

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

Description:

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Your comment: I recently wrote an Op-ed for VentureBeat on the Fed's new payment system. I am really excited by the potential of FedNow. Done right, it could catapult the US to the forefront of global payments again. Unfortunately, the Fed is used to listening to banks, and banks make a lot of money from keeping the status quo. I urge the Fed to engage deeply with both end-users, and non-bank participants in the payment systems.

So how could the Fed design FedNow to build a truly world-class payments infrastructure for the US?

Here are my thoughts on the topic:

1. Real-time all the time. The initial requirement should be 95% (2 sigma) of transactions posting in less than 2 seconds to an end-users account, with the eventual goal of getting to 3 sigma within 2 seconds. The average transaction should post within 1 second. WePay, UPI, even Visa are not far from these numbers already, so there are no technical issues with achieving this. Speed is critical for payments use-cases, and near real-time is not nearly good enough.

2. Direct access for non-depository institutions: Everybody who is a licensed FI in the country should get direct access to FedNow. Not just banks, but also credit unions, broker-dealers, state licensed money transmitters, and lenders should have direct access via an account held at the Federal Reserve. E-money license holders in Europe already have direct access to UK Faster Payments through the BoE, and to SEPA Instant through the Bank of Lithuania. All financial institutions that are subject to KYC and AML requirements and have a license from a state or national regulator should get access to FedNow.

3. Immutability, Non-reversibility, and transparency: The Fed has already said that FedNow will be a push only system, so it should be impossible to reverse payments. In fact all transactions should be immutable, and permanently recorded. Blockchains are great for this purpose, and even if the Fed decides not to use a public ledger, using blockchain technology internally would make a lot of sense. Needless to say, network analytics should be available readily as well, with key metrics reported publicly on a daily basis.

4. Clearing at par: Interchange is an abomination that should not be allowed on any national payments

system. All participants should bear their own costs without subsidies from any other party.

5. Built-in security and user protections. All participants should be required to notify end-users - both recipient and sender, as soon as possible of a transaction. Participants can select their own method of notification, but email, text message, and smartphone app notifications, should be the default methods. Request to Pay features should only be enabled in conjunction with real-time notification. There should also be a way for senders of transactions to confirm the identity of the recipient through the network, ensuring that payments are delivered to the correct recipient.