

November 7, 2019

Ms. Ann Misback
Secretary, Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
regs.comments@federalreserve.gov

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

Dear Ms. Misback,

Thank you for the opportunity to respond to the Federal Reserve's Request for Comment on Federal Reserve Actions to Support Interbank Settlement of Faster Payments [**OP-1670**].

ACI recognizes the importance and priority of initiatives to further advance the adoption of real-time payments in the US, specifically in the areas of **interoperability, ubiquity, advanced overlay services** and **security**.

ACI has been a global leader in payment technology for over forty years and core to our company's vision is to facilitate electronic payments in a secure and efficient environment. We have actively participated in the Federal Reserve's Faster Payments and Secure Task forces, as well as other industry councils and committees, to ensure we share our expertise in this rapidly evolving payments ecosystem.

ACI's customer base includes organizations from around the globe that support and drive growth in electronic transactions and alternative payment types. These organizations include merchants, corporates with a high-volume billing and disbursement profile, financial institutions, and financial intermediaries of various types. ACI currently supports 18 real-time domestic schemes globally, with a customer base of almost 70 institutions across 19 countries, including the involvement in over 50% of the UK's Faster Payments, providing the core processing infrastructure for Malaysia's Real-Time Retail Payments Platform (RPP), and STET's real-time payments platform for PSPs in Europe.

We continue to strategically review new opportunities to provide solutions to accommodate any of the existing or proposed real-time payment systems. Our global reach has provided many lessons learned as each country's payments initiative has been implemented, grown, and modernized and as such offer our perspective on the latest Federal Reserve announcement.

Supporting interoperability to drive adoption and ubiquity of real-time payments:

The US payments market has a strong track record in delivering innovation through competition, and the announcement is another step in that direction. FedNow will provide an additional impetus for US financial

institutions to accelerate their journey to real-time payments as they anticipate greater choice in access to real-time rails. Bank enablement for real-time payments must, however be complemented by ease of use for consumers. Ensuring reachability of all parties regardless of the account provider, akin to the telecoms industry, will be critical to ensuring that US payments keep pace with the global shift to real-time payments.

We recommend looking to the European example where the need for a centrally operated pan-Euro real-time system has been met by the European Central Bank (ECB) via the launch of TARGET Instant Payment Settlement (TIPS), to complement the existence of the Euro Banking Association (EBA) RT1 service. Payment initiators can leverage a variety of local clearing and settlement providers (such as STET) or individual direct access to send their transaction via one operator, but ultimately settle the payment for their recipient on either system to maximize the number of reachable parties.

Interoperability for payment initiation and clearing and settlement between FedNow and TCH RTP Network will be critical to ensuring ubiquity, not fragmentation in the US. Easy to use APIs to provide connectivity, combined with a common messaging framework based on ISO 20022 across real-time systems, retail and wholesale payments will be key to adoption and data rich business use cases.

As the market evolves, ACI will continue to support existing and new real-time systems as they are launched, supporting banks and non-bank participants with real-time processing, settlement and decision-making systems to ensure the market can operate in a flexible environment across multiple schemes.

Creating value in real-time payments with digital overlay services:

An equally important aspect of the value proposition of real-time payment systems is the provision of digital overlay services. These services will enable banks to build differentiated offerings to their customers and will ultimately drive the adoption of real-time payments. If the US systems follow the interoperable route, it will be necessary to enable ubiquitous digital overlay services as well. TCH RTP has opted to build the overlay service 'Request for Pay' (RfP) in their scheme. Successful real-time systems, such as the UK's Faster Payments, are currently enabling RfP functionality as part of their next iteration of the scheme. This service is critical for extending use cases beyond Person-to-Person payments and resonates with corporations and merchants for additional value realization in real-time payments. ACI's recommendation would be to include a common RfP functionality as part of FedNow, allowing the market to offer further opportunities for innovation.

Many overlay service capabilities are available for real-time payments that checks and ACH cannot provide, particularly when we consider the business efficiencies gained through integration with accounting and ERP systems to facilitate improved cash management, and eventually robotic process automation. These could result in substantial benefits to corporates and small and medium businesses in the US market leveraging the use of richer data sets embedded in payment transactions.

Similarly, in countries where real-time payments have or are gaining momentum, merchants are exploring the operational benefits of real-time payments and developing use cases for "pay-by-bank" as the industry continues to offer more ways to pay. Real-time payments acquiring and advanced overlay services will be a significant area for innovation. These can be aligned and tailored to industry or specific verticals requirements.

Real-time payments ubiquity is supported by greater openness in the marketplace:

Allowing flexibility for participants to build overlay services on top of the real-time rails provided by FedNow, would create opportunities for all ecosystem participants to connect to this core functionality and develop their individual customer propositions to layer into the transaction. ACI sees this clearly in the case of India and UPI, where Google, Walmart, Amazon, and WhatsApp have all launched payment services embedded into their platforms and integrated into UPI, increasing real-time payment transaction volumes. In India, the push towards mobile enablement with a real-time payments initiation application, supporting all scheme participants and allowing users to easily transfer money was crucial in developing ubiquity and acceptance.

The Federal Reserve should consider the advent of 5G as an example of the potential impact of an open and connected eco-system, where millions of IoT-enabled devices will be making human-independent purchases. These transactions could be spread across many payment types, but a percentage (and perhaps a significant percentage) would be real-time payments driving transaction volumes for schemes such as FedNow. Central Infrastructures (CI) that launch with this kind of open functionality and seamless customer experience from day one, set their market up for real-time payments success.

Fraud prevention for real-time payments:

New and innovative digital payment capabilities must be paired with more sophisticated fraud prevention solutions and policies. The industry should protect its investment in real-time payments and prevent any challenges that could negatively impact the perception of the payment type amongst customers by proactively addressing new fraud threats at the scheme level.

ACI's recommendation is that the introduction of enabling digital overlay services should be coupled with centrally administered capabilities that have fraud management and customer experience benefits, such as Confirmation of Payee (via a directory) and other digital identification systems (including eKYC), as deployed by other schemes globally. Real time fraud detection systems at both the originating and beneficiary banks are still essential as they contain the knowledge of the customer and the customer's usual patterns. However, these detection systems must be complimented by a central detection system that has the advantage of seeing scheme-wide patterns and data.

ACI's recommendation is that the Federal Reserve should lead with a review of its own policies as well as reviewing the need for guidelines and expectations of financial institutions and non-FIs that will leverage access to the system (FinTechs, BigTech, PSPs etc.). The diversification of the payments industry is a key element of a real-time ecosystem, but it must be managed to ensure that the pursuit of competition does not place a heavier burden of compliance on banks, but rather creates a level playing field that fosters innovation and value to the US economy.

ACI applauds the Federal Reserve's commitment to a clear timeline for the launch of FedNow as it creates confidence for the banks in their own commitments to enable their environments for real-time payments. While a five-year timeline mimics some historical system implementations in other countries, it does seem relatively extended when we consider that real-time payments are no-longer a new phenomenon. By the planned go-live date, existing systems in the US from TCH and EWS (Zelle) will already have been operating for several years. The benefit of launching FedNow in an existing real-time payments market is that many of the legacy integration challenges have been overcome, lessons have been learned by many of the parties that will be involved in the new system, and the timelines can be compressed to help meet the overarching objective that is to accelerate adoption.



We are pleased to see the Federal Reserve recognize that real-time payments are a key part of payments in the future and provide a positive impact to the US economy. This announcement has and will continue to stimulate faster adoption of real-time payments in the US as every bank needs to prepare not only for connectivity to the new solution, but to ensure back-office systems and processes are also real-time ready. ACI is available to further discuss any of the comments provided here at your convenience.

Yours sincerely,

Craig Ramsey
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ACI Worldwide