

FW: Docket No. OP-1670

Larry Winum [lwinum@glenwoodstatebank.com]

10/30/2019 11:09:02

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NONCONFIDENTIAL // EXTERNAL

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

Re: Docket No. OP-1670

Dear Ms. Misback,

As a community bank and a long time Federal Reserve member, I want to thank the FRB for acknowledging the fact that a majority of industry stakeholders were in favor of the Federal Reserve accepting the responsibility to build and operate the new faster "FedNow" payment service which will provide interbank 24x7x365 real time gross settlement to support faster payments. One of the Federal Reserve's main responsibilities is controlling and monitoring the payment system, so it makes total sense that enhancing that system through FedNow continue to be the Federal Reserve's main purpose.

I have attached my earlier comment letter from December 11, 2018, and do not have a lot to add, other than to emphasize the need for a faster payments system is immediate and I would ask that the Federal Reserve make every effort to expedite this process and get it up and running sooner than later.

In addition, as a board member of SHAZAM in Johnston Iowa, I have attached a more detailed comment letter from them that addresses specific issues that need to be addressed through the implementation of FedNow.

If our bank can assist in any way through this process please let us know!

Sincerely,

Larry Winum  
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Glenwood State Bank  
32 N Walnut St  
Glenwood, Iowa 51534  
712-527-3157  
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NMLS 658325

## Larry Winum

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**From:** Larry Winum  
**Sent:** Tuesday, December 11, 2018 11:44 AM  
**To:** 'regs.comments@federalreserve.gov'  
**Subject:** Docket # OP-1625; Request for Comment; : Potential actions for the Federal Reserve to facilitate Real-Time Interbank settlement of faster payments

Ms. Ann E. Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitutional Avenue, N.W.  
Washington, DC 20551

Dear Ms. Misback:

First of all, I would like to thank the Federal Reserve for allowing community banks like mine to comment on your consideration of enhanced services to address the mismatch between faster payments and slower settlement, and for the Fed to play the primary role in achieving nationwide access to safe, efficient and faster payments in the United States.

In addition to being able to comment officially here, I was also able to attend your town hall meeting on this topic back on November 7<sup>th</sup> in Cedar Rapids Iowa. As a longtime member bank of the Federal Reserve I appreciated your efforts to *get out and meet with community bankers, to assist us in better understanding the issue, and listen to our input on this important subject.*

Although our comments at that meeting were not considered "official" I believe the message that was sent on that day from over 50 bankers was loud and clear.

We emphasized and confirmed the need for the Federal Reserve to develop and operate a 24x7x365 Real Time Gross Settlement (RTGS) service. In addition, in order for community banks to have the ability to efficiently and effectively manage an RTGS, the Fed would need to develop some sort of liquidity management tool. The time to accomplish this task is immediate, and needs to be a high priority, developed and implemented ASAP. For community banks a 24x7x365 RTGS system would mean equal and fair access to real-time payments and real-time settlement, offering choice and flexibility in the faster payments world. I believe, the need for the Federal Reserve to provide RTGS is absolutely essential to the future viability of community banks.

If the Fed does not provide this service, community banks will be forced to give up their information to be serviced by solution providers owned and controlled by the largest financial institutions in the Country. When faster payments are concentrated through a single solution provider, community banks and the customers they serve will lose choice and innovation will be hampered. I understand that our banks' ability to efficiently and effectively manage an RTGS system will require the development of a liquidity management tool. I support the Fed for recognizing this important element of this service. The result will be better service to both our account holders and businesses.

I have customers consistently inquiring whether our bank can provide P2P transfers like "Venmo". As an Iowa bank that uses the SHAZAM debit card network, my initial response was that it is available through our SHAZAM BOLT\$ solution. Unfortunately with our current system there are multiple P2P payment solutions, but none are "interoperable". Because of the lack of interoperability, P2P solutions like our SHAZAM BOLT\$ are often denied routing P2P transactions to DDA accounts of large financial institutions. In effect, it requires that my customers use the large institutions' s P2P solution to meet their payment needs. I do not believe it is in my customer's and banks best interest to have the largest financial institutions in this Country controlling the faster payments system. In my view, that is one of the main functions and responsibilities of the Federal Reserve. As it exists today, the faster payments system is fragmented. This fragmentation restricts access, limits competition and creates an unfair burden on community banks. As a result, many community

banks are being forced to consider options like Zelle, which is owned by the nation's largest banks, in order to provide a faster payment solution to their customers. As a 4<sup>th</sup> generation community bank, Glenwood State Bank is not ready or willing to succumb to this current option. As I believe was clearly stated in Cedar Rapids, community bankers believe it is the Federal Reserve's responsibility to provide an open and interoperable directory service (database) that payment and financial service providers and financial institutions can equally access to determine how to route a faster payment. The Fed is already charged with fostering safety and security within the US payments system and the implementation of faster payments should be no different. This is simply another logical step in the payment innovation process.

No other entity is as transparent to the market, to include rule setting and governance as the Federal Reserve Bank. You are inclusive to all stakeholders and impartial by nature. The Fed provides services that are critical to community banks ability to gain access that may not otherwise be available or affordable. It allows community banks the ability to remain independent and continue to provide meaningful support to our local communities.

We must continue to improve both speed and security of payments in order to support our modern economy. It is time for the Fed to move from catalyst only role to a functional, operator role. There is no reason for a community bank to adapt the current private sector solution as it is not designed with community banks in mind and is fully owned and controlled by the largest financial institutions.

In summary, as a 119 year old community bank, and longtime member of the Federal Reserve, I strongly encourage and support the Federal Reserve to be fully committed to developing and operating a 24x7x365 RTGS service, including the development of a liquidity management solution that will efficiently manage the movement of faster payments. In my view it is critical that the Fed take a leading role as an operator of the faster payments system. Without the Federal Reserve leading a significant operational role in the creation and implementation of the new faster payments system, the much needed goals of safety, universal and equitable access will not be achieved. I believe anything short of this kind of commitment will put my bank, customers and thousands of other community banks at a decisive, competitive disadvantage.

I am willing to assist in any way possible to help expedite this process with the Federal Reserve. Thank you for your consideration.

Larry Winum  
President  
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32 N Walnut St  
Glenwood, Iowa 51534  
712-527-3157  
Cell 402-960-5385  
NMLS 658325

October 30, 2019

Via Electronic Submission

Ann Misback, Secretary  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551  
[regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

Re: Docket No. OP-1670

Dear Ms. Misback:

SHAZAM appreciates the opportunity to provide input on the Federal Reserve Board's planned development of a 24x7x365 real-time gross settlement service, FedNow.

SHAZAM is owned by 540 community financial institutions and provides processing services to more than 1,000 community financial institutions. Our over-arching desire is to ensure all community financial institutions and their accountholders have nondiscriminatory access to an open, standards-based U.S. payments system (card, real-time ACH, faster payments, future systems, etc.). Without such access, small to mid-sized financial institutions will become disenfranchised from the payments system and be forced to utilize the proprietary systems of their competitors. This will put small to mid-sized financial institutions at a disadvantage and restrict their ability to compete.

SHAZAM appreciates the Fed taking the initiative to bring FedNow to market and bring the industry together to collaborate on improving payments systems. The result is a solid foundation for the future of payments. As noted in the Strategies for Improving the U.S. Payment System, the Fed plays an important role in enabling innovation and promoting a safe, efficient, and broadly accessible U.S. payments system.

SHAZAM strongly believes in industry collaboration to advance payments initiatives. To this end, we ask the Fed to work closely with the newly formed U.S. Faster Payments Council to address the issues identified in this letter. We also ask the Fed to utilize the U.S. Faster Payments Council as the primary forum for continued collaboration and problem solving.

**Timing and Functionality**

The U.S. market for faster payments is strong. Specifically, community financial institutions are seeing a growing business need for FedNow. SHAZAM urges the Fed to act quickly to develop a real-time gross settlement service. Simply stated, community financial institutions cannot wait until 2023 or 2024 for this service.

Further, the product initially delivered cannot be a minimalist implementation. The United States is behind other countries in faster payments. Proprietary systems put the viability of community financial institutions and competitive payment networks at risk. The longer the Fed waits to implement an effective solution the more disenfranchised community financial institutions may become. The timely development of FedNow will be in the best interest of the public which demands a safe, secure real-time gross settlement system that passes regulatory scrutiny.

**Interoperability**

Interoperability is the only viable method to assure open, nondiscriminatory access to the faster payments systems by customers of all financial institutions. Further, interoperability must be available at FedNow's launch. If interoperability isn't available upon launch, choice will be limited, and institutions will have to join other networks to achieve ubiquity of access.



While there is some precedent for this approach (e.g. FedWire), the clearer and faster path to ubiquity will involve interoperability of private and public sector faster payments solutions. This will require the Fed to work directly with the private sector operator(s) so interoperability among systems can exist immediately. This methodology must also enable new and innovative solutions to ensure ubiquity and security.

SHAZAM also believes the Fed and the U.S. Faster Payments Council and its member organizations should work in parallel to develop mutually agreed upon uniform operating standards. The implementation and enforcement of these standards will help ensure a competitive landscape in the future and the continued existence of small to mid-sized community financial institutions.

Specifically, the Fed should require that all FedNow participants have the ability to send and receive credits to all other participants. This requirement would prevent an organization from joining FedNow in order to only push credits to community financial institution endpoints without offering the reciprocal service to receive credits.

#### Governance Model

The Fed has done an exemplary job in planning, facilitating and executing the actions of the Faster Payments Task Force and Secure Payments Task Force. As noted, the lack of uniform standards and rules to the faster payments system has led to a fragmented U.S. payments system. Present day standards, laws and regulations are not sufficient to provide the momentum needed for the rapid adoption of faster payments solutions.

The Fed should work closely with the U.S. Faster Payments Council and accredited standards bodies like the International Standards Organization and the American National Standards Institute to advance the development of an inclusive governance organization. This action will ensure the proper development and enforcement of uniform technical and operating standards. Such a structure will allow the benefits of competition to all financial institutions and their customers which is consistent with the values expressed in the Faster Payments Task Force's final report. The result of such a system will assure nondiscriminatory access and ultimately result in ubiquitous interoperability of the faster payments system.

A precedent exists that proves the effectiveness and workability of this solution. Nacha, and its public/private partners successfully governs the Automated Clearing House operating rules. The Fed ACH Operating Circular makes the Nacha rules binding on the Fed as an operator. We believe a similar structure can work in a real-time gross settlement system.

#### Core System Access

The availability of FedNow doesn't necessarily mean it will be immediately usable to financial institutions. Most community financial institutions will gain access to a faster payments system directly through their core provider, which can be a barrier to payment system advancement. Often there are large connection fees, unreasonable project timeframes, or an exclusivity relationship to a preferred core provider. The Fed must not lose sight of this potential impediment to ubiquitous implementation. We encourage the Fed to work directly with the U.S. Faster Payments Council, core providers and other organizations to identify and remove barriers to implementation.

#### Directory

A major obstacle to ubiquitous payments is the enrollment process. Existing solutions, which may or may not provide the same quality of service, have an advantage because of the users and accounts already enrolled. For this reason, easing the enrollment and day-to-day usage burdens for a new payment type will be critical. Implementing solutions that require sensitive account credentials be shared and transmitted among several parties exposes the system to unnecessary risks. This situation can be resolved by the creation and/or adoption of a directory service.



Recommendation 4 of the Faster Payments Task Force Final Report Part 2 calls for identification and development of an appropriate design for directory services that allows payers to send payments across faster payments solutions by using a non-personally identifiable information identifier as an alias. Serious consideration must be given to using an email or phone number as an alias. Today, many consumers have relationships with multiple financial institutions and enrollment of single phone number or single email address should not "lock out" the use of the alias from other financial institutions. Nor, should consumers be required to manage multiple aliases. SHAZAM believes establishing a faster payments directory will ease the enrollment process, make day-to-day transacting simpler for users, and reduce the need for users to share sensitive account credentials within the system.

Our position also aligns with the Effectiveness Criteria regarding "Usability," which states, '[t]he Solution should enable an Entity to initiate a payment with limited information (e.g., with a name, email address, and/or phone number) as appropriate for each use case and in a way that sufficiently supports receiver Authentication' and Effectiveness Criteria for "Security," which states that '[t]he Solution should have controls and mechanisms to protect sensitive information needed for Account setup, transaction setup and problem resolution from unnecessary disclosure. For example, the Payer and Payee should not need to know each other's Account numbers or other sensitive information to initiate or receive the payment.'

Implementation of a multi-purpose directory can be accomplished in many ways and there are several challenges that will need to be addressed. Financial institutions want a neutral intermediary, not a market competitor. Using an alias will also provide security and privacy of customer financial information regardless of who provides the service. Financial institutions and end-users will be reluctant to allow private financial information to be stored at a central database or directory. The Fed should work with the U.S. Faster Payments Council to help facilitate the development of a flexible directory ecosystem that allows equal access to financial institutions or their designated service providers. This will ultimately result in maximum choice and flexibility for consumers within the faster payments system.

#### ISO 20022

ISO 20022 has emerged as the global standard for payments, and we fully endorse its use in developing FedNow. Because ISO 20022 offers several options, we specifically recommend this transacting framework be implemented in a manner consistent with the Real-Time Payments Group market practices. This will ensure FedNow's implementation of ISO 20022 messages are consistent with the implementation methods of other real-time payments operators in the United States, easing the path to interoperability.

#### Credit Push Transactions and Transaction Limits

The Fed has indicated the FedNow solution will leverage push payments (also referred to as "credit" transactions). One advantage of push payments is reducing the need for consumers to share sensitive account credentials in order to make payments. In its launch, SHAZAM supports basing FedNow on credit push transactions. However, as the system matures, it may be necessary to revisit this situation depending on market conditions.

Similarly, transactions limits should be set based upon competing products when the service is launched. Currently, the private sector operator has a \$25,000 transaction limit that's likely to be increased to \$100,000 within the next year. FedNow should ensure transaction limits set at launch and as the product evolves are competitive with other solutions.



### Real-Time Payee Account Validation

Another important security-related consideration is whether the system should include real-time confirmation of the validity of the receiver's account. SHAZAM has observed that social engineering and other forms of deceit can be used to cause consumers and business users to send funds to the wrong account. Many existing push payment systems, such as the push to debit card, have implemented a form of account validation. This functionality reduces errors in payments, prevents certain types of fraud, and increases consumer confidence in using these systems. Additionally, it's assumed, as with all forms of payments, there will be fraudulent use of the system and a need for dispute services.

### Request for Payment Feature

We support making a "request for payment" feature available as part of the initial FedNow implementation. This can eliminate some of the uncertainty that exists when pushing funds from one account to another. With the request for payment feature both parties are able to identify each other prior to releasing the funds through an irrevocable credit push transaction. This feature could be most effectively serviced through the use of solution providers directly connected to financial institutions or by the financial institutions directly.

### Master Accounts

SHAZAM supports FedNow transactions settling through master accounts as this will provide the maximum amount of liquidity and flexibility for community financial institutions. Although not all community financial institutions will have access to a master account, this won't inhibit their participation as correspondent. Service provider organizations can be utilized, similar to the existing payments infrastructure.

### Accounting Regime

While many organizations will prefer using a seven-day accounting regime, SHAZAM recommends the Fed develop a methodology for institutions that want to stay on a five-day accounting regime to ensure choice and flexibility. Allowing financial institutions continued use of a five-day accounting regime, in which weekend transactions are recorded and reported on the day they occur but not requiring financial institutions to staff 24/7/365 is a level of flexibility necessary for community financial institutions.

### Liquidity and Daylight Overdrafts

We support the Fed providing liquidity flexibility through daylight overdraft and discount window availability. We are in favor of any structure that brings more community institutions into the fold and this flexibility would be positive.

### Fee Structure

As noted in the announcement, the Fed is considering a fee structure that could include a combination of per-item fees, charged to sending and potentially to receiving banks, and fixed participation fees. Separate per-item fees could also be charged for other message types offered in the future. Similar to the Fed's role as an ACH operator, SHAZAM supports structures that allow the Fed to meet statutory requirements, permitting community financial institutions to be competitive, and not be materially different based on volume.

### Fraud Prevention Services

We agree the financial institution or service provider should be the primary mechanism for fraud detection and prevention using neural network services. However, we support the Fed's efforts to facilitate the industry in sharing information at a network level such as identifying bad actors. This effort will greatly help the safety and security of the product.



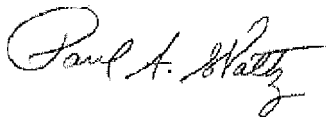
## Conclusion

It's necessary for the Fed to immediately make features available that allow FedNow, and community financial institutions, to effectively compete in the real-time gross settlement space. Additionally, we urge the Fed to continue to work with the industry through outreach and engagement with the U.S. Faster Payments Council as well as accredited standard bodies such as ISO and ANSI to continue faster payments advancement and help ensure the country's economy is properly served.

It's an exciting time in the evolution of the payments system, and we support the Fed's leadership in providing interoperable and nondiscriminatory access for community financial institutions.

SHAZAM appreciates the opportunity to comment on this critical issue.

Sincerely,



Paul Waltz  
President and CEO

