



NORTH AMERICAN BANKING COMPANY

December 11, 2018

Via Electronic Submission

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

RE: Request for Comment: Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments. Docket No. OP-1625

Dear Ms. Misback:

Attached please find North American Banking Company's comments in response to your request for comments on the FRB's potential actions to support faster payments.

Thank you for the opportunity to provide comments regarding the Request for Comment on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments. I also appreciate the Board's leadership over the last couple of years with the establishment of the Faster and Secure Payments Task Forces, the Governance Framework Formation Taskforce and the support to the newest of entities the US Faster Payments Taskforce. While some think that the marketplace could and should solve for the development of new and faster payments without FRB intervention and products, the need for assistance is great and wanted as highlight by the results of the FPTF.

Should you have any direct questions my email address is [mbilski@nabankco.com](mailto:mbilski@nabankco.com).

Sincerely,

Michael A. Bilski  
Chief Executive Officer

## FEDERAL RESERVE SYSTEM

### Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

#### Questions:

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments?

RTGS is a great foundation for faster payments. A credit push model is the best option where all FI's could receive credits and make available to those customers their dollars while not exposing the receiving FI to credit risk. FI's that choose to initiate these credits to others are able to maintain the necessary account balances in their settlement account to be debited to pay for the credits they initiated.

2. Should the Reserve Bank develop a 24x7x365 RTGS settlement service? Why or why not?

A 24x7x365 RTGS product established by the Federal Reserve is appropriate for interbank settlement. Without the FRB many smaller financial institutions would not be able to participate. An FRB RTGS product offering allows aggregation of transaction volume at a cost reasonable to small and medium FI's. This is a complete extension of services already provided by the FRB, similar to management of former city clearing houses, image cash letter presentment, and ACH processing.

If the FRB does not develop a product, the industry and the country are at the whim of the 24 largest banks in the country.

3. If the Reserve Banks develop a 24x7x365 RTGS settlement service,
  - a. Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the source of demand? What types of transactions are most likely to generate demand for faster payments?

Yes there will be sufficient demand for faster payments in the next ten years. There is sufficient demand today. With the increasing speed of delivery of both goods and services it will become increasingly necessary for the corresponding payments for those goods and services to also accelerate. Without acceleration of the payments risk increases for the provider of goods and services.

The initial source of demand will be person to person payments, in a short time employer to employee, then consumer to producer, and finally business to business.

All transactions today could be faster. What worries me the most is that various factions in our industry will find it in their short term interest to resist continued improvement of our existing payment rails. The industry should not think of a "Faster Payment" as just a new payment type. The FRB and the industry need to continue the expansion of wire transfer hours, add more check presentment windows, and open several more ACH same day presentment windows.

- b. What adjustments would the financial services industry and its customers be required to make to operate in 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are cost of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?

The adjustments that the financial services industry will make will be incremental and optional. If an FI is an active provider of payment services, it already is operating in a 24x7x365 environment. The fact that others aren't is a hindrance. If an FI is not active in payments, but just a receiver, the adjustments will be minimal. Most FI's are updating debit card balances with debit transactions now 24x7x365, but they lack the ability to provide a credit during those same time frames.

The initial costs for those FI's providing payment services will be minimal and recoverable because the investment costs have already been incurred. Some FI's will have larger incremental costs because they are already behind in technology and will need to catch up. Where would the payments industry be if the FRB didn't push image cash letter presentment? How much faster than planned did the shutdown of FRB check centers happen once the decision was made? The benefits continue to be realized while the costs happened once, the same will be true for a RTGS product.

- c. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payments services? Please explain.

The FRB should start immediately developing the product. Any timeline the FRB works on will not be too late for any adoption. Many FI's will only participate if the FRB and a FRB product are a viable option. Similar to the industry option of image cash letters,

once adopted by the FRB it was accepted industry wide extremely quickly because the Fed's participation changed the business case calculation for FI's of all sizes.

- d. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternatives accounting or operational solutions that banks could implement?

Most core systems, whether in house or service bureau, require the establishment of a calendar for processing. Most of these calendars currently allow for a 365 day option. Creating an end of day statement for the bank would not be an issue.

The critical change would be the differentiation between a processing day and business day for other than credit push payments. Debit payments require the ability to be returned. If return windows are still tied to the business day concept using the Federal Government calendar is not an issue, but if the 24 hour rule is enforced many operational changes would be required, and consumer protection issues might possibly come into play.

Options for deferred receipt were proven to be ineffective when the FRB tried to establish same day ACH with optional receipt prior to the NACHA rules changes. It was a valiant effort on the part of the FRB, but too many FI's of all sizes suffer from "paralysis by analysis" when it comes to adoption of new technology.

- e. What incremental operation burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from the banks' master accounts? How would the treatment of balance in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?

Banks are experts at reconciling accounts, a separate account under the master would not be a burden if it was treated the same as the master. All accounts at the FRB should receive interest, satisfy reserve requirements, and be treated as zero risk from a risk based capital calculation.

f. Regarding auxiliary services or other service options,

- i. Is a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias such as email address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

Several proxy data bases will be established and the FRB is a likely candidate to establish one for the FI's that choose to use the FRB as a trusted provider of services. The FRB's database should be part of a federated group of databases that are trusted, secure and communicate with each to translate alias information into the required bank routing and account information.

- ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them?

Any and all fraud prevention services should be welcome in the ever-changing payments business. If faster payments between institutions is more than credits, the similarity, velocity, and amounts of debits should be monitored at the originating institution, processing institutions (operators), and the receiving institution.

- iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted?

The ancillary services are not a requirement, but building a robust product with security features from the start would be the most efficient way to build a new product. Fewer and simpler risk mitigation services are needed in a credit push model as the burden falls to the originator. Once debits are introduced the ability to return items at a later date would be key protection receiving banks and their customers have against fraudulent debits. Consideration should be given to an extended return window (perhaps adopting the ACH 60 day window) to any new debit origination product. This

would impose the risk management burden on the party where it belongs...the originating FI.

- g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

Extremely critical, review the history of ATM's or credit card networks, especially the accelerated growth once interchange rules and procedures were developed to create the interoperability for the end user.

- h. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement or retail faster payments? If so, for what other purpose could the service be used? Should its use be restricted and, if so, how?

Eventually it could be used for all payment types with the use of aliases. In the future a cash register with an IP address (serving as an alias for a store's RT and account information) known to a purchaser could be pushed a credit for payment and receipting.

- i. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation for a 24x7x36 RTGS settlement service?

I would prefer to see the FRB build a product using its vast knowledge, expertise, and experience for delivery to the industry sooner rather than later. The FRB has done a tremendous job of getting collaboration from all stakeholders in the payments business with the Faster Payments Task Force. It is now time to move forward and develop the products that have been asked for by the task force, provide these products to all FI's, and help ensure the continued modernization of the payments industry. Those companies that want to participate in some way with the FRB that are not financial institutions and are frustrated could solve their frustration and apply for a charter, or partner with an existing FI.

4. Should the Federal Reserve develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Reserve Banks? Why or why not?

A liquidity management tool is needed to manage the liquidity needed in Reserve accounts to mitigate the credit risk involved in the settlement of payments especially in a

debit and credit model. While most FRB master account activity follows similar patterns over different weeks and months throughout the year, it still remains difficult to accurately predict the habits of our customers in all circumstances. A liquidity management tool would help guard against unpredictable bank customer transactions.

5. If the Reserve Banks develop a liquidity management tool,

a. What type of tool would be preferable and why?

- i. A tool that requires a bank to originate a transfer from one account to another.
- ii. A tool that allows an agent to originate a transfer on behalf of one or more banks.
- iii. A tool that allows an automatic transfer of balances (or “sweep”) based on pre-established thresholds and limits.
- iv. A combination of the above
- v. An alternative approach

The best tool would be a combination of the three choices above. The first choice provides a bank the choice to actively manage its liquidity, the second choice allows for assistance from correspondent banks and the third choice allows for passive management but mitigates the risk from unpredictable customer activity.

The automatic tool could use secured funds with collateral held by the FRB, or it could use a model similar to the security pledged to the Federal Home Loan Banks for their managed liquidity tool.

b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available?

There would be no reason not to have the tool available 24x7x365.

c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how?

Why would a new liquidity management tool just be used for real time settlement payments? It could be used by the ACH settlement process in order to expand same day window presentment time frames.

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why?

Both should be developed as fast as possible. The industry has spoken in the form of the Faster Payments Task Force documents. They state that FRB involvement is needed to ensure an open and competitive market place.

7. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways?

FRB actions will always support safe and efficient faster payments given the overall trust factor that the industry has with the FRB. If the definition of ubiquity is 100 percent participation, the only way it will be achieved is with FRB participation. The structure of all financial institutions and businesses is geared towards return on investment. FRB participation is necessary to ensure 100 percent ubiquity due to the non-profitable nature of achieving 100 percent.

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

The expansion of laws, rules, and remedies to stop bad actors will add enhanced safety to end user accounts. With every fraudulent debit issued to scam an account there exists an account that is receiving the credit. More monitoring and controls of those bad actors could be done by the FRB with expanded laws and rules.

9. Beyond the provision of payment and settlement services are there other actions, under its existing authority, the Federal Reserve should consider that might help its broader goals with respect to the U.S. payment system?

The FRB needs to become an operator of a directory of account aliases to allow for the continued development of faster payments. The FRB directory would be connected to other directories to allow account alias information to be exchanged between large and small financial institutions.