

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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The following comments are submitted relative to Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

First, let me acknowledge the helpfulness of the Town Hall Meetings on the topic, specifically the one held at the Federal Reserve Bank of Boston on November 9, 2018. The content was especially helpful in preparing these comments.

As covered in the meeting, I understand that the Federal Reserve seeks specific input into; 1 - demand for such a service, 2 - ideal time to market, 3 - necessary industry and customer adjustments, 4 - impact for 7-day accounting, settlement, etc., 5 - auxiliary services and 6 - interoperability. To address each, please consider the following.

Will there be sufficient demand for faster payments to support the development of this tool/service?

Yes, and the demand is already here. Financial institutions, business and consumers already tolerate delays in payment transfer and settlement. The consequences of this range from mere inconvenience to some in the process, to the acceptance of varying degrees of risk to others. This, at a time when instant, or near-instant, fulfillment is routinely expected, and delivered, in so many other areas of our lives.

What is the ideal time to market for this service?

Given that the need for such a tool already exists, there must be little delay in developing it. The task of developing such a service will be challenging. With the pace of innovation in this space, delays will result in more complexities.

Would this tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? And, what adjustments would the industry and its customers need to make to operate in a 24x7x365 environment?

Ideally, the tool should always be fully accessible 24x7, but depending on its design and function, may not need to be fully 24x7 - at least initially. With the many systems and protocols, including batch processing, used by various institutions, it is very conceivable that a number of institutions would not or could not fully utilize a payment system on a 24x7 in today's environment. But that is today's environment, and any new tool must be designed to be viable in a future processing environment, which also ideally would be 24x7. To that point, it may also be appropriate, as a result of this initiative, for the Federal Reserve to consider a timeline for minimum processing standards for financial institutions and core providers to provide a fully 24x7 processing environment.

How would the demand for, and the cost of using this service be impacted by design features such as seven-day accounting, use of dedicated settlement accounts, etc.?

Internal processes for handling 24x7 payments will need to be determined by each institution on its own, or in conjunction with its correspondent, core provider, or both. The need for seven-day accounting will likewise be an individual determination as it may not be necessary in some memo post environments. This is also true with each institution determining the need for 'dedicated' settlement accounts.

Are auxiliary services, such as a payment directory or fraud prevention services, needed for this service?

Certainly, fraud mitigation will be necessary. The various regulatory agencies, including the Federal Reserve, will mandate fraud prevention whether included or not. So, it would seem to make sense that

it be included as part of the service. If not included, institutions will need to find fraud prevention services separately. This will most likely result in several disparate solutions of varied levels of effectiveness. Other auxiliary services, such as a payment directory (that is online and dynamically maintained in real time) will be very helpful.

How critical is interoperability between RTGS services for faster payments to achieving ubiquity? Interoperability will be key to the success of any real-time payment system. To keep the promise of true real-time payments, systems must be able to "talk to" and "respond" to each other in a standard transactional format that includes fixed data elements, with appropriate encryption, that all the various payment initiators and receivers can decrypt and read for posting.

I'd like to offer two additional points. Many payments are already happening outside of financial institution channels. The possibility of 24x7 real time payments may be helpful in getting some of the funds held by non-bank entities back into banking channels - or keep those funds from leaving in the first place.

Also, with the idea of real-time payments for domestic institutions, it would be helpful if the Federal Reserve will consider how international payments will be handled, and if those payments could also be real-time, or very close to real-time.

Thank you for the opportunity to offer comments on the faster payments proposal. We look forward to learning more about the Federal Reserve Bank's efforts toward establishing a real-time payment service.

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