



November 28, 2018

Via Electronic Submission

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

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

Dear Ms. Misback,

On behalf of ANB Bank (ANB), thank you for the opportunity to submit this comment to the Board of Governors of the Federal Reserve System in response to the Board's request for comment on potential actions the Federal Reserve could take to promote a ubiquitous, safe and faster payments system in the United States by facilitating real-time interbank settlements.

ANB is a \$2.6 billion community bank headquartered in Denver, Colorado with 30 locations serving communities in Colorado, Wyoming and Kansas. As a community bank, ANB provides credit, insured deposits and safe and efficient payments to commercial entities, small businesses and consumers in both large metropolitan areas and small rural communities. ANB, like most community banks, serves a broad mix of customers across all sections of the population and must be able to provide services demanded by those customers in order to continue to serve our communities.

With the growth in the use of faster payments, the Federal Reserve Banks must play a key role in their development and operations. There are several reasons that the Federal Reserve should be involved in any widely used payment system.

- A faster payments system is in our national interests;
- Payments are a key role of the Federal Reserve;
- A faster payments system developed and operated by the Federal Reserve will ensure fair access to all banks, and, through banks, to all communities, business and consumers;
- The Federal Reserve will offer a bank centric system that will ease consumer concerns about the stability and security of a new payment system; and
- Offering a solution through the Federal Reserve to member banks will protect consumer payments by requiring them to pass through well-regulated and insured institutions.

While the Board poses a number of questions in the request for comment, there are two questions that are principal to the request: 1) Should the Reserve Banks develop a 24x7x365 real-time gross settlement (RTGS) service; and 2) Should the Reserve Banks develop a liquidity management tool?



In short, the answer to both questions is yes. The Federal Reserve, through the Reserve Banks should develop and offer a bank centric RTGS service that is fairly priced and timely offered to all banks. The RTGS should contain a mechanism for settlement; a directory of participating users; fraud controls; and an open architecture so banks can offer a solution to more sophisticated customers. Additionally, the Reserve Banks should offer a liquidity management tool that helps banks maintain liquidity during hours where they are closed. Most importantly, the Federal Reserve must offer these solutions to continue to safeguard the payments system.

Real-time electronic payments are not some future wish, they are a modern reality. Tens, if not hundreds, of billions of dollars in transactions were carried out in real-time from a customer perspective this year. Whether they are through private networks such as Venmo, use existing payment rails such as Square's use of the debit card rails, or use new messaging technology such as Zelle to carry out the transactions, customers see the money move in and out of their accounts in real-time. The only part of the payment that does not occur in real-time is settlement.

As settlement does not occur at the same speed as the payments, a large amount of credit is temporarily extended until settlement can occur. This creates a risk to the entire payment system should one of these private entities fail and not be able to complete the settlement process. None of the entities currently providing real-time payments has been tested through a financial crisis and with these private entities holding tens of billions of what are basically uninsured deposits, is there little doubt that banks will be required to cover much of these losses.

Additionally, the demand for faster payments continues to grow. Both on the consumer front, where P2P payment services are not just replacing cash and checks but creating new payment opportunities between individuals, and on the small business front, where many small businesses are looking for faster settlement possibilities and are using personal accounts to accept payments through faster P2P services. P2P payment providers have recognized this need and are expanding services to offer faster payments to small businesses (i.e.: Venmo expanding into payments for businesses at the point of sale).

There is not currently a cost effective, secure mechanism for community banks to enter this area. Private systems, such as Zelle or Acculynk (using the debit card rails), either carry a high cost of entrance or a high per transaction cost. Our own experience shows that private companies such as Zelle are reluctant to deal directly with smaller community banks and push us to a few core providers, who see this as simply another catalog item to sell instead of a necessary product demanded by consumers.

With the demand for faster payments increasing exponentially, the necessity for a public, inter-bank, real-time payment system that supports both the messaging (clearing) of payments and their settlement cannot be overstated. A Real Time Gross Settlement system should, and must, be considered a national strategic asset.

Amid the Federal Reserve Banks introduction of a RTGS system, private industry providers will be forced to compete on a more level playing field. This will speed up the current slow pace that core providers are bringing customers onto the Zelle system. With the current pace of onboarding, less than 10% of financial institutions will be providing faster payments through Zelle by the end of 2019. The introduction of a RTGS solution from the Federal Reserve Banks will encourage core providers and faster payment solution providers to onboard customers faster and will help drive down the cost of entrance into the solution. Additionally, a public RTGS will help lower the per transaction costs down to a level that will allow all community banks to participate. A public RTGS will not drive current providers out of the market, but will make them more competitive. As an example, look to the results after the introduction of Check 21 and electronic check clearing. After its introduction by the Federal Reserve Banks, larger institutions leveraged their systems and large customer base to provide electronic check clearing services for community banks at a cost even lower than the cost for clearing checks through the Federal Reserve Banks.

While an RTGS from the Reserve Banks must be bank centric, it should be developed in such a way as to allow banks of all sizes to easily allow sophisticated bank customers to develop solutions that will make use of the bank's implementation of the RTGS in an automated fashion. Any solution should be friendly to application programming interfaces (APIs) for customers developing methods to streamline business payment processes.

A directory of users of faster payments will need to come with any RTGS system. There will need to be a high level of security around this directory and it should have built in legal protections for community banks in the event of a data breach of the directory as well.

As the use of faster payments increases, fraudsters will find a way to take advantage of the system. A RTGS from the Reserve Banks should have an ability to flag receiving accounts in the directory for potential fraud, a way for consumer owners to dispute an account that gets flagged in the directory, advanced AI to detect fraudulent patterns and shut down or alert on those transactions, and should allow for existing anti-fraud solutions to connect and monitor these transactions in light of fraud seen in other transactions.

Finally, a liquidity management tool will eventually be needed to help banks manage liquidity as faster payment use continues to increase. While not necessarily needed at the same time as an RTGS system is released, the liquidity management tool will be required within a few years. Such a tool should have predictive algorithms to automatically move money from a master account to a sub account within limits set by the owning bank.

In summary, a RTGS system and a liquidity management tool are both necessary solutions that should be provided by the Reserve Banks. While third parties might be contracted to help develop these solutions, they should be designed by the Federal Reserve in a bank centric fashion that allows banks to offer solutions to more sophisticated customers that will continue to allow for innovation while protecting the national payment system.



On behalf of ANB, thank you again for the opportunity to comment on this necessary and strategic initiative. We appreciate the Federal Reserve's leadership in payment solutions and are delighted with the Federal Reserve seeking comment from community banks in its continued development.

If you have any questions or would like clarification regarding anything contained in our comments, please don't hesitate to contact me at 303-394-5056 or via email at [jeff.patterson@anbbank.com](mailto:jeff.patterson@anbbank.com).

Sincerely,

A handwritten signature in black ink, appearing to read "Jeff Patterson", with a long horizontal line extending to the right.

Jeff Patterson  
Executive Vice President  
Operations and Technology