Name: David Madden
Organization: Stone Coast Fund Services
Industry Segment: Other (open field)

General

1. Are you in general agreement with the payment system gaps and opportunities identified in the "Payment System Improvement Public Consultation Paper"? Please explain, if desired.

Yes. I have been employed by major financial institutions, software company and now a 3rd party hedge fund administrator. My background has been/currently is in payments since 1985 in which I held senior positions at BB&T, TD Bank and BofA over the last decade. The issue facing the payment industry has been and currently is entrepreneurship, technology breakthroughs, customer demands with no centralized regulatory control. Since 1970's, new payment instruments have steadily fragmented the payment industry in doing so has open up the payment industry to world wide fraud through these new channels that are not integrated into a single input point and output. There is 313.9 million Americans, of which 81.0% are internet users. There are over 14,000 financial institution and savings and loan that offer their customers online internet banking services. The Federal Reserve backbone in the payment realm is Fedwire that connects these financial institutions in settlement. Reverse reengineer it allowing internet customers access to a highly secure online system for near real-time payment services, settling with the existing Fedwire member banks.

1i. What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?

2. Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years? Please explain, if desired.

Yes.

2i. What other outcomes should be pursued?

Please see my narrative above.

3. In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader, and/or catalyst?

Since I have been employed and enjoyed 30 yrs. of payment experience from check processing, card processing, online wire, ach, float, etc.. the Federal Reserve has been fearfully in taking a strong lead amongst bank lobbyists and the ABA. The fragmented payment highly risk/fraud product line that exists today is the result of the Federal Reserve being too passive. Your focus was internal as it should be in check processing transportations, Unisys/IBM sorter consolidation/elimination, image processing, mainframe consolidations, etc.. You need to build a online payment portal, high secured, router which connects the users payment instructions to the member banks. Handheld devices, laptops, iPods and net mobile devices all have access to the internet. This is the space in which payments needs to be conducted.

Ubiquitous near-real-time payments

4. In discussions with industry participants, some have stated that implementing a system for near-real-time payments with the features described in the second desired outcome (ubiquitous participation; sender doesn't need to know the bank account number of the recipient; confirmation of good funds is made at the initiation of the payment; sender and receiver receive timely notification that the payment has been made; funds debited from the payer and made available in near real time to the payee) will require coordinated action by a public authority or industry group. Others have stated that current payment services are evolving toward this outcome and no special action by a public authority or industry group is required.

4i. Which of these perspectives is more accurate, and why?

Federal Reserve needs to take an active leadership role and develop the solution leveraging Fedwire... Consumers and businesses will flourish if the online payment router to members banks can be built. The information to route to member banks is already there.. using an intelligent numeric value like RTN# and account number.

4ii. What other perspective(s) should be considered?

Many, however if interested, I am interested in working with you.

5. The second desired outcome articulates features that are desirable for a near-real time payments system. They include:

a. Ubiquitous participation
b. Sender doesn't need to know the bank account number of the recipient
c. Confirmation of good funds is made at the initiation of the payment
d. Sender and receiver receive timely notification that the payment has been made
e. Funds debited from the payer and made available in near real time to the payee

5i. Do you agree that these are important features of a U.S. near real-time system? Please explain, if desired.

No.

5ii. What other characteristics or features are important for a U.S. near real-time system?

b- the key is the account number or a numeric value representation (like IBAN) of the recipient's account number. It is defined amongst the 14,000 financial institutions upstream and downstream systems/platforms.

6. Near-real-time payments with the features described in the second desired outcome could be provided several different ways, including but not limited to:
a. Creating a separate wire transfer-like system for near-real-time payments that leverages the relevant processes, features, and infrastructure already established for existing wire transfer systems. This option may require a new front-end mechanism or new rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions.
b. Linking together existing limited-participation networks so that a sender in one network could make a payment to a receiver in another network seamlessly. This option may require common standards and rules and a centralized directory for routing payments across networks.
c. Modifying the ACH to speed up settlement. This option may require a new front-end mechanism or new network rules that would provide near-real-time confirmation of good funds and timely notification of payments to end users and their financial institutions. Payments would be settled periodically during the day.
d. Enhancing the debit card networks to enable ubiquitous near-real-time payments.
e. Implementing an entirely new payment system with the features described in the second desired outcome above.

6i. What would be the most effective way for the U.S. payment system to deliver ubiquitous near-real-time payments, including options that are not listed above?

A' is the answer. Leverage Fedwire and SWIFT along with the adaptation of IBAN. The desired product leverages the internet and worldwide settlement.

6ii. What are the likely pros and cons or costs and benefits of each option? What rule or regulation changes are needed to implement faster payments within existing payment processing channels?

How soon do you want to implement the solution? You have seen over the last 20 years a proliferation of payment choices due to the American entrepreneurship mentality and the Federal Reserve taking a passive role over the last 30 years due to fear of bank lobbyists and consumer activists and their focus on internal management of workflows, systems and payment processing sites.

6iii. Is it sufficient for a solution to be limited to near-real-time authorization and confirmation that good funds are on their way, or must end user funds availability and/or interbank settlement take place in near-real time as well?

interbank settlement should resemble that of Fedwire processing

6iv. Which payment scenarios are most and least suitable for near real-time payments? (B2B, P2P, P2B, POS, etc.)

all except POS

7. Some industry participants have said that efforts to make check payments easier to use, such as by enabling fully electronic payment orders and/or by speeding up electronic check return information, will incrementally benefit the payment system. Others argue the resources needed to implement these efforts will delay a shift to near-real-time payments, which will ultimately be more beneficial to the payment system. Which of these perspectives do you agree with, and why?

8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?

reduces it dramatically; how much fraud exists in wire transfer compared to check and card fraud? You know the answer.

8i. Will near-real-time payments create new fraud risks? If yes, please elaborate on those risks.

Yes. Masking legitimate payer and payee will always exist.

9. To what extent would a ubiquitous near-real-time system bring about pivotal change to mobile payments?

10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?

10i. What is the cost, including the opportunity cost, of not implementing faster payments in the United States?

11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?

11i. What is the likely timeframe for any such modernization?

12. Some industry participants suggest that a new, centralized directory containing account numbers and routing information for businesses and/or consumers, to which every bank and other service providers are linked, will enable more electronic payments. A sender using this directory would not need to know the account or routing information of the receiver.

12i. What are the merits and drawbacks of this suggestion?

12ii. What is the feasibility of this suggestion?

Electronification

13. Some industry participants say that check use is an enduring part of the U.S. payment system and that moving away from checks more aggressively would be too disruptive for certain end users.

13i. Is accelerated migration from checks to electronic payment methods a high-priority desired outcome for the U.S. payment system? (Accelerated means faster than the current trend of gradual migration.) Please explain, if desired.

No. The key is too offer a near real-time, internet based, low cost or no cost, high secured, payment/router to member banks portal.

13ii. Should the Federal Reserve Banks establish a target for the percent of noncash payments to be initiated via electronic means, by a specific date? For example: "By the year 2018, 95% of all noncash payments will be made via electronic means." If Yes, what is the appropriate target lever and date?

14. Business-to-business payments have remained largely paper-based due to difficulties with handling remittance information. Consumer bill payments also are heavily paper-based due to the lack of comfort some consumers have with electronic alternatives. In addition, many small businesses have not adopted ACH for recurring payments due to technical challenges and/or cost constraints. The payment industry has multiple efforts underway to address these issues.

14i. To what extent are these efforts resulting in migration from checks to other payment types?

14ii. What other barriers need to be addressed to accelerate migration of these payments?

14iii. What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?

14iv. Which industry bodies should be responsible for developing and/or implementing these tactics?

Cross-border Payments

15. To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the United States facilitate electronification of business payments and/or cross-border payments?

16. What strategies and tactics do you think will help move the industry toward desired outcome four - consumers and businesses have greater choice in making convenient, cost-effective, and timely cross-border payments?

Safety

17. Payment security encompasses a broad range of issues including authentication of the parties involved in the transaction, the security of payment databases, the security of software and devices used by end users to access payment systems, and security of the infrastructure carrying payment messages.

17i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

17ii. Which of these threats are not adequately being addressed?

17iii. What operational or technology changes could be implemented to further mitigate cyber threats?

18. What type of information on threat awareness and incident response activities would be useful for the industry?

18i. How should this information be made available?

19. What future payment standards would materially improve payment security?

19i. What are the obstacles to the adoption of security-related payment standards?

20. What collaborative actions should the Federal Reserve Banks take with the industry to promote the security of the payment system from end to end?

I have many opinions, suggestions on the above and below unanswered questions, however I do not have the time or energy to provide you a road map to success. I can be called and certainly interview but better yet would appreciate it to become a member of your team. The answer to this question is : Federal Reserve should redefine itself as owner of the payment airways, like the FCC, it would be a regulatory body that manages the payment space, regulations and standards.

21. Please share any additional perspectives on U.S. payment system improvements.