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7 November 2019

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

Reference: Docket No. OP-1670

Dear Ms Misback,

Please find attached my submission in response to the request for comments on the proposed FedNow Service that is being proposed by the Federal Reserve System.

By way of introduction, I am currently an independent consultant that has been working in the area of payments reform, and in particular, faster payment systems for the better part of this decade. Between 2008 and 2016, I was Head of Industry Policy with the Australian Payments Clearing Association (now AusPayNet), the Australian national payments body. While there, I provided policy leadership on the development of what would become Australia's faster payments system, the New Payments Platform, which went live in February 2018 and is now processing nearly 1 million transactions a day (in a market that has population smaller than that of Texas).

Currently, I am consulting on two other faster payment implementations: with Payments Canada on their faster payments system, known as the Real-Time Rail, and with Karandaaz Pakistan on the Micro-Payments Gateway project to be delivered by the State Bank of Pakistan, which will provide faster payments capability in the fifth most populous country in the world in the second half of 2020.

Please note that any views expressed in this submission are the personal views of the author and do not represent the views of any client or employers, past or present.

### **Market Need for FedNow**

The United States is a unique market for faster payments in a number of respects. Its sheer size as a developed and sophisticated market of 325 million people with the complexity from having thousands of deposit taking institutions provides unique challenges. However this size also provides the potential for competing networks to operate at the necessary scale to be sustainable. This exists within high value with FedWire and CHIPS, as well as in ACH and card payments. This is in contrast to smaller developed markets such as Canada and Australia, where smaller populations and a more concentrated banking systems tends to favour a single network provider.

In respect to FedNow entering a market with an existing private provider, I would argue that market forces are generally preferred to regulatory intervention. So in this respect, the Federal Reserve providing competition to the current private provider is a better alternative to achieving efficiencies and innovation or particular outcomes on pricing or access for smaller players than asserting greater governance control or regulatory oversight to the current private provider.



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### **Core Services (Section V.C.)**

The adoption of ISO 20022 messaging is critical for FedNow to succeed. As a new service not encumbered by legacy messaging and given the shift to ISO 20022 globally, the case for adoption of ISO 20022 is high. ISO 20022 provides significant benefits in terms of its increasing use, extensibility and ability to carry rich data, which can provide both commercial and regulatory benefits. Further, care needs to be taken in developing of the messages, payment flows and associated SLAs, that the final design can support multiple use-cases, including business and government payments as well as consumer payments.

In developing the settlement arrangements, prefunding manages credit risk while also enabling greater access, particularly if prefunding is made in cash. While liquidity management is important, experience in other faster payment systems shows that the relatively small ticket size in early days can give participants the time needed to build up experience and data sets, thus improving the predictability of liquidity needs. Much like card-based payments, as faster payment systems mature, their ebbs and flows become increasingly predictable.

In respect to service pricing, most faster payment systems are embracing flat per-unit pricing and subscription fees. While volume discounts may not be suitable to create incentives driving for early volumes, the Federal Reserve should consider other means by which to drive early volumes, for instance discounts for early adopters or discounts during an introductory period.

### **Ancillary Features (Section V.C)**

Request-to-pay functionality clearly offers significant benefits to the ecosystem by enabling “debit-like” transactions that offer enhanced security and efficiency. Many faster payment systems globally support request-to-pay and there are ISO 20022 messages in the form of the pain.013 and pain.014 that provide a solid base for developing a request-to-pay functionality. The Federal Reserve should seriously consider the benefits of enabling request-to-pay functionality, particularly if there are concerns that the market will not provide this in a way that is cost-effective, secure and efficient.

In seeking feedback about a directory service and centralized fraud capabilities, the Federal Reserve should carefully consider an intent of FedNow to provide a more level playing field for smaller institutions. Smaller institutions in particular would benefit from centralized fraud capabilities they are less able to see the entire picture of fraud based on their own transactions than larger institutions. Further, fraud losses can have a relatively greater impact on smaller institutions. Similarly directory services are of greater value to smaller institutions as they do not have the same breadth of information about the entire customer base than larger institutions. Further, while a federated approach to directory services is attractive, careful consideration needs to be given to the desire for fast processing and whether a federated approach can be used while maintaining efficient high-speed processing.

### **Implementation timeframe (Section V.D.)**

While some commentators have been dismissive of the 2023 / 2024 launch date as taking too long, the reality is that this is a very complex implementation in a large and complex market.

From conceptualisation to live-to-market for the New Payments Platform in Australia took six years and this was in a relatively small and concentrated market. The faster payments market has matured since then with greater expertise available and more technology partnering solutions for financial institutions. However, given the experience in places like Australia, the Federal Reserve’s estimate of four to five years is ambitious yet realistic.



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### **Final Thoughts**

The Federal Reserve is to be commended on moving forward with a faster payments solution. Ten years ago, faster payment systems were seen as an oddity driven by misguided regulatory forces. Today, there is greater recognition that faster payment systems are an essential component in revitalising our legacy financial institution account-based payment systems in such a way as they will meet the needs of the modern economy while remaining open, safe and secure.

If you require any clarifications on anything contained in this submission, please contact me at [brad.pragnell@gmail.com](mailto:brad.pragnell@gmail.com).

Yours sincerely,

Dr Bradley Pragnell  
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