

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

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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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Your comment: December 10, 2018 Re: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments [OP-1625] As a software provider to Correspondent banks who serve community banks across the county, Aptys Solutions believes that it is imperative that the Federal Reserve participate in the Faster Payments environment. Below, find Aptys' response to the various questions asked by the Federal Reserve: Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not? Yes, RTGS is the appropriate foundation for interbank settlement of faster payments now and perhaps all payments in the future. The rest of the world is heading in that direction and, as the leading economy and country in the world, we should be as well. If financial-institution-backed faster payments do not move in that direction, more of the future payments will move to non-FI-backed faster payments options which are not as reliable or as secure. Also, RTGS is the best solution for customers as well. Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not? Yes, the US market is unique with the large number of financial institutions from large to small and the FRB is the only entity that is required to reach and service all FIs. Ubiquity can only be achieved if the FRB is an active participant in the Faster Payments process. If the Reserve Banks develop a 24x7x365 RTGS settlement service, Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments? This is a bit of a catch-22 type question. We believe there will be a demand for these types of payments based on the current activity in the P2P market with existing products and the functionality that will be provided for the B2B, P2B, and B2P markets in new products. Also looking at the activity in other countries, there is a demand for a bank-backed solution for these types of payments. As far as whether the demand is sufficient to support the development of these systems, that becomes more of a scope-management and project-management issue. As with all

projects, the scope must be managed to keep development costs in line with the anticipated ROI. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain. The ideal timeline for implementing the RTGS settlement service is ASAP. However, there is a 3 to 5 year window where the various solutions will be rolling out to the market, so there is still time for the Fed to complete and implement a solution. In the short-term, the Fed deciding to move ahead with building a 24x7x365 RTGS solution may slow down the implementation of Faster Payments across the US. However, in the long run, it is the only way to achieve ubiquity in the market and will greatly facilitate the adoption of Faster Payments in the US. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks- master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement? Liquidity management tools are essential for any faster payments solution using an additional account. If a second account is used for RTGS, the benefits must outweigh the burden of managing a second account. Banks today already have tools in place to manage the liquidity in the master account with the FRB. Creating a second account for faster payments may add a burden to the market to have to manage between the accounts that doesn't exist today. Regarding auxiliary services or other service options, Is 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, 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, a proxy database or directory that allows services to route end-user payments using an alias is a long-term requirement of the solution. However, it is not a requirement of the first phase of the solution. Using RT/account number combinations as part of the payment data in the initial phases is sufficient. From an implementation perspective, a "directory of directories" with a method for dealing with conflicts (i.e. the same alias found in multiple directories) is the preferred approach as opposed to a single directory containing all the information. As the trusted intermediary for all FIs, FRB is the most logical choice to be the provider of this type of directory. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them? Preventing fraud in a faster payments system requires a multi-layer approach. Market-based solutions at both the end-user level and the FI-level are required to identify potential issues with payments at those levels prior to entering the FRB clearing network. It would also be helpful if the network providers, such as the FRB, had tools that could identify potential issues from a network perspective, since they will have a much higher-level view of the data than any other participants in the solution. Network providers may not be able to stop individual transactions, but they must be able to post alerts notifying participants of potential issues with a payment or payments. Note that this is not a requirement for the first phase of faster payments, but can be added later after the infrastructure of the system is in place. However, the broader market must be encouraged to develop and implement other fraud tools in order to create the layered safety net required to prevent fraud. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted? Auxiliary services, such as these, are not required during the first phase of the solution implementation, but are good add-on services as we all (the entire payments industry) learn more about the real requirements for operating in this type of environment. How critical is interoperability between RTGS services for faster payments to achieving ubiquity? Interoperability between the various services (currently two services; the FRB and the private service being developed/marketed) is not essential during the initial phase of the implementation of a faster payments solutions. Small FIs will tend to use the service provided by the FRB either through some sort of direct connection or through their correspondent institution. Large institutions will do the same. Payments that can be processed and settled inside the private network will stay in that network and any that cannot be settled there will be sent to the FRB for processing as we see with other payment types today. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should its use be restricted and, if so, how? Yes, a 24x7x365 RTGS settlement

service can be used for other services such as wire payments and possibly international payments. Use of the service should not be restricted; it should be considered for use in any solution where it provides value to the overall solution. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation of a 24x7x365 RTGS settlement service? There's already been a lot of discussion about these items, establishing additional teams (or committees) to continue to discuss them has the potential to slow down processes that need to begin immediately (i.e. FRB's development of a 24x7x365 RTGS settlement service). 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? If a second account is used for RTGS settlement, then yes, as a trusted intermediary for all FIs, the FRB should develop a liquidity management tool to enable transfers between Federal Reserve accounts on a 24x7x365 basis. If the Reserve Banks develop a liquidity management tool, What type of tool would be preferable and why? i. A tool that requires a bank to originate a transfer from one account to another ii. A tool that allows an agent to originate a transfer on behalf of one or more banks iii. A tool that allows an automatic transfer of balances (or "sweep") based on pre-established thresholds and limits iv. A combination of the above Yes, the appropriate liquidity management tool will be a combination of the above options allowing banks and agents to originate transfers from one account to another while also allowing for transferring balances (sweeping) funds based on pre-established thresholds and limits. Also, the tool should have API or web-based interfaces that allow market solutions to automate accessing and managing the liquidity of the account, much like the interfaces currently available with Fed Direct. An alternative approach Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available? To be effective, the liquidity management tool must be available 7 days per week but does not necessarily have to be available 24 hours per day. Availability of 18-20 hours per day is probably sufficient. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why? We believe the FRB should focus on developing a 7x24x365 RTGS settlement service that uses master accounts for liquidity management. If that's not possible, the FRB would need to develop the solutions in tandem. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways? Yes, developing a 7x24x365 RTGS settlement service balances the playing field for all financial institutions and helps achieve ubiquity with faster payments on a nationwide basis that includes all FIs.