



## Docket No. OP-1625

# Potential Federal Reserve Actions To Support Interbank Settlement of Faster Payments, Request for Comments

## Comments: Suggested Analysis Framework, Critical Questions and Definitions

December 12, 2018

Thomas N. Gerry

Today – Physical and digital Payments are a chain of buyers and sellers. Here are some observations about the chain and the stakeholders:

- Payments chain value-add participants and competitors are critically necessary.
- Originating Buyers do not want to pay the costs of payments; neither at the point of sale, POS, nor online, nor on their bank statements. They expect digital payments to be like paying with currency and checks, without additional charges.
- Non-bank value-add participants must recover their costs and earn profits.
- Banks must recover their costs and earn profits. Banks want the freedom of choosing processors, brands and networks from market competitors.
- Originating Sellers want lower effective payments chain total costs, and the freedom of choosing processors, POS terminals, and e-commerce gateways from market competitors.
- Because Originating Sellers and Banks may negotiate terms and prices for Payments Chain services and products, **there are no standard costs, nor revenues**. Even the card brand publicly disclosed interchange tables do not apply to all Originating Sellers.

Faster Payments truths will be the same.

Should the Real Time Faster Payments goal apply to all the value-add buyers and sellers in the payments chain?

- Switching and messages
- Transportation
- Scan, balance and transmit, post and clear
- Authentication & authorization
- RT Fraud scoring, alerts, rules
- Statements, reports, reconciliation
- Compliance

If so, bank account activity will explode, every individual Buy/Sell spawned by the Chain process will post as individual deposits and withdrawals to all the value-add participants' bank accounts.

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If not, how can the Net amount be calculated to Real Time post to the Seller's bank account?

In my research for my book, *Payments Power*, I analyzed many monthly merchant statements, for different types of businesses. The net effective deposits varied based on processor pricing, transaction mix, purchase amounts and seller checkout practices. Out of every \$100 sold, some only increased their available checking account balances \$95, others gained as much as \$99 on average.

For individual sales transactions within any given business there is great variation in effective balance increases.

Who bears the cascade of related liabilities if the Real Time deposit is posted Gross, the same amount as the buyer tenders?

- Today credit and debit card account pass thru costs to Originating Sellers most commonly are aggregated and paid monthly by the sellers to their acquiring processors.
- The processing and pass thru costs and revenues to value-add non-bank participants, and to Banks are gross transactions daily (business days), weekly, monthly and quarterly.

Originating Sellers will not actually want Real Time Net Settlement individual transaction deposits. They will want same day 24 x 7, 365 gross batch deposits to their bank accounts.

Banks might be able to effectively increase available balances 24 x 7, 365, for Originating Sellers, but resources and requirements to post to ledger balances and settle daily on bank holidays and weekends do not currently exist.

Some reports of payment reversal transactions used to effectively push money to Payees are noted. However, these transaction instances do not include value-add costs or revenues. Even P2P business models will have to eventually deal with reality.

Real Time Net Settlement by transaction, 24 x 7, 365 may be simply impossible to determine now or in the future.

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While some of the value-add costs and revenues are transaction driven, many are message driven, monthly fixed cost driven, and contract driven; discounts and incentives over the life of the upstream and downstream contracts within the Payments Chain.

More importantly, Payments Chain value-add participant competitors will not disclose their list prices, and especially not their individually negotiated prices.

Federal Reserve Interbank Settlement of Faster Payments 24 x 7, 365, might include daily batch aggregation -- of the competitive value-add participants' individual Real Time transaction level Originating Buyer and Seller debits and credits.

The Federal Reserve and other entities may also provide services that improve settlement of the daily and periodic batch value-add costs and revenues.

If there are any questions about my comments and Payments Chain Framework, please call or text 407-920-8357. Or email [tomgerry@paymentspower.com](mailto:tomgerry@paymentspower.com)