

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

Comment ID: 133204

From: Glenwood State Bank, Larry Winum

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Comments:

NONCONFIDENTIAL // EXTERNAL

Ms. Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitutional Avenue, N.W.
Washington, DC 20551

Dear Ms. Misback:

First of all, I would like to thank the Federal Reserve for allowing community banks like mine to comment on your consideration of enhanced services to address the mismatch between faster payments and slower settlement, and for the Fed to play the primary role in achieving nationwide access to safe, efficient and faster payments in the United States.

In addition to being able to comment officially here, I was also able to attend your town hall meeting on this topic back on November 7th in Cedar Rapids Iowa. As a longtime member bank of the Federal Reserve I appreciated your efforts to get out and meet with community bankers, to assist us in better understanding the issue, and listen to our input on this important subject.

Although our comments at that meeting were not considered "official" I believe the message that was sent on that day from over 50 bankers was loud and clear.

We emphasized and confirmed the need for the Federal Reserve to develop and operate a 24x7x365 Real Time Gross Settlement (RTGS) service. In addition, in order for community banks to have the ability to efficiently and effectively manage an RTGS, the Fed would need to develop some sort of liquidity management tool. The time to accomplish this task is immediate, and needs to be a high priority, developed and implemented ASAP. For community banks a 24x7x365 RTGS system would mean equal and fair access to real-time payments and real-time settlement, offering choice and flexibility in the faster payments world. I believe, the need for the Federal Reserve to provide RTGS is absolutely essential to the future viability of community banks.

If the Fed does not provide this service, community banks will be forced to give up their information to be serviced by solution providers owned and controlled by the largest financial institutions in the Country. When faster payments are concentrated through a single solution provider, community banks and the customers they serve will lose choice and innovation will be hampered. I understand that our banks' ability to efficiently and effectively manage an RTGS system will require the development of a liquidity management tool. I support the Fed for recognizing this important element of this service. The result will be better service to both our account holders and businesses.

I have customers consistently inquiring whether our bank can provide P2P transfers like "Venmo". As an Iowa bank that uses the SHAZAM debit card network, my initial response was that it is available through our SHAZAM BOLT\$ solution. Unfortunately with our current system there are multiple P2P payment solutions, but none are "interoperable". Because of the lack of interoperability, P2P solutions like our SHAZAM BOLT\$ are often denied routing P2P transactions to DDA accounts of large financial institutions. In effect, it requires that my customers use the large institutions' s P2P solution to meet their payment needs. I do not believe it is in my customer's and banks best interest to have the largest

financial institutions in this Country controlling the faster payments system. In my view, that is one of the main functions and responsibilities of the Federal Reserve. As it exists today, the faster payments system is fragmented. This fragmentation restricts access, limits competition and creates an unfair burden on community banks. As a result, many community banks are being forced to consider options like Zelle, which is owned by the nation's largest banks, in order to provide a faster payment solution to their customers. As a 4th generation community bank, Glenwood State Bank is not ready or willing to succumb to this current option. As I believe was clearly stated in Cedar Rapids, community bankers believe it is the Federal Reserve's responsibility to provide an open and interoperable directory service (database) that payment and financial service providers and financial institutions can equally access to determine how to route a faster payment. The Fed is already charged with fostering safety and security within the US payments system and the implementation of faster payments should be no different. This is simply another logical step in the payment innovation process.

No other entity is as transparent to the market, to include rule setting and governance as the Federal Reserve Bank. You are inclusive to all stakeholders and impartial by nature. The Fed provides services that are critical to community banks ability to gain access that may not otherwise be available or affordable. It allows community banks the ability to remain independent and continue to provide meaningful support to our local communities.

We must continue to improve both speed and security of payments in order to support our modern economy. It is time for the Fed to move from catalyst only role to a functional, operator role. There is no reason for a community bank to adapt the current private sector solution as it is not designed with community banks in mind and is fully owned and controlled by the largest financial institutions.

In summary, as a 119 year old community bank, and longtime member of the Federal Reserve, I strongly encourage and support the Federal Reserve to be fully committed to developing and operating a 24x7x365 RTGS service, including the development of a liquidity management solution that will efficiently manage the movement of faster payments. In my view it is critical that the Fed take a leading role as an operator of the faster payments system. Without the Federal Reserve leading a significant operational role in the creation and implementation of the new faster payments system, the much needed goals of safety, universal and equitable access will not be achieved. I believe anything short of this kind of commitment will put my bank, customers and thousands of other community banks at a decisive, competitive disadvantage.

I am willing to assist in any way possible to help expedite this process with the Federal Reserve. Thank you for your consideration.

Larry Winum
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