



**Reinvestment**  
**PARTNERS**  
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November 7<sup>th</sup>, 2019

Ann Misback  
Secretary  
Board of Governors of the Federal Reserve System  
20<sup>th</sup> and Constitution Ave., NW.  
Washington, DC 20551

RE: Docket No. OP – 1670; Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Dear Sirs:

Thank you for the opportunity to comment on the proposal by the Board to create a real-time gross settlement service (“RTGS”).

Reinvestment Partners is a 501c3 organization in Durham, North Carolina. We realize our mission through “people, places, and policy.” We provide VITA services, help consumers buy homes and avoid foreclosure, and expand access to healthy foods. We restore and manage multi-family rental housing for very-low-income households, build affordable housing for homeownership opportunities, and rent commercial properties to a variety of non-profit organizations. Lastly, we advocate for underserved communities through public policy and advocacy. We have a strong record of facilitating CRA campaigns in coordination with many non-profits in our state.

We participated in the Faster Payments Task Force and the Governance Formation Foundation Team. Adam Rust, our Director of Research, was recently elected to serve a three-year term on the Faster Payments Council Board of Directors.

As a central bank, the Federal Reserve is uniquely suited to operate a ubiquitous RTGS system. The FRB already plays the role of fulfilling the “long tail” market for checks, ACH, and wires, and its existing business relationships put it in a position to do the same with faster payments.

In system-wide terms, we believe that an RTGS Faster Payments system should realize the Faster Payments Task Force’s (“FPTF”) Effectiveness Criteria (“EC”). To the extent possible, we believe FedNow should aspire to have an infrastructure that can make it possible for solution providers to realize those goals.

We affirm the conclusion made by the Federal Reserve Banks (“FRB”) that it can offer this service without undermining private enterprise, and indeed, we believe the availability of FedNow will prevent a monopoly in this space. The decision meets the test of the “Other Providers Criterion,” as a second operator is unlikely to have the same capacity, and the “Public Benefits Criterion” because FedNow would likely be the only way to reach ubiquity in faster payments. The sole private operator may contend that it can provide services to all banks, but that remains an unproven claim. In the here and now, approximately one percent of the nation’s financial institutions (“FIs”) use their service, a factor that underscores how FedNow will enhance “Scope and Equity” among FIs.

If FedNow did not launch, we would have concerns about how the absence of a faster payments offering would undermine smaller FIs and therein undermine service in left-behind geographies such as rural America. We disagree with some commenters who have contended that a FedNow service would undermine innovation; it is certainly not the case that the addition of American Express to a market previously controlled only by Diner’s Club signaled the end of innovation in the credit card network marketplace. Likewise, new use cases and third-party technical functions for ACH seem to arrive on a nearly-continuous basis. Moreover, the redundancy afforded by a second operator gives the United States the benefit of resiliency in case of service interruptions.

If the Board does create FedNow, it should design its infrastructure to support interoperability with other RTGS systems, manage a directory of directories, and seek opportunities to establish standards for end-user protections within the overall FP ecosystem.

Our comments include answers to some of the questions posed in the RFC Docket, but additionally, we have added some aspirational content regarding end-user protections. We acknowledge that the primary decision-maker for many of these concerns will be the solution provider or FI rather than the FRB. However, we include them because we do believe the FRB should provide an additional governance overlay across FedNow that establishes an industry-wide baseline for consumer protections. Owing to our view that consumer adoption will depend on using services that provide predictable and safe user experiences, we consider it imperative that a central entity exists to defend end-user needs.

We wholeheartedly support the intention of the Federal Reserve to establish the FedNow RTGS system. It is our aspiration that FedNow will provide additional governance overlays that create the platform for consumer protections. The introduction of faster payments marks the most significant improvement to the US payments system since the advent of ACH several decades ago. Since we believe that it is vital that all end-users have access to this system, we hold true the perspective that the Federal Reserve is uniquely suited to realize this possibility.

### **Settlement Schedule**

We support expanding operating hours to a 24-7-365 system. The principle of faster payments should be that “any person can receive funds, through any device, at any time.” The expansion of the time when end-users have access to electronic transfers of funds could rival speed in its overall value.

Nonetheless, we acknowledge that some smaller institutions may need some time to adjust to the new system, and as such, the Federal Reserve should consider making some accommodation to their needs during the initial launch of FedNow.

### **ISO 20022**

We affirm the Federal Reserve’s intention to offer ISO 20022 messaging capability, as it will enhance the ability of businesses to provide better information to consumers. We expect that providers will find ways

to add value, certainly through better invoicing, but also through methods that are not yet contemplated, with the new messaging platform.

With ISO 20022 in place, the FedNow infrastructure would support a “Request for Payment” feature. The ability to send a request adds depth to the FP use case. Perhaps more significantly, it creates a natural way to reduce the chance of misdirected payments. Popular P2P money transfer systems (Venmo, Cash App) already offer this functionality to end-users. A request for payment capability is akin to an invoice, and when we view the question from that context, we expect that many business end-users may appreciate a request-for-payment functionality.

Other valuable services enabled by ISO 20022 include more detail in remittance data, transaction categorization, and tools to combat fraud. We also think end-users would appreciate notifications after a payment has been sent and received.

### **Liquidity Tool**

We support the provision of a liquidity tool. It is our understanding that some smaller FIs would otherwise not offer a faster payment service. Moreover, as The Clearing House’s solution requires participants to prefund their balances as a condition of participating, some institutions will never avail themselves of the service. A liquidity tool is vital to ensuring that all FIs have a realistic opportunity to offer a faster payment function to their customers.

We see some concerns that absent a liquidity tool, end-users in rural areas may have fewer chances to use a faster payment. If we accept that most of the institutions using RTP are the larger banks, then we should be concerned by current branch closure rates. It is the big banks that are most actively trimming their footprints in lower population geographies. We observe this trend in Eastern North Carolina, many RTP member banks (PNC, Wells Fargo, Bank of America, et al.) are closing most of their branches. In some cases, small banks buy those branches or otherwise move to the area to capitalize on the opportunity, but the effect is the same. Rural areas need a liquidity tool for their FIs.

### **Consumer Protections**

We believe that consumer adoption of any faster payments solution depends on a perception of the safety of these transactions. Consumers expect a safe and predictable transaction experience. As an industry, we need to recognize that faster payments compete with a broad spectrum of other payment options; if they perceive faster payments as risky, then fewer will choose to sign up. While speed has its merits, we doubt that people will exchange it for safety and security.

In its role as an operator, the Federal Reserve can create standards for baseline levels of consumer protections. Solutions may, of their own accord, add additional safeguards, but the Fed should condition the availability of its service on meeting minimum standards.

Our perspective is not unique, and to underscore that point, we ask you to consider the views of previous commenters on the most likely use cases for faster payments. In the 2018 response, seventy of the ninety commenters predicted that the highest initial demand for faster payments would derive from small-dollar P2P, P2B, and B2P payments. By design, initial demand for service drives the adoption of the service; therefore, attention paid by the FRB to end-user experience will be paramount for FedNow to reach its goal of realizing ubiquity.

Both the Federal Reserve and solution providers can do their part to increase consumer protections in faster payments.

In the Glenbrook survey, commissioned by the Faster Payments Council, respondents from all aspects of the payments field agreed on the need to address fraud. Almost three-in-four were concerned about account takeover, and more than half listed identify fraud and transaction fraud as well. Nearly one-third stated that their organizations were worried about mule networks. These results underscore how work must be done to address fraud in faster payments.

*FRB-Led protections against fraud:* The FPTF's Effectiveness Criteria called for a system of safe and secure solutions, where end-users have "confidence and trust in the safety and security of the system, knowing fraud and errors are minimized and resolved quickly, and their assets, accounts, and information are protected, even as their payments cross solutions." We strongly support these perspectives. We contend that FedNow should do as much as it can within its role as an operator to facilitate these goals.

As a common point in a faster payments network, FedNow is poised to catch sophisticated fraud schemes that use multiple accounts across multiple FIs.

In other countries, central banks have led systemic efforts to fight fraud. Account takeover, mule networks, sender-authorized fraud, and stolen accounts have occurred with regularity in the United Kingdom. To combat those problems, Pay UK defended its payment systems by tracking flows of funds across multiple transactions.

The Fed should address these concerns, both from work to secure its infrastructure, as well as through its ongoing governance. Using the novel Mule Insights Tactical Solution ("MITs"), Pay UK took actions to improve overall ecosystem security. Notably, their approach would not have been possible by an FI acting on its own. No single financial institution could, as the process works by tracking the end-to-end trail of fraud as those funds travel from the end-user account to a mule account and then to their final destination. An approach such as this one gives the payments system the ability to counteract fraud even in credit push transactions. MITS has demonstrated an ability to combat many types of mule-driven electronic payment fraud, including malware scams, spam e-mails, phishing, and account takeovers.

While we are not proposing that FedNow duplicate the procedures used by the UK's regulator, we would like to point to their work as an example of how a central authority can leverage its place at the crossroads of payments to thwart fraud.

*FRB-led work to collect data on fraud:* The FRB should become a central point for collecting fraud information. The FPTF identified fraud information sharing as an essential governance function, but to date, it has not been the case that this work has occurred in a systemically inclusive fashion. With the advent of a second operator and the inclusion of thousands of more banks, it will be efficient for some central authority to act as the aggregator and distributor of up-to-minute information on fraudulent activities. Potentially, that effort could include an accessible fraud database.

We have concerns that absent a regulatory regime with robust supervision and enforcement, end-users will bear costs for fraud. The long-term trend in a system that uses a buyer-beware model for sender-authorized fraud is to shift liability from financial institutions to end-users. We see this as a paramount policy concern. We call on the FRB to track the cost of fraud and to publish regularly their finds on what share of the cost burden is shouldered by end-users versus their FIs.

*Solution provider protections to prevent account takeover and mule networks:* FIs should work collaboratively with FedNow to combat fraud. For example, solution providers using FedNow should provide end-users with a notification whenever a transaction occurs on their account. Current use patterns

demonstrate that many people use their Zelle/Early Warning accounts infrequently, and as such, they could become vulnerable to account takeovers. Similarly, end-users should receive a confirmation when an account becomes enrolled inside a faster payment solution. In the United Kingdom, money mule networks have regularly taken out accounts under false identities. In early 2019, for example, Santander disclosed that mule networks opened approximately 11,000 accounts. The ripple effects of this extended to other aspects of financial services, as reports indicated that banks rejected credit applications from some of the victims (Pymnts.com, 2019).

### **The FedNow Directory**

Among the three potential approaches outlined in the RFC, we prefer a plan where the Reserve Banks build a directory of their own. A directory is a critical element of a payment system, and given that it benefits from network effects, we predict that end-users will derive the most value from a single all-encompassing system.

*Accuracy:* The FRB has a direct relationship with nearly every U.S. FI, and as a result, the FedNow service will have the opportunity to do a better job of maintaining the accuracy and scope of the data inside the directory. The chance that account data will be registered incorrectly seems less likely.

*Efficiency:* A single directory eliminates redundancies in managing and maintaining the data inside the directory. We believe that a single directory is simpler to control, as it only takes one edit to correct a mistake or update an entry.

*Ubiquity:* FedNow could potentially incorporate account-level data for every account in the United States. No private directory could match FedNow in terms of scope.

As commenters noted in the original FedNow proposal, directories play a crucial role in driving adoption. End-user adoption of any faster payment service depends on the confidence they have in the security of their account data.

We feel that a directory should give consumers control over how their personal information is managed and stored. As the Fed proceeds with its exploration of offering a directory, it should prioritize how directories can empower end-users to control personal account information contained within directories. Participants should have the means to verify the accuracy of their account data, and if necessary, correct any errors. After he or she closes an account, the end-user should have the right to confirm that the directory struck their data from its files.

First and foremost, the creators of a directory should build with a primary focus on the protection of end-user privacy. Directories should have protections in place to protect sensitive information during each stage of use, from the opening of an account to the ordering of a transaction. The end-user interface should private information from partner transactors. Payers and payees should only see aliases.

### **Rules and Standards for Faster Payments Solutions**

We acknowledge that some aspects of a faster payment depend on the product design choices made by a solution provider. The following comments reflect our priorities for end-user experience, and as such, they relate to how rules and standards could be deployed across the entire faster payments ecosystem.

*Dispute Resolution:* Consumers expect a consistent, safe, and predictable user experience. Due to protections in place with other electronic payment systems, they have grown to expect the right to dispute a transaction. We understand that some solution providers want to see a governance model that treats a

real-time payment similar to cash, under a “buyer-beware” regime. We believe this approach is short-sighted, and we believe it could undermine adoption significantly.

Moreover, if lower standards for consumer protections do not prevent widespread adoption of real-time payments, baseline standards in the marketplace for safety and security would fall. If widespread adoption of faster payments comes at the expense of overall end-user welfare, then it will be a systemic setback.

End-users are not the only entities who desire assurances about their protections. For example, in the Glenbrook Survey commissioned by Faster Payments Council’s, almost three-in-four members of the FPC said that dispute resolution was a priority for their organization.

*Payment Irrevocability:* In its description of FedNow, the FRB states that the service will make irrevocable payments. We think the FRB should build systems inside its infrastructure to make it possible to reverse payments. Real-time gross settlement and payment revocability are not mutually exclusive. Consumers have come to expect the right to challenge transactions. Today, many consumers are sending money by accident to the wrong person or business. Consumers make mistakes; to devise a system that makes no accommodation for observed behavior is short-sighted. Those who contend that a faster payment should be treated the same as a cash transaction make a mistake. They may believe that people will continue to use a service after losing money. The opposite is likely to be true.

It only takes a few bad experiences – even by one provider – to tarnish an entire system. Yet though less than 250 Kardashian Kards were issued (Stempel, 2010), news reports of their costs marked the first time that many people had ever heard of a general-purpose reloadable prepaid card. To many, the Kardashian Kard became the event that anchored their view of the prepaid debit card. Irrevocable payments – something uncommon in current modes of electronic funds transfers – could create similar harms to the public opinion of faster payments.

FedNow should expect partner FIs to restore end-user funds when there is a contested payment. As is already the case with card network transactions, it should also be incumbent on the financial institution to perform the act of investigating a disputed transaction.

*No Overdraft:* A faster payment should never trigger an overdraft fee or an insufficient funds fee. A central component of an RTGS system is that it works with good funds. All FIs using the FedNow service should have to conform to this standard.

In the introduction to its request for comments, the Federal Reserve notes that a benefit of a faster payment service “can enable some individuals to avoid high-cost borrowing and penalties, such as overdraft fees or late fees.” We believe the Federal Reserve should be the force that brings that change to consumers. Some institutions already provide free small-dollar cushions; providing fee-free benefits like these should be up to the discretion of the financial institution.

## **Conclusion**

We support the Board’s intention to develop its own real-time gross settlement solution and to build a corresponding liquidity management tool to encourage participation by smaller FIs.

We are concerned that the timeline for the introduction of FedNow is too slow. While the current operator may extend service to more consumers before 2023, it cannot meet the clearly-stated need for resiliency. We cannot guarantee that their monopoly will not result in higher prices or less end-user value, either. More than half of respondents in the Glenbrook survey commented that the United States is not making

satisfactory progress toward faster payments adoption.” Respectfully, we contend that the United States’ payment system has fallen behind most of the world’s developed economies.

Regrettably, FedNow will not serve the unbanked. We continue to believe that the Federal Reserve could be the right operator to use the advent of faster payments as a triggering event to motivate more unbanked consumers to reconsider the value of a bank account. We note that one solution proposal from the Faster Payments Showcase did utilize the Federal Reserve as part of its solution to serve the unbanked.

To the extent possible, we believe FedNow can leverage its status as the hub in faster payments as a means to enhance end-user protections. The goals of ubiquity, adoption, and interoperability depend on a predictable experience for end-users, where payments can be made to anyone at any time with any device.

Lastly, we believe that the overall ecosystem still needs policymakers to provide coordinated guidance. If the Faster Payments Council (“FPC”) does not address some of the governance issues identified by the Faster Payments Task Force, then the Federal Reserve should take the responsibility to do so itself. The Effectiveness Criteria said that the “ecosystem” needed a collaborative body to guide solution providers to interoperability. The Governance Foundation Formation Team (“GFFT”) avoided the issue, even though a healthy share of the group’s membership wanted it to take action.

Likewise, a governance body must identify rules and standards. We already know the industry wants to engage on these topics, as many FPTF participants asked the future governance body to develop rules and standards.

We now face a motionless state, where neither focus has been an element of the FPC’s agenda. Support exists within the FPC to initiate work in both of these areas, but a minority of voices have blocked the work. In spite of that, the industry recognizes the need for collaboration in these areas. In the absence of FPC action, the Federal Reserve should become a backstop.

We recognize that the Federal Reserve cannot serve as an operator and as a regulator. We believe that the Federal Reserve could still act, nonetheless. It may leave the process of enforcement to the Federal Trade Commission, the prudential regulator for the relevant financial institution, or the Consumer Financial Protection Bureau. However, it can coordinate on interoperability, either directly through standards for FedNow users, or indirectly through a hosted governance body. The latter could function as an independent Board of Directors for governance, with representation across the industry. The same approach should be considered for the development of rules and standards.

Thank you for your concern.

Sincerely,

A handwritten signature in black ink, appearing to read "Adam M. Rust". The signature is fluid and cursive, with a long horizontal stroke at the end.

Adam Rust, on behalf of Reinvestment Partners  
[adam@reinvestmentpartners.org](mailto:adam@reinvestmentpartners.org)