

December 14, 2018

Federal Reserve Board  
Secretary, Board of Governors  
20th Street and Constitution Avenue, NW  
Washington, DC 20551

RE: Comments on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments;  
Docket No. OP-1625

Dear Ann Misback,

I am writing on behalf of SAFE Credit Union, which serves 13 counties in Northern California. We have over 229,000 members and \$2.8 billion in assets. SAFE Credit Union appreciates the opportunity to provide comments to the Federal Reserve Board (Board) on its request for comments regarding Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments.

Please see SAFE Credit Union's response to the proposed questions.

Is Real-Time Gross Settlement (RTGS) the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?

If the Federal Reserve utilizes the RTGS infrastructure, then it would be leveraging the same architecture The Clearing House utilizes for Real-Time Payments (RTP) settlement. For domestic US payments, the payment landscape is vast with various options that offer an array of vastly different settlement methods along with a complex regulatory environment. The industry agrees that the goal is to march towards ubiquity. There is significant benefit to the Clearing House and the Federal Reserve leveraging the same settlement methods to achieve the ubiquitous goal.

Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?

Consumer demand is apparent for the need to offer a faster and secure payment system that is not limited to specific processing windows. A fully automated 24x7x365 settlement service is necessary. The popularity of FinTechs have created a consumer expectation that financial institutions are looking to solve. For larger financial institutions, the creation of Zelle was a one solution to consumer demand. As for smaller financial institutions, the options to achieve a solution can be costly, out of reach, or place them a distinct disadvantage by not coming to market as fast as the larger financial institutions.

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?

Person-to-Person (P2P) payments are already in high demand based on several consumer reports. This will continue to grow as other payment methods, such as checks, continues to decline. Ease of use, security, and mobile accessibility will be key to successful adoption of this effort.

- What adjustments would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustments and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?

Financial institutions will bear the heaviest lifting to integrate the new settlement option into their existing ecosystem. As previously mentioned, the benefit of leveraging one settlement architecture, RTGS, allows financial institutions to work with their core providers and financial service vendors using a 'standard methodology'. With advanced notification of the system requirements, early planning and conversion tactics can be fully scoped, integrated timely, and allow faster to market adoption.

- 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 service industry adoption of faster payment services? Please explain.

FinTechs, large financial institutions, and The Clearing House already have a 24x7x365 payment solutions. Consumer adoption and demand is already upon us and any further delay creates the appearance of not being in touch with offering competitive solutions.

- What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekend and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information of nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operations solutions that banks could implement

The ability to integrate 24x7x365 transaction settlements will impact the daily balancing practices for all financial institutions. Adjustments will need to be made, however, those adjustments vary greatly depending on the financial institutions adoption of system automation. For example, smaller financial institutions still continue to manually download their daily ACH files instead of switching to an automated download. The same can be said for their balancing practices as they are conducted manually as well. In order to adopt, financial institutions needs to evaluate their capacity for system automation in the areas of settlement, daily balancing and reconciliation, return processing, and fraud mitigation.

- 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

The use of designated settlement accounts is used today and not a new concept. Each financial institution would need to evaluate the impact and feasibility of monitoring separate accounts, though, separation of funds would allow for easier balancing and reconciliation.

## Regarding auxiliary services or other 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

Though the use of email addresses and phone numbers would greatly increase user adoption, security concerns and fraud mitigation must be considered. Centralized databases are one consideration, however, we have seen large scale data breaches occur over the last few years with surmountable impacts to consumers. Other options are to leave the database at the financial institution level to monitor, however, this places greater security burden which some smaller financial institutions may not be able to comply. The ability to move funds faster is very advantageous for criminals to prey on consumers. I recommend more discussion around this topic is needed.

- 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?

Cross channel fraud detection is key with a new RTGS settlement service and prevention software is available and offered by several providers. Fraud schemes are ever changing and evolving. Detection software must continue to innovate as fast as the criminals, though, this alone is not sufficient to truly mitigate fraud. Fraud detection requires a layered approach to and cannot be solved by one service offering. Each financial institution must evaluate their fraud mitigation tactics and consider a layered approach based on their business practices and risk tolerance.

- 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?

The importance of auxiliary services is great and not limited to faster payments. The ability to detect, monitor, and review real-time transactions is significant. The faster movement of funds and consumer adoption will be a target for criminals to exploit in any manner. However, when new payment methods are developed with fraud mitigation in mind, historically we have seen criminals revert back to older payment methods. For example, increased fraud scrutiny with Same Day ACH transactions lead criminals to focus on check fraud assuming those channels were not being as heavily monitored.

## How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

Interoperability is essential in creating ubiquity. Consumers do not understand the difference between the various EFT transactions, therefore, separate operations, and processes are developed by financial institutions to create a uniform experience. It is critical that any and all RTGS services interact with one another. Interoperability between The Clearing House and the Federal Reserve System is one of the reasons the ACH network is so successful and widely adopted. It allows everyone, regardless of size, to be able to participate and be effective on an even level.

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?

Expanding the RTGS settlement to not be limited to interbank only would greatly improve the overall US Payments

ecosystem. The various payment methods has created a vastly complex environment. Proposal to create another RTGS settlement option only adds to the complexity. Even though adoption of new payment methods will continue to grow, what is it doing to retire older payment methods, such as using checks? Right now, we leave it up to consumer to retire these methods, but by doing so they will never truly disappear without intervention. Can we get to a point where these new methods systematically retire outdated settlement methods and force a universal discontinuation date?

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?

Yes, this particular effort will create a new US Payments ecosystem. Oversight is needed for this specific effort to ensure all applicable areas of consideration and stakeholders are included. Any exclusion could greatly impact adoption rates.

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 tool is created, it should be considered for optional use only and not made a requirement. Financial institutions vary greatly on their liquidity management practices. A requirement to use the Federal Reserve's tools adds an additional layer of complexity to adopt this service. In addition, the tool should be able to provide exportable data in commonly used formats which a financial institution can leverage as they deem necessary.

If the Reserve Banks develop a liquidity management tool, what type of tool would be preferable and why?

The tool options should include all of the above and an option to conduct self-service transfers between accounts on demand when needed. Ease of use and flexibility is key to ensure successful adoption.

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?

Similar as a previous question, if a tool is created, it should be considered for optional use only and not made a requirement. Financial institutions vary greatly on their liquidity management practices. If available, it must be accessible with 24x7x365 in mind. Today, settlement windows are traditional and we do not know how real-time payments will change this concept. Even if not leveraged in the beginning, the infrastructure is developed for when 24x7x365 liquidity management will be necessary.

Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how?

Adoption of the RTGS settlement will aid in determining alternative use cases and associated use of a liquidity management tool. As previously mentioned, can RTGS be leveraged to discontinue the other payment methods, for example domestic wires? If so, this could open up several business purposes that weren't initially considered, such as, real estate transactions, security trades, etc.

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?

These initiatives should be created in tandem. If not, then this could affect adoption for financial institutions which need solve for their own liquidity management tool.

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?

Financial institutions need a frictionless method for adoption given the amount of operational, systematic, and risk tolerance changes required to integrate this service. The more requirements to pursue makes it less advantageous and more expensive endeavor to consider. Assistance is needed to aid in ubiquity.

What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

Everyone needs to participate to make this effort successful. We have seen new payment methods, such as Apple Pay, appear to be promising but not live up to expectations due to merchant adoption. The ISO 20022 format changes and ACH Same Day acceptance was a great approach to instilling adoption. Leaving participation to originate a transaction optional, but requiring the receipt of a RTGS.

Beyond the provision of payment and settlement services, are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?

Regulatory compliance and oversight is thoroughly defined. There is a significant amount of grey area between the payment regulations as it pertains to liability between consumers and financial institutions.

Thank you for the opportunity to provide feedback on this Request for Comments and for considering our views regarding potential actions by the Federal Reserve to support interbank settlement of faster payments.

Sincerely,

Jeanne Holmes  
AVP, Payment Systems and ATM  
SAFE CU

cc: CCUL