

Proposal: 1670 - Federal Reserve Actions to Support Interbank Settlement of Faster Payments

Description:

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Comment ID: 136379

From: Iowa Bankers Association, John Sorensen

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Subject: Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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Comments:

NONCONFIDENTIAL // EXTERNAL

Ann Misback, Secretary

Board of Governors of the Federal Reserve System

20th Street and Constitution Avenue NW

Washington DC 20551

Re: Docket No. OP-1670

Dear Ms. Misback:

The Iowa Bankers Association (IBA) appreciates the opportunity to comment on the Federal Reserve's intention to become an operator of a new faster payments network to facilitate interbank funds settlement. The FedNow service will allow consumers and commercial customers to make payments in real time where funds will leave the payers account and be credited to the receivers account immediately. The IBA represents 300 banks and savings institutions operating in Iowa, or 98 percent of the industry.

In 2013, the IBA Payments Council, a group of Iowa banking leaders engaged in payments advocacy, began a dialogue with the Chicago FRB and others about the need for the Federal Reserve to help lead the industry towards an improved, faster payments system. We commend the Fed for their progress to date, and we urge you to move quickly to develop a real time gross settlement service. The projected 2023 or 2024 timeline though, is not soon enough. Many community financial institutions are in a state of limbo as they evaluate both customer demand and potential solutions. The sooner the launch date, the clearer the landscape becomes and the more attractive FedNow becomes.

Interoperability should be the highest priority for FedNow. It is the only viable method to assure open, nondiscriminatory access to faster payments systems by customers of all financial institutions. Both FedNow and private sector solutions should work toward interoperability using uniform operating standards, with the goal of availability on day one of the new Fed system. The IBA supports nondiscriminatory access to open, standards based U.S. payments systems.

Like current Federal Reserve services, the FedNow service should be available only to banks eligible to hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules. This is appropriate due to the importance of protecting consumer funds, data, and privacy. Banks, as licensees chartered by federal and state authorities are regularly examined for compliance with regulations. Banks also meet capital reserve requirements and offer deposit insurance.

The Federal Reserve has indicated they plan to consider enhancements to Fedwire and the National Settlement Service (NSS) to allow it to operate 24/7/365. This will enable financial institutions to effectively manage account balances, allowing larger balances to remain in master accounts where they will accrue interest, count towards reserve requirements, and be eligible for daylight overdraft services. Extending these hours could enable a liquidity management tool that would make managing accounts much easier for financial institutions.

Liquidity tools can enhance the likelihood of good funds and final completion of a real time payment. Those same tools could be implemented immediately to facilitate existing payments systems that settle either in a master account held at the Federal Reserve or a joint account at the Federal Reserve owned by multiple financial institutions otherwise qualified to own a master account.

Community banks rely on technology infrastructure that supports everything from accepting deposits to originating loans, all of which tie into operating the core ledger that keeps track of customer accounts.

To effectively implement FedNow, the Federal Reserve must work closely with the core service providers to ensure that they have all of the specifications and technical requirements they need, when they need it, to ensure that all banks have fair access to faster payments solutions within a reasonable amount of time at a fair cost.

The ISO 20022 message standard is becoming the standard across payment platforms including a Fedwire migration that will be complete in 2023. Moving forward, it is important that FedNow adopt the ISO 20022 standard to allow for greater efficiency for the banks using the platform and for increasing the possibility of interoperability with other payment systems.

A major obstacle to ubiquitous payments is the enrollment process. Implementing solutions that require sensitive account credentials be shared and transmitted among several parties exposes the system to unnecessary risks. This situation can be resolved by the creation and/or adoption of a directory service. The Fed should work with the U.S. Faster Payments Council to help facilitate the development of a flexible directory ecosystem that allows equal access to financial institutions or their designated service provider. This will ultimately result in greater choice and flexibility for consumers. In conclusion, the Fed should move quickly to create a faster payments infrastructure to support the ability of financial institutions of all sizes to meet the needs of their customers. The Iowa Bankers Association appreciates the opportunity to provide input on this proposal.

Respectfully yours,

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