



Office of the President

13 December 2018

By E-mail: regs.comments@federalreserve.gov

Ann Misback
Secretary, Board of Governors
Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Request for Comments Regarding
Potential Federal Reserve Actions to
Support Interbank Settlement of Faster
Payments (Docket No. OP-1625)

Dear Ms. Misback,

Navy Federal Credit Union (“Navy Federal”) appreciates the opportunity to provide our comments in response to the Request for Comments issued by the Federal Reserve Board of Governors (“Federal Reserve”) regarding potential Federal Reserve actions to support interbank settlement of faster payments. Navy Federal is the nation’s largest natural person credit union, with more than \$95 billion in assets and 8 million members, and is committed to serving the financial needs and improving the financial condition of our members. Navy Federal supports the Federal Reserve’s mission to ensure ubiquitous, safe, and efficient payments in the United States, and welcomes the opportunity to comment on this Request for Comment.

Navy Federal’s mission is to serve the military service personnel and their families who comprise our membership. Throughout our history, Navy Federal’s focus has been consistent: to meet the unique financial services needs of our members. We understand that the implementation of a safe and secure faster payments option may be on the horizon and could have a major impact on all users, including our members. For this reason, it is in Navy Federal’s interests to ensure that any new faster payments options are structured to provide the maximum benefit to users while having the least disruption to industry participants.

While we are supportive of the Federal Reserve’s Faster Payments strategies, we believe payment solutions should be market-based and derived from an exchange of value between participants where those who benefit from originating a payment compensate those who incur the costs, including the assumption of risk. Rather than creating and overseeing a new system, the Federal Reserve should take a least disruptive approach by limiting itself to supporting private sector faster payment solutions and perhaps maintaining a liquidity management tool.

POINTS FOR DISCUSSION

Based on the current use cases for faster payments, there are already existing payment rails that serve the needs of the industry effectively. For example, debit and credit cards are pseudo real-time, ACH has same day capability and The Clearing House's Real-Time Payment ("RTP") system offers real-time messaging with Deferred Net Settlement ("DNS"). These solutions already offer competitive choices for Fintechs, merchants, businesses, consumers and financial institutions. Another possibility the Federal Reserve might consider is to offer payment agnostic settlement services. This may be something akin to an expanded version of the Federal Reserve's National Settlement Service. Regardless of what entity administers the system (i.e., private association or the Federal Reserve), a liquidity management tool should be a key feature of any 24x7x365 system. The tool could facilitate guaranteed settlement in order to mitigate risk for those utilizing the system. Although there are many questions surrounding the deployment of a liquidity management tool, such as the scalability and functionality, in principle, the development of a liquidity management tool could be a good investment for facilitating Faster Payments on current rails/payment channels.

In considering the development of a 24x7x365 payments system, there are many interests to be weighed including those of financial institutions, consumers, industry, and merchants. Navy Federal is concerned that the development of a Federal Reserve faster payments system could unduly disrupt existing business models, which could have an outsized impact on our members without clear value to offset the cost to implement and operate such a service. For the vitality of the payments ecosystem, there should be a continued exchange of value between parties that benefit and parties that take on added risk and cost.

Navy Federal appreciates the Federal Reserve's current efforts to improve existing regulations under its purview, such as the ongoing revisions to Regulation CC. We believe that these efforts will result in more immediate improvements to our members' day-to-day experiences than would development of a 24x7x365 payment system, and are more attainable by the Federal Reserve.

Navy Federal generally supports faster payments strategies because we believe that it is consistent with market developments and with the expectations of our members. However, there may be disagreement about the optimal approach. At a high level, the Federal Reserve inquired whether a Real Time Gross Settlement ("RTGS") model would be the appropriate foundation on which to build faster payments. Navy Federal believes that a market based DNS model would accomplish the same objectives with less of the steep operational costs associated with RTGS. Moreover, we are concerned that RTGS heightens the risk that our members will face unauthorized activity and errors, which could necessitate new forms of consumer protection and education. The industry continues to experience fraud with current faster payment methods through both social engineering scams and traditional account takeover. Even with comprehensive risk models, the speed of money movement can create situations where losses mount rapidly. Financial institutions can have real-time fraud identification on their end of the transaction, but still assume losses because there is no opportunity for interdiction before the

funds are moved or made available. Creating industry balance between fraud, accessibility and speed is fundamental, with many details to be hammered out before any action is taken.

While 24x7x365 payments are desirable, there are major costs to be borne by the Federal Reserve and financial institutions that should be considered. The Federal Reserve even acknowledges these substantial industry costs in its commentary. Before committing to building a new payment system, we recommend that the Federal Reserve conduct an in-depth analysis of issues that may impact its workability, including the costs and benefits that might come with implementation. For example, Navy Federal believes that the Federal Reserve should consider:

- Demand for the service among financial institutions, including business use cases and potential returns on investment;
- The effects of market saturation and duplication of faster payment solutions, including industry fragmentation hampering adoption and ubiquity; and,
- Possible increased operational, fraud and systemic risk, and the variations in risk exposure for different segments of the financial services industry.

CONCLUSION

Navy Federal believes that any faster payments system that is ultimately adopted should be market-driven, not Federal Reserve directed. Instead, the Federal Reserve should focus on expanding the current settlement process for existing payment channels as opposed to introducing a new faster payments rail. These systems already have a proven track record of safety and efficiency, and effective rules and governance bodies on which to build. This approach will allow more opportunities for smaller financial institutions to participate, since there will be less of a “wait and see” attitude while a new solution is implemented. The market adoption of faster payments may be expedited with complementary services such as a liquidity management tool.

Navy Federal appreciates the opportunity to give feedback to this Request for Comments. We hope that our comments are given careful consideration and will be useful to the Federal Reserve. If you have any questions, please contact Tynika Wilson, SVP, Debit Card and Fund Services by phone at 703-255-8151, or by email at tynika_wilson@navyfederal.org.

Sincerely,



Cutler Dawson
President/CEO