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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. Yes, the paper very succintly and accurately describes what needs to happen to take payments to the next level of speed and ease of use for consumers here in the United States.

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

N/A

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 paper lists both short and long term solutions to bring about additional agility, speed, and innovations needed to improve the current payments system.

2i. What other outcomes should be pursued?

N/A

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

As the central bank, the FRB is already seen as reliable and trustworthy by both consumers and financial institutions. By lending support to the movement to enhance the current payments landscape, the FRB could help in increasing the speed, resources, and visibility needed around this important endeavor.

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?

Both perspectives are accurate. The future payments state of ubiquitous near-real-time payments will require new rules and regulations, working agreements, and will need to be adopted by financial institutions much like checks, ACH, and plastic cards were in the past. At the same time, creativity and innovation from the private sector will also be required to help bring the new model into fruition.

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

N/A

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?

N/A

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?

B and C are the best options to bring near-real-time payments into the realm of consumer choice.

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?

Linking together unconnected existing limited-participation networks and speeding up the current ACH speed of settlement would be the fastest and most impactful ways to boost the existing system. Many if not most consumers already use services such as PayPal and are already familiar with ACH. By leveraging existing options and enhancing them to be more quick and agile, the rate of adoption would be high.

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?

Both portions of the transaction need to be improved in order to effectuate a paradigm shift in payments. The sender needs to know that the payment is on the way and have almost immediate access to the goods and/or services purchased while the receiver needs to validate that good funds are coming into the account and that the transaction will settle without any issues such as fraud and/or user or financial institution errors.

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

POS, P2P, B2B

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?

Efforts to make check payments easier will delay a shift to near-real-time payments, which will ultimately be more beneficial to the payment system. While checks will not go away anytime soon, the efforts and innovation needs to be centered around near-real-time payments, especially those than can be completed through mobile and smartphone devices.

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

Near-real-time payments will help to reduce fraud and losses because there will be little to no "float time" and good funds will be able to be validated immediately.

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

No

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

It would be significant, especially in the area of mobile payments as many, if not all, consumers are increasingly relying on mobile devices to manage their finances and purchases.

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

There would be an adverse impact as the U.S. payments system is already seen as being behind as compared to Europe and Asia, where these advances already exist.

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

The potential cost is loss of sales and income to small and medium sized businesses, less choice in the marketplace for consumers, and stagnation in terms of payment evolution and innovation.

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

To a moderate extent, the framework already exists, it just needs to be enhanced and modernized.

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

Between 2 to 5 years.

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?

The merits are having all the account and routing information in one place. Drawbacks include the resources (human capital and operational/technical) needed to maintain such an exhaustive and dynamic repository.

12ii. What is the feasibility of this suggestion?

It does not appear to be something that could be accomplished fairly quickly.

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. Migration from checks to electronic payment methods is extremly desirable in order to effectuate change. Many consumers are already converts to electronic channels and the move would help to accelerate those that are not.

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?

Yes. 2020

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?

The movement to ACH from paper based payments is certainly helping in terms of the rate of adoption as well as ease of use for re-occuring type payments.

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

Overcoming the technological and cost constraints will help to convert legacy system users.

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

Offering reduced payment fees and rates will help to induce adoption as well as incentives such as rewards points, etc.

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?

A unified adoption of the XML based ISO 20022 payment message standards would help overcome any language and/or cultural barriers that may currently exist in the cross-border payments arena today. Much like the use of SWIFT and IBAN for wires, there could be a common system for cross-border financial institutions doing business with each other.

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?

Unified messaging and communication system, error resolution process, low cost to send and/or receive funds to/from abroad.

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?

The threats listed above adequately describe the risks related to the safety of payments.

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

N/A

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

N/A

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

Any scams, fraud schemes, cyber attacks, and/or hacking incidents should be communicated.

18i. How should this information be made available?

Through a FRB communication channel such as email or even SMS.

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

Good funds validation, IP address and mobile phone validation, customer validation.

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

N/A

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?

Ensure that the same protocols that are followed today do not go away and that additional safeguards are added. Help in developing, testing, and implementing controls in partnership with financial institutions.

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