERVICES TO ENGAGE UNDERSERVED CONSUMERS (2016), https://www.fdic.gov/consumers/community/mobile/MFS_Qualitative_Research_Report.pdf at 3.

[4] Nearly half of Americans could not cover an emergency expense costing $400. *See* Federal Reserve: REPORT ON THE ECONOMIC WELL-BEING OF U.S. HOUSEHOLDS IN 2015 (2016), https://www.federalreserve.gov/publications/files/2017-report-economic-well-being-us-households-201805.pdf

systems have not kept pace with innovation and customer demand. Limitations in these payment systems cause delay, increase risk, and raise costs for our customers. A ubiquitous real-time payment infrastructure will help to solve many of these constraints.

III. Ubiquity of faster payments requires the Federal Reserve to develop a 24x7x365 RTGS settlement service; U.S. leadership is at stake

The proposed Federal Reserve RTGS system will provide a competitive option in the marketplace and foster ubiquitous adoption by all financial institutions and non-bank partners. Ubiquity is unlikely to be achieved without a RTGS system offered by the Federal Reserve. This is a role that the Federal Reserve currently serves for checks, ACH payments, and wire transfers. It is logical and necessary that the Federal Reserve also enable real-time payments.

FIN companies operate payment systems globally; a RTGS system offered by the Federal Reserve will be more consistent with other jurisdictions. Furthermore, given that other nations are ahead of the United States, FIN urges the Federal Reserve to consider U.S. competitiveness as a critical justification for action. We are at risk of falling behind as other nations are already realizing the economic and social benefits of real-time payments.

The Federal Reserve should move quickly to implement a RTGS system. FIN has advocated for real-time payments to be widely available by 2020. Unfortunately, without action by the Federal Reserve, there is no sign that the marketplace can achieve this milestone, or even by 2025, given that so many institutions of all sizes and charter types are unlikely to participate in the systems already in the marketplace. Only the Federal Reserve can serve as the catalyst to achieve real-time payments ubiquity in a timely manner.

The history of existing payment systems demonstrates that the Federal Reserve will recover its own costs of developing a new RTGS system and, if anything, modern information technology may radically reduce such costs while significantly increasing security. Some stakeholders may argue that the larger payments ecosystem will be burdened by costs resulting from an additional Federal Reserve system. On the contrary, a competitive alternative will ensure that costs remain low. Any costs of adjustment and potential disruption are far outweighed by the benefits of the proposed interbank settlement infrastructure, particularly the societal and economic benefits mentioned earlier.

IV. FIN encourages the Federal Reserve to drive innovative capabilities that enhance accessibility and catalyze broad adoption in a future 24x7x365 RTGS settlement service

The Federal Reserve should encourage accessibility of a future RTGS system and promote Application Programming Interfaces (APIs) as a means to enhance adoption of bank and non-bank payment systems utilizing a future RTGS system. Industry technology solutions that improve the efficiency of system accessibility through secure connection paths, such as APIs, will serve as a catalyst for broader and faster industry adoption of interoperable technology solutions.

The Federal Reserve should develop a real-time system with interoperability in mind, but should not have the burden of solving for all interoperability questions before implementation of a RTGS system.

Interoperability is as much about connectivity among networks as it is accessibility. Payment networks developed by non-banks have made payments much more readily accessible to a wide variety of end users at the edge of payment network reach, particularly consumers who need real-time payments. The ability of those networks to be interoperable with a real-time payment network will enhance that edge accessibility.

Non-banks do not currently have direct access to Federal Reserve payment services. This forces a heavy reliance on single points of entry, governed by incumbent players. This bottleneck arrangement can increase systemic risk, decrease security, raise costs, increase intermediary friction, and put non-banks at a competitive disadvantage. The Federal Reserve should explore a means to permit non-bank access to Federal Reserve payment services.

Finally, FIN agrees that the Federal Reserve should develop 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, in addition to their bank routing and account information. Many FIN member companies excel at connecting end users via a wide variety of directory methods and communication channels. The Federal Reserve could enhance connectivity of deposit accounts through the provision of a secure, accessible directory. Such a system would benefit the end users of banks and non-banks alike.

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The member companies of FIN remain committed to continuing our work with the Federal Reserve and other policymakers to help ensure U.S. economic competitiveness and opportunity for consumers and small businesses. We applaud the Board for its commitment to serving all Americans with a modern payments infrastructure and we strongly urge the Board to seize this opportunity and develop a RTGS system that will catalyze payments innovation for the twenty-first century.

Respectfully submitted,

Amazon
Apple
Google
Intuit
PayPal
Square
Stripe