

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

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From: 1st Source Bank, Chris Murphy

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Comments:

NONCONFIDENTIAL // EXTERNAL

12 CFR Chapter II
[Docket No. OP-1625]
Potential Federal Reserve Actions To
Support Interbank Settlement of Faster
Payments,

Dear Sirs,

We are a \$6.2 Billion bank and holding company serving a Midwestern sub regional market in two states composed of medium and smaller size urban cities and rural markets. We also serve a set of industry specific businesses across the United States.

We are writing to encourage the Federal Reserve System to move with speed to develop, offer, and manage a faster real time payment system which would be equally available to all Federally Insured depository institutions. We support the Federal Reserve becoming a provider of a faster settlement service as outlined in the recent proposal issued in October 2018.

While there is a faster payment system being developed in the private sector it is not available and may never be available to all banks. It has been very slow to develop and many of us are subject to our system and the core providers timing and pricing. Also the interests of the largest banks are now and may be even more so in the future at odds with the continued success of Community Bank across the United States.

The system being developed is expensive to smaller institutions and will always be controlled by its founding very large banking companies.

There are a number of reasons why the Federal Reserve should provide a faster payment system to all banks and limit such system to the insured depository institutions. They include:

- 1)The Federal Reserve is already connected to and has existing service relationships with financial institutions across the country and with other regulators and oversees the regulatory compliance of such institutions in areas including GLBA, vendor management, data security, privacy, and more. We, like many financial institutions, would prefer to expand our existing relationships with the Fed rather than create new ones.
- 2)The integrity of the payment system relies on having entities regulated and regularly examined to ensure their efficacy and safety as counterparties to payment and financial transactions.
- 3)The banking industry in the US is bi-furcated. The largest banks can establish dominance over the whole system by their control over the private payment system setting pricing, operational policies and practices, grievance resolution procedures, and a host of other terms and conditions for access and use. They have no competition unless the Fed can provide it and it is only the Fed that has the capability to reach all depository institutions.
- 4)Offering two solutions, one private and one public, will increase the resiliency of the faster payment systems marketplace similar to what exists in the Check and ACH markets today.
- 5)The addition of the Federal Reserve will increase competition with the current private sector operator resulting in better pricing and customer service especially for the smaller banks across the country.

6)The Federal Reserve System participation has now been considered for many years with no real action being taken. The private sector solutions, in spite of being given the time to establish themselves, have been very slow to roll out and then almost not available to smaller institutions. It is important in developing a public system that it be available only to chartered depository institutions and that its system be interoperable with private sector solutions. Payments, settled through the Fed System, is a critical element in our depository franchise value and the services we now provide, whether they be deposit or credit related, or just plain financial counselling, will be in serious jeopardy if we do not have an ubiquitous solution open to all banks. With this in mind we believe it is critical that The Federal Reserve move forward as rapidly as possible with the development of a real time 24X7X365, faster payment system.

Respectively submitted,
Chris J Murphy III

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