

Via email

December 14, 2018

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Ave NW  
Washington, DC 20551

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

Dear Ms. Misback:

Jack Henry & Associates (“JHA”) welcomes the opportunity to submit this comment letter to the Board of Governors of the Federal Reserve System in response to the request for comment (“Request”) regarding potential actions to support interbank settlement of faster payments. JHA is a leading provider of technology solutions and payment processing services primarily for the financial services industry. The JHA Payment Solutions group serves 5,600 clients, including banks, credit unions and diverse businesses outside the financial services industry.

JHA recognizes the leadership the Federal Reserve Bank has provided regarding payments system improvements and sees great value in our participation in Faster Payments Task Force, the Directory Working Group, the Governance Framework Formation Team (GFFT) and now the U.S. Faster Payments Council, where JHA is a founding member. These efforts to unite the industry would not have been possible without the support from the Federal Reserve Bank.

JHA is committed to a leadership role in faster payments. We began our due diligence more than four years ago. Some of the guiding principles of our faster payments strategy include keeping financial institutions at the forefront of payments, and ensuring our clients, regardless of size or charter type, have access to modern payments capabilities that help maintain their role in the payments ecosystem. JHA has dedicated significant resources to the development of the technological infrastructure (JHA PayCenter, our payments hub) to connect to “early winner” partners to achieve these goals.

JHA appreciates the opportunity to act as a voice for many of the community and regional institutions who rely on us to keep them at the forefront of payments. We support the Federal Reserve Bank’s continued willingness to engage the industry as it identifies its role in improving the U.S. payments system. To prepare for addressing this Request, JHA attended the town hall meetings in Kansas City and Saint Louis. We also hosted a session with our Client Advisory board to get their input and participated in numerous meetings with financial institution clients to discuss the Request.

JHA believes that improvements to Federal Reserve Bank services are crucial to better support the industry and that our community and regional financial institution base is passionate about seeing a larger role for the Federal Reserve Bank in real-time payment systems. The improvements JHA sees as most essential are:



- Address the timeline for any possible release of an RTGS product by balancing the desire for a solution offered by the Federal Reserve Bank with the possible impacts to developing private sector offerings.
- Expand liquidity management tools in support of interbank settlement to include extended operating hours, availability on non-business days, and more automation and control for financial institutions and their agents.
- Private sector and public sector funds used for settlement purposes are treated as reserves, eligible to earn interest and count toward the institutions' required funds on deposit for Federal Reserve Master accounts.
- Evaluate opportunities to reduce friction and complexity for consumers and businesses when confronted with a fragmented payment landscape.

### **24x7x365 RTGS settlement service**

As a solutions provider, JHA is committed to addressing the competitive needs of our customer financial institutions and would evaluate integration with a Reserve Bank's 24x7x365 RTGS settlement service based on our stakeholder needs.

The Federal Reserve Bank has stated that they would “not consider an operation role in providing this faster payments capability unless it determines, not only that the new service would be expected to yield clear public benefits, but also that other providers alone could not be expected to provide this capability with reasonable effectiveness, scope, and equity....” In response to the proposal, JHA financial institution customers have been vocal on three points:

- Support the proposed RTGS settlement service, provided its implementation moves forward with deliberate speed, so business decisions are not delayed resulting in slower adoption of real-time payments;
- Require safe, universal, and equitable access to such a system; and
- Concern about costs and transparency.

JHA believes interoperability with private sector solutions is critical so as not to create a divided market. Incompatible systems generate challenges for the regional and community financial institutions we serve by creating additional operational overhead and confusing consumer experiences. JHA believes it is possible that smaller community institutions may invest in only one service, forcing a choice between network providers, which may have the unintended consequence of compromising the overarching goal of ubiquity.

JHA also believes it is important to acknowledge the investment needed to maintain multiple technical standards, which may impede innovation. For this reason, JHA would support the consideration of standards-based messaging at the core of a Federal Reserve Bank RTGS system, with extended message sets that set the stage for interoperability.

Because of the nature of real-time funds movement, JHA also recommends that the Federal Reserve Bank strongly consider adoption of real-time network-level fraud monitoring as part of a proposed RTGS solution. In a real-time settlement ecosystem, a transparent view into network-wide patterns of activity is imperative to promote financial system stability and foster system safety and efficiency.

As the Federal Reserve Bank determines whether it should offer an RTGS system, it should make its position clear as soon as practical and ensure adequate commitment of resources to result in timely delivery of services. JHA understands that new services of this complexity will require prioritization, perhaps with timeboxed efforts and staged delivery. However, we believe a lack of insight into Federal Reserve Bank planning will be detrimental to the industry as a whole, as would delays resulting from inadequate prioritization and support.

### **Operational adjustments in support of a 24x7x365 settlement environment (liquidity management)**

JHA sees adjustments to financial institutions operations underway regardless of Federal Reserve Bank entry into the market. The industry is moving towards real time solutions that force financial institutions to “work around” current limitations of existing settlement. This is evident today in Same Day ACH payments which have time limits that adversely impact institutions on the Pacific coast and in Hawaii.

Another example is that the only way to get funds into or out of the joint settlement accounts supported by the Federal Reserve Bank today is via wire transfer. Fedwire Funds Service operating hours for each business day begin at 9:00 p.m. Eastern Time (ET) on the preceding calendar day and end at 6:30 p.m. ET on each business day, Monday through Friday, excluding designated holidays.

Current settlement processes put community and regional institutions at a potential disadvantage with their smaller pool of liquidity committed to pre-funded accounts. These institutions have exposure outside of Fedwire Funds Service operating hours in the event their position in these joint settlement accounts goes to zero. For this reason, we believe there is a pressing need to expand operating hours on non-banking days (such as weekends and holidays), and that additional liquidity management tools are highly desirable to support JHA financial institutions and their chosen agents as they update their liquidity management strategies to include 24x7x365 settlement.

### **Proxy database or directory**

One of the recommendations to come out of the Faster Payments Task force was a call for identification and development of an appropriate design for directory services that allows payors to send payments across faster payments solutions by using a non-Personally Identifiable Information (PII) identifier (alias)<sup>1</sup>. That work was undertaken last year over a period of nine months by the Directories Work Group (DWG), which was chartered to provide groundwork to the Faster Payments Council. The DWG evaluated various federated directory options that would enable interoperability in a multi-operator faster payments ecosystem.

As the US Faster Payments Council continues its analysis, JHA advocates for a proxy-based solution to encourage consumer adoption by providing protection for sensitive account information. JHA believes community and regional institutions will be sensitive to any directory structure that privileges early adopters over later entrants, and design principles should not advantage one class of participant over others. Design principles should also prioritize minimizing potential user confusion as individuals and businesses manage multiple account associations to avoid a loss of confidence, barriers to adoption, and diminished product usage.

<sup>1</sup> Faster Payments Task Force Final Report Part Two

JHA believes that continued leadership from the Federal Reserve Bank in the development of a federated directory solution for ubiquitous access has the potential to improve acceptance of, and trust in, the new payment methods, as these highly complex new offerings are built and become mature.

**Education and awareness initiatives**

There may also be a role for the Federal Reserve Bank to consider in educating the public on the advantages of faster payments, including safety and security aspects, whether it is a direct effort, or in conjunction with the U.S. Faster Payments Council.

JHA appreciates the opportunity to provide comments in response to this Request. If you have questions regarding our comments, please do not hesitate to call me at 270-706-9364.

Sincerely,



Rusiru Gunasena  
Senior Director, JHA PayCenter