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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.

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. The desired outcomes are agreeable, but the timeline of 10 years is frankly too long. Private companies will continue to offer pertinent solutions faster and cheaper, taking more transactions outside of the Fed payment systems for lengthier "hops" in the end-to-end settlement process. FIs ultimately want the Fed to be their provider of comprehensive payment and payment-related data solutions, but many will make decisions to partner with private service providers when they cannot wait for the functionality their customers are already demanding.

2i. What other outcomes should be pursued?

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

In order for the FRB to effectively regain and retain its primacy as the source of payment services, it must take the lead in establishing a vision of what is needed in 5 or 10 years' time. From that vision, clear decisions need to be made and mandates for change issued. There need to be financial consequences for entities that do not make dates. Leadership that is willing to define a vision and then to stand up to the cogs in the wheels of progress is going to be required for the industry to revolutionize itself.

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?

The former is more accurate for more participants. Those who can afford to buy services from outside companies and to manage multiple vendor relationships around their payment capabilities will do so. Those who cannot or choose not to enter into layers of vendor relationships to deliver payment solutions as customer needs evolve are left struggling to provide viable alternatives to small businesses and consumers, in particular.

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

There could be a situation similar to Faster Payments in the UK, which seems to be agreeable to all involved parties and was able to launch fairly quickly and is now at the point where it is largely ubiquitous.

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.

Yes.

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

Clearly defined exception handling processes, procedures, rules, expectations that make sense to real people but that do not compromise the working of the participants allowing access to the system.

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?

Modifying the ACH appears to be the most impactful, least disruptive option.

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?

Rules around the usage of a near real-time ACH channel would need to be established by NACHA. However, the FRB and NACHA may need to find an effective way to avoid the tactics usually employed by specific participants to stall or render ineffective Rules that may not exactly suit their specific interests.

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 must take place in near real-time as well, so that participants of all sizes are equally protected. End user funds availability is the crux of the entire premise.

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

Technically, they should be equally suitable if handled in a single solution.

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?

Allocate resources on the "to be" solution instead of enhancing checks. There will always be people and companies who prefer checks the way they are handled today. Leave checks alone and focus on the future.

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

These could help address some current fraud concerns (especially around account numbers being stolen), but new things we haven't even thought of will come up.

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

Yes. It would be wise to assess fraud reviews from countries like the UK, Mexico, or Sweden to see what happened in each country.

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

Mobile payments without a near real-time system doesn't add much value. It's like driving a Formula One car in rush hour traffic.

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

The external parties that are already threatening large parts of the US payment franchise will continue to move more transactions out of the FRB system.

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

Eventually, there will not be a need for FRB payment services if participants can get what they need elsewhere. As costs from external service providers continue to be reduced for more comprehensive solutions, even the smallest participants will have to move away from the FRB to get what their customer base demands.

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

There is some work to be done, but the core processing solutions can largely be updated to either run batches more frequently throughout the day 24x7. The biggest obstacle is probably changing mindsets as to what constitutes a business day in the new paradigm.

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

It needs to be done in a maximum of 5 years in order to be worthwhile.

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?

It would simplify processing significantly, if we can all agree on a key piece of data to use for matching. I would be concerned about its being compromised and used to perpetuate additional fraud.

12ii. What is the feasibility of this suggestion?

It could be done, but most participants and the FRB would have to agree on updates at least daily.

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.

Yes. However, it's not necessary to put resources around making it happen right now.

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 level and date?

No

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 electrification of business payments and/or cross-border payments?

It would be ideal to participate in one global standard.

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?

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

