



December 7, 2018

Ann Misback, Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Ave. N.W.
Washington D.C. 20551

RE: Docket No. OP – 1625 – Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

UMACHA would like to thank the Board of Governors for the opportunity to comment on this very important topic. Payments are evolving at an ever increasing rate and clearly faster payments are the hottest topic at the moment. UMACHA's been communicating with its 700 financial institution members and 50 corporate members to find out their reactions to the concept of faster and real-time payments. Those vary significantly based on the size of the organization and the makeup of their customer bases. But generally speaking they are cautiously supportive of moving payments faster. Most smaller organizations don't have faster payments built into their planning process at this time, they're taking a "wait and see" approach and will depend on their core processor for support. They're not feeling pressure from their customers to offer a faster payment option. On the other hand, the larger institutions are more interested but are also cautious given the significant costs of moving to faster payments. UMACHA feels it will take a number of years before truly faster payments are a reality for most financial institutions and companies.

Overall UMACHA supports the Fed's proposal to offer a Real Time Gross Settlement (RTGS) System for faster payments. It would be the safest and least risky approach to moving them. At the same time building such a system would be a significant effort and would take a number of years to complete. Since the Fed already offers deferred settlement services today UMACHA wonders if it might not be possible for the Fed to offer faster payments settlement using the existing service as an RTGS system is built, thereby speeding up the timeframe when the Fed can offer faster payments.

As the Fed considers its role in Faster Payments and the building on a RTGS system UMACHA suggests it look beyond just the narrow space we call faster payments. There are a number of other networks that use the Fed's settlement services including ACH and much of the check image space along with FedWire. All of these should be able to take advantage of the benefits of RTGS including 24/7/365 settlement and real time information. UMACHA suggests the Fed consider the broader implications of RTGS rather than just focusing on Faster Payments.

The Fed asked nine specific questions in relation to the request for comment. UMACHA's thoughts are below:

1. *Is RTGS the appropriate strategic foundation for interbank settlement of faster payments?*
UMACHA feels it is.
2. *Should the Reserve Banks develop a 24x7x365 Settlement Service?* Again, our answer is yes because it is the safest and cleanest way to manage the risk.

3. *If the Reserve Banks develop a 24x7x365 settlement service:*
 - a - *Will there be sufficient demand?* That's a very difficult question, if we use the U.K. Faster Payments network as an example, it took the network 10 years to really generate significant volume. It could take 7-10 years in this country as well.
 - b - *What adjustments would the industry have to make to operate in a 24x7x365 environment?* They are substantial, not only from the standpoint of upgrades to the institutions core processing systems but also to how operations works. For many institutions being available 24x7 will require a great deal of work or expense.
 - c - *What is the ideal timeline?* As soon as possible.
 - d & e - These two questions are specific to financial institutions and therefore UMACHA is not in a position to answer them.
 - f - *Auxiliary services.* Some sort of directory is absolutely necessary for faster payments to work. It's imperative that we protect personally identifiable information. There are numerous databases today but unless those organizations are willing to share there may need to be something built. The Fed might be a good party to develop such a database. Other services like fraud prevention, fraud tracking, and account validation would be helpful, development will be determined by the market.
 - g - *How critical is interoperability between RTGS services for faster payments to achieve ubiquity?* It's very important but it may be very difficult to make happen. Given that solutions may be blockchain, card-based, or run on traditional rails it will be difficult to tie them together. What would be helpful is a set of Rules or Standards that all providers could program to. That way, regardless of what approach is being used, all providers could build API's to connect.
 - h - *Could a 24x7x365 RGTS system be used for purposes other than interbank settlement for faster payments?* As noted above UMACHA believes it SHOULD be made available for other services.
 - i - *Are there specific areas where the Fed should establish joint Fed/Industry teams to identify approaches for implementation of a 24x7x365 settlement service?* Following the lead from the Faster Payments Task Force, UMACHA believes having the industry work together is a great idea.
4. *Should the Federal Reserve develop a liquidity management tool that would enable transfers between Fed accounts on a 24x7x365 basis?* Given that most institutions are NOT open 24x7 it's critical that the Fed offers a service that would allow an institution, or it's agent to fund a faster payments account whenever necessary.
5. *If the Reserve Banks develop a liquidity management tool:*
 - a - *What type of tool?* A combination of those listed in the RFC, a bank, agent could originate transfers or they could be automatically generated.
 - b - *Would the tool be available 24x7x365 or during certain hours only?* It would only make sense to have to tool available at all times.
 - c - *Could a liquidity management tool be used for purposes other than to support real-time payments?* UMACHA sees no reason the tool could not be used to support other payment systems.
6. *Should a 24x7x365 settlement service and liquidity management tool be developed in tandem or should the Fed only pursue one or the other?* They should be developed together.
7. *Do the actions (both) help achieve ubiquitous nationwide access and efficient faster payments in the long run?* Given that the Fed is the provider of last resort for most financial institutions there is no question that most financial institutions will play in faster payments with the Fed offering a product.

8. No comment

9. No comment

UMACHA has one other concern when it comes to who will have access to the RTGS system and that is the issue around the OCC allowing Fintech's to gain charters which would then allow them to access Fed services and Fed Settlement services. Is it the intention of the Fed to allow those organizations to have access to a product like RTGS and has the Fed considered the ramifications of such a move on financial institutions?

UMACHA appreciates the opportunity to comment on the Request for Comment dealing with Interbank Settlement for Faster Payments. We look forward to hearing next steps in this movement to faster/real time payments in the US.

Sincerely,

Fred Laing, II

Fred Laing, II
President & CEO

Cc: UMACHA Board of Directors