

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

Description:

Comment ID: 132896

From: Iowa State Bank & Trust Co, Aaron A. Kness

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

Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Sir or Madam,

I am writing in regards to the Federal Reserve Bank's request for comment on potential actions to facilitate real-time inter-bank settlement of faster payments. As President of Iowa State Bank, a \$130 million community bank headquartered in rural Iowa, I am concerned that very large financial institutions and fintechs will ultimately control the US payment system, to the detriment of my customers and stakeholders.

The current structure negatively impacts community banks and I believe it's incredibly important that the Federal Reserve provide real time gross settlement service (RTGS). Without the involvement of the Federal Reserve community banks will be forced to use solution providers owned and controlled by the largest financial institutions in the country. This will inevitably add cost to smaller organizations, strip away control and reduce innovation. If the Federal Reserve provides RTGS a liquidity management tool will also be needed. Providing both of these services will ensure that community banks can remain a vital part of the US banking system.

Regarding P2P payments, none of the solution providers currently on the market are interoperable. The Federal Reserve has an opportunity to, and should address this issue while also providing a directory service. Fragmentation of P2P solutions forces users to seek out the largest, most highly adopted providers. A provider such as Zelle is owned and controlled by the largest banks in the US. When customers of a community bank utilize Zelle they provide these larger banks with their private financial information, creating substantial risk to the community bank. There currently exists no alternative for the community bank to offer its customers, which is why the Federal Reserve's involvement is so critical.

As a member of SHAZAM I urge you to read their comment letter written by Kevin Christensen, who also serves on the Faster Payment Council. SHAZAM's leadership team, including Kevin, is very knowledgeable and he articulates the position of community banks and credit unions well. Iowa State Bank's focus is to serve the financial needs of southeast Iowans and our expertise lies in agricultural and small business lending. My understanding of the US payment system is admittedly limited, however I know how important it is for community banks to remain part of the payment system. Thank you for your consideration.

Sincerely,

Aaron A. Kness
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