

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

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From: Canright Communications, Collin Canright

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Comments:

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COMMENT

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I have followed the development of the Federal Reserve's payment strategies since 2012 and offer this comment in support of The Federal Reserve Board of Governor's decision to operate a realtime gross settlement system with realtime payments capabilities under the FedNow name. I am principal of Canright Communications, a marketing and technical communications agency that has worked in treasury management, payments, banking, and technology for more than 30 years.

I support the decision because I believe that FedNow will go a long way toward helping smaller, community-based financial institutions remain competitive with larger institutions and nonbank providers in payments. As a consumer, I expect payments to be immediate, when I pay and when I receive funds. As an owner of a small business, I want funds to be good when I receive payments from clients. I want the same certainty for the payments I make to vendors and employees.

I would prefer not to use a different app or system to have that degree certainty, and I believe that a nationwide realtime payments system that all financial institutions use will bring that about.

At the same time, there is too much uncertainty in the FedNow product and its development. The difficulty I heard in conversations with bankers and vendors at the recent Federal Reserve Bank of Chicago Payments Symposium and Money20/20 FinTech conference is that the various options that exist for faster, near-realtime, and realtime payments is resulting in some confusion in the market.

Community bankers and software vendors both asked me whether they should support one or another of the current faster payment systems or wait until FedNow or do nothing until their retail or corporate clients ask. Some corporate treasury managers I have talked to like the idea of immediate payments and the potential to receive more information about what payments cover from their banks. Many corporates are content to wait until their banks make an offering or customers make requirements.

This is not a new in the adoption of technology. Realtime payments is like any other technology change: some people are more willing to adopt a technology[http] earlier than others, and it is not necessarily the Fed's responsibility to mediate this kind of market uncertainty, nor to resolve it. Yet this one is different because of the broad-based requirement that all financial institutions support 24x7x365 settlement.

Education will be especially important. I understand as a communications consultant that this may be both self-serving and fall outside of the Fed's purview, but making sure financial institutions, especially community-based institutions, understand the strategies and options FedNow provides will be critical. The Faster Payments Playbook, launched by NACHA in partnership with U.S. Faster Payments Council is a great start, as is the ICBA Bancard Digital Payments Strategy Guide.

As for FedNow features and timing, it is critical that the Fed provide more certainty on both scheduling and on a roadmap for critical features. The timing of 2023-24 is too long and too vague. The basic feature set for the initial release is fine, but a roadmap with even rough dates for additional features will provide more certainty to the industry.

Security plans should be spelled out in more detail-it's one of the areas I have heard the most

uncertainty over. Plus, titles like "faster payments, faster fraud" are now commonplace at conferences. Security plans should not include making faster payments revocable, even in the face of errors. That will limit the usefulness and, again, the certainty of realtime payments.

Plans for interoperability are important. FedNow does not have to interoperate with The Clearing House Real-Time Payments (RTP) system upon launch. But it will provide greater certainty for product developers if it's explicitly stated that the data and messaging standards will be compatible and the conditions of interoperability will exist from the outset. Because both systems are based on ISO 20022, I would like to believe that compatibility and interoperability are possible—software developers today this type of work in other financial sectors quite readily if not easily.

The provisions for data access through APIs would be good to specify, too. This, too, is not difficult to provide—any good software architect that has worked on modern trading and banking platforms would be able to build this without much difficulty.

Again, that may not necessarily be on the initial release, but it should be on the roadmap and offered early on. The more "open" the platform can be while maintaining security, the better to promote the ability for private companies to build innovative services on top of realtime payments. That is one intent of The Clearing House system. It should be a stated intent for FedNow as well.

In summary, the reality and goals of more certain timing should be provided to the industry, again to alleviate as much uncertainty as possible. Large-scale software and system development projects always contain an air of uncertainty in scheduling. But anything the Fed can do to alleviate uncertainty in the timing of the initial launch and plans for future features will make market adoption easier and faster.

Respectfully Submitted,
Collin Canright
Principal
Canright Communications
collin@canrightcommunications .com
773 426-7000
[View my LinkedIn profile](#)