

Request For Comment

Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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Fargo ND

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1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?

- ⌚ Yes, a real time solution is needed and a centralized solution through the Fed makes sense. FIs and the country in general view the Fed as a trusted financial institution for the country in its role as the Central Bank.
- ⌚ There is a need to evaluate who is going to benefit the most? The Fed, the bank, or the customer → need to make this somewhat equal
- ⌚ If the bank is on the loss side of the deal, some will not adopt faster payment process
- ⌚ Fed needs to be involved since transactions are going between 2 customer accounts at separate FIs or through non-FI accounts clearing through FIs (ie. Walmart)
- ⌚ Current documentation is too broad/generic – Fed needs to put together a framework with details on what this product would potentially look like (it is difficult to comment on something that is so vague). We understand there will be another RFC regarding a more detailed solution, however, smaller banks may not be able to visualize the future based on how vague this document might be, and could result in the lack of importance comments.
- ⌚ How does a bank address for 24x7 availability of funds? Fed needs to provide guidance on options

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

- ⌚ Yes - see answer above.
- ⌚ Is there a way to leverage the technology and process used for debit card transactions? It is a similar idea and the infrastructure is partially setup. Would need to connect how to make this possible for consumer to consumer transactions. Fed would be the connector between FIs. There are banks using a debit card solution currently, but with delayed settlement and they are OK with that solution.
- ⌚ If the Fed isn't involved, another third party will provide service and it may be very costly.

3. 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?

- ⌚ Sufficient Demand: Yes, consumers and businesses support real-time payments now. New solutions are already being rolled out to assist with faster payments. **All dependent on costs to both bank and consumer**
- ⌚ Sources of demand: Millenials, Gen Z, and businesses. People used to using online payment options & devices, businesses.

- cloud **Types of Transactions:** Bills and P2P. Online shopping, B2B. tech replacement, bill payment, one-time payments to others, possible replacement for ACH transactions on direct deposit for payroll. if debit push, businesses would use for payment of invoices, etc.

General Comments: Banks will need a way to collect fees and/or ensure low cost implementations/maintenance for their chosen solution.

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 adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?

- cloud Secure environment is key to both the bank and end users (consumers)
- cloud Financial investment would be significant (new module/software to handle transactions, implementation, training, possible staffing changes or different hours)
- cloud Timeframe: difficult to assess when we aren't sure what the end product would look like; what are requirements for implementation; could start small and target a few large customers in Twin Cities market
- cloud Cost outweigh benefits? Possibly. Each FI would need to assess benefits. Risk if we don't adopt new settlement process if Fed moves forward...potential loss of customers who will require this type of service to be available (we need to be competitive with the services we offer)
- cloud New settlement process could also put pressure on state-owned banks (Bank of North Dakota) – smaller FIs rely on BND
- cloud Need to consider the ramifications across the board.
 - o Limits, collateral, fraud. How is Europe doing it?

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 services industry adoption of faster payment services? Please explain.

- cloud If Fed drags their feet for too long, another third party could create a similar process and the cost could inhibit participation going forward
- cloud If Fed develops a detailed reasonable plan, financial institutions might jump on board more quickly because the Fed is a trusted institution
- cloud Ideal timeframe: 2-3 years – ideally no later than 2020, the need will be filled by other solutions after so many years. Faster payments are going to happen regardless, so the Fed can assist by centralizing the process.

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 weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day

accounting for 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement?

- ⌚ Banks would be required to keep funds available in their accounts and have a LOC
- ⌚ Would banks want the option to defer receipt of such information for nonbusiness to the next business day: yes (especially for weekend activity)
- ⌚ Customers wouldn't have float time either way with faster payment service, due to instant payments
- ⌚ Extended employee hours if automation is not a possibility. We would need to plan 6 months to a year in advance for filling staff, or more than a year evaluate outsourcing certain services to 24X7X365 providers offering those services and contract negotiations, etc.
- ⌚ Core bank information management – these systems would need to be re-engineered to potentially update information in a 24X7X365 environment depending on how the money management would happen in a 24X7X365 Federal Reserve environment. Very costly to FIs.

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 the demand for faster payment settlement?

- ⌚ Alternate account – have ability to earn interest and be eligible toward reserve requirements; these arrangements would entice banks to use service
- ⌚ LOC – what are terms (rate, amount, increments for kick-in, etc.)

Regarding auxiliary services or other service 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 24x7x365 RTGS settlement service? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

- ⌚ Consider privacy ramifications for customers – many people will not want email addresses and phone numbers listed in a directory – **Question for our consideration, not to be placed in the RFC:** Would people be more open to their email and phone number in a database rather than account or debit card numbers? I've not seen industry data on what consumers are more comfortable with? Are you seeing any data on this? Just wondering the thoughts behind this ... anyone feel free to add comments here.
- ⌚ Need a dedicated communication line between all participating FIs
- ⌚ Solutions should be developed to provide the most secure, yet efficient way to make payment.

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?

- ⌚ Bank needs to be able to set limits for individual transactions and types of customers

- 💡 Need to be able to deny transaction for a customer if funds aren't available and/or above limit – settling real-time does not allow for returns
- 💡 Who is responsible for losses? Likely the bank...the Fed needs to have a plan in place to address this before any bank will move forward with faster payment services
- 💡 Ideal for the tool to be embedded in the Fed's service (interface with Fed tool if an external provider is required)
- 💡 Certain risk parameters would have to be calculated and limits set for after hours.

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?

- 💡 They are important – this seems obvious! 😊
- 💡 Yes, these are essential.
- 💡 These are important. They go hand in hand.

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

- 💡 Highly critical – all players need to have access to the service regardless of size of FI
- 💡 It is very critical. It will have to work for everyone, including the small banks.

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?

- 💡 Focus first on faster retail payments and then branch out if process goes well
- 💡 Electronic receipts, attachment of invoices, messaging system, bitmojis.

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, need FI input to help implement a practical solution
- 💡 Yes, unless it slows down the implementation significantly.

4. 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?

- 💡 Yes – necessary in order to facilitate new settlement process

5. If the Reserve Banks develop a liquidity management tool:

- What type of tool would be preferable and why?
- A tool that requires a bank to originate a transfer from one account to another

- A tool that allows a agent to originate a transfer on behalf of one or more banks
- A tool that allows an automatic transfer of balances (or “sweep”) based on pre-established thresholds and limits
- A combination of the above Why: for greater flexibility (banks & funding institutions)
- An alternative approach

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?

- ⌚ Tool available 24x7x365
- ⌚ What would be the purpose of restricting hours instead of available all hours?

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?

Potentially a liquidity management tool might be used for daily liquidity management in some FIs, not just outside of banking hours. Might reduce the volume of human intervention needed over time.

6. 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?

- ⌚ If settlement service will be offered, liquidity management tool is a must.

7. 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?

- ⌚ Difficult to predict, but it all depends on how well the tool is built (includes testing, verification, etc. prior to implementation)
- ⌚ The more created by the Fed, the better. All banks touch the Fed in one way or another, so ubiquity would follow.
- ⌚ Customers don't understand settlement – the front-end experience is going to be the most important to achieving ubiquitous faster payments, and an FI buying in to the concept, and helping to educate their customers or providing incentives for using the faster payments solution. The critical piece for FIs (who should understand settlement) is cost and automation in order to buy-in to faster payments.

8. 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?

- ⌚ Using debit card rails. Fiserv transfer NOW. TCH.
- ⌚ Access to a lower cost standard, simple front-end app that banks could deploy for their customers that they could easily use and understand, potentially supporting consumers educating each other on faster payments over time.

9. Beyond the provision of payments 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?

The Federal Reserve should consider participating in the front-end of faster payments, such as a standard app that people could use, and banks, at their discretion, could deploy with their customers. With every service provider putting their own front-end on it, the general public is confused about how things work. As people visit about the solution, it is even easier for the general public to help sell a faster payments environment if their experience can be the same as their friend's experience. For example, if my sister uses Zelle, and my bank doesn't, we have to figure out together, how we can send money to each other. Both parties or one of the parties having banking experience helps that, but the general public could simply throw their hands in the air and give up trying to make a faster payment. A great example of people teaching each other with negative impact is the merchant services vendors providing debit/credit card payments equipment/processes – every merchant could have a different terminal for customer use, and the success of debit card payments regarding customer experience, fraudulent transactions, etc. is dependent on how the cashier explains the use of that machine. This has an impact on how customers view the use of a debit card or credit card, or bank or the issuer of the card. Setting cards up in something such as Apple Pay can also be difficult for the general public to understand, depending on the demographics.

General Questions:

- ⌚ What happens when the sender doesn't have any money?
- ⌚ How long will it take to write a regulation for new payment rail?
- ⌚ What is the cost of this? Staffing? Systems? Impact to bottom line?
- ⌚ What channels will this draw traffic away from?
- ⌚ What is the dispute process for these transactions?