



William J. Schoch
President & CEO

November 7, 2019

Via Electronic Submission
Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551
regs.comments@federalreserve.gov

Re: Docket No. OP-1670, Actions to Support Interbank Settlement of Faster Payments

Dear Ms. Misback:

WesPay appreciates the opportunity to comment on the proposed interbank real-time gross settlement service, FedNow, proposed by the Federal Reserve Board of Governors (the "Fed"). WesPay supports the Fed's decision to develop a 24x7x365 real-time payment network and believes this will contribute to a modern and efficient U.S. payments system supporting commerce and facilitating economic development in the United States. This new service aligns with the evolving needs of consumers and businesses and is consistent with global trends.

Introduction

WesPay is a non-profit payments association dedicated to building and sharing knowledge to guide members throughout their payments journey, from concept to operation. We work with financial institutions, third-party payment providers and organizations supplying payment services related to operations and compliance, risk management and fraud, and payments strategy and planning. Twelve western states – Alaska, Arizona, California, Colorado, Hawaii, Idaho, Nevada, New Mexico, Wyoming, Oregon, Utah, and Washington, as well as American Samoa, Guam, and the Northern Marian Islands – constitute WesPay's primary service area. The region represented by WesPay is home to 25 percent of the nation's population and a corresponding volume of payments.

The comments in this letter represent a compilation of feedback collected in one-on-one discussions with financial institution members and input provided by WesPay's Board of Directors, Rules Advisory Council, and from 165 participants in an online Town Hall and interactive survey.

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Comments on the Proposed Actions

WesPay has a diverse membership in terms of asset size, charter type, geographic location and business focus. As one might imagine, we received a wide range of comments from our members, which we have organized into the succeeding five categories.

Interoperability with Other Real-Time Payment Networks and Integration with Core Systems is Needed on Day One

The Request for Comment states: “The Board agrees with commenters that interoperability between RTGS services for faster payment services is a desirable outcome but also recognizes that it may be difficult to achieve, especially early on.”

WesPay members expect payments originated by a participant of one real-time payment service to be received by a participant of another service. In fact, 57% of WesPay members that responded to our Town Hall survey believe interoperability is a critical feature and should be available upon initial implementation of the FedNow service. Interoperability helps participating institutions avoid the high costs and complexity of connecting to multiple services, and an inefficient, fragmented real-time payments environment.

WesPay members cite existing examples of payment interoperability and operator cooperation in virtually every other legacy payment network in the U.S., including ACH, check, credit cards and ATM/debit cards. In addition to simplifying operations and improving participant time-to-market, interoperability between operators provides the market with business continuity and competition.

Additionally, a prime concern for WesPay members is the ability for the FedNow Service to integrate with participants' core processing platforms. Many small institutions lack internal development teams and depend on integration with their core system as a prerequisite to offering new payment services to their customers and members. Integrating FedNow with core processing platforms on day one will facilitate participation of financial institutions of all sizes and enable access by their consumer and business customers and members.

WesPay members believe that an implementation date in 2023 or 2024 provides the Fed sufficient time to include interoperability and core systems integration as essential requirements of the FedNow Service.

Availability of FedNow Service will Delay Market Adoption of Faster Payments

The Request for Comment states the Fed is targeting a FedNow Service implementation date in 2023 or 2024.

As mentioned in our December 14, 2018 response to the Fed's Request for Comment on Interbank Settlement of Faster Payments (Docket No. OP-1625), WesPay believes the Fed's proposed actions are put forward at an inopportune time in the development of real-time payments and will likely have an adverse impact on short-term evolution.

WesPay is concerned that the Fed's evaluation and implementation activities will slow industry momentum in adopting faster payments solutions. Feedback from member surveys indicate that approximately two-thirds of WesPay members will wait for the implementation of the FedNow Service or simply delay implementation of faster payments to see how the market continues to evolve.

Conversely, a smaller number of large financial institutions have informed us that they will not delay as a result of the Fed's protracted implementation schedule and will implement sooner to respond to client/member demand and competitive market pressures.

Flexibility in the Definition of Business Day is Valued

The Request for Comment states the FedNow Service business day will align with the business day of the FedWire Funds Service.

Our members are primarily located in the Mountain, Pacific, Alaska and Hawaiian Time Zones and WesPay is a long-time advocate for later FedWire Funds Service and National Settlement Service end-of-day deadlines. WesPay believes efforts to modernize legacy payment systems have been curtailed by current Fed service deadlines.

We do not, however, expect the definition of the FedNow business day to have a significant impact on real-time payments because the FedNow Service will continue to process and settle transactions between the close of day and beginning of day junctures, delivering 24x7x365 continuous processing.

WesPay members appreciate the clarification that a business day for the FedNow Service aligns with the Fedwire Funds Service but does not dictate that participating financial institutions adopt the same convention, or preclude other conventions, for recording transactions in their customers'/members' accounts. This allows a participating institution located in the Pacific Time Zone, for instance, to post a FedNow credit received to its customer's account late in the day as today's transaction, even though the FedNow Service has transitioned to the next business day. This requires additional reconciliation for the participating institution but WesPay members state this is easily addressed.

Directory Services are Needed to Support the Use of a Public Identifier

The ability to route a payment using only a public identifier or alias is identified in the Request for Comment as a desirable feature with the FedNow Service. This would, however, require a database to link the public identifier with the recipient's banking information. The Fed identifies three potential directory solutions.

A majority of WesPay members favor either a Fed directory or a centralized link to private-sector directories. The least popular option is a requirement for each participating institution to establish its own connection to existing private-sector directories.

WesPay members agree that the use of a public identifier is a desirable feature in new payment services. We support the Fed's stated intent to engage with industry stakeholders with existing directory programs (e.g., Early Warning Service, US Faster Payments Council, Nacha, etc.) to more fully explore potential approaches and possible paths forward.

Fraud Prevention Services are Needed on Day One

As stated in the Request for Comment, the FedNow Service could offer additional fraud mitigation features at the payment system level, such as payment monitoring to alert participating banks of unusual transactions. Banks and end-users are keenly aware of the heightened fraud risk with real-time transactions and the vital role of fraud-monitoring solutions at the network level to mitigate risk.

WesPay members expect the Fed to have solutions at the launch of the FedNow Service to proactively monitor, inspect, identify, suspend and report potentially fraudulent transactions. Financial institutions want the ability to customize reports, automate controls (e.g., alerts, velocity tolerances, dollar limits, anomaly detection, etc.) and delegate decisioning during non-business hours.

WesPay members believe the key to fraud mitigation will be the Fed's ability to identify unusual activity, suspend the transaction, and report suspicious transactions before the transaction is cleared and settled.

Summary

WesPay members believe the time for faster payments has arrived. Nearly 67% of WesPay members in our Town Hall meeting anticipate high demand for the FedNow Service, with the other 33% being unsure or not having an opinion. All members participating in our survey anticipate actively evaluating the FedNow service when it is ready for implementation.

Our active discussions with a large number of WesPay members has clarified the following required features in the FedNow Service:

- Interoperability with other real-time payment services upon initial implementation;
- Integration with core systems to allow smaller institutions to implement the FedNow service without significant customization;
- Utilization of public identifiers to support ubiquitous routing of transactions;
- Availability of enhanced risk management tools to identify and restrict possibly fraudulent transactions prior to clearing and settlement.

WesPay appreciates the opportunity to share our thoughts and I would be pleased to discuss our comments in more detail. We encourage the Fed to continue to engage payments industry stakeholders throughout the design process in an effort to improve quality and enhance adoption of the final service.

Regards,



William Schoch
President & CEO

cc: WesPay Board of Directors
WesPay Rules Advisory Council