From: Ivan Schneider
To: comment@fedpaymentsimprovement.org
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In response to the call for public comment on Payment System Improvement, I respectfully submit the following discussion in response to Q1, Q2 and Q3.

By way of introduction, I have been writing about technology in financial services since 2000. I have a BS in information and decision systems from Carnegie Mellon University, an MBA in finance and accounting from Vanderbilt University, and a Master of Liberal Arts in Extension Studies from Harvard University. In addition, I recently completed, through Coursera, Perry Mehrling's *Money and Banking* course.

From 2000 to 2005, I was an editor with *Bank Systems & Technology* magazine, writing about technology strategy for senior-level bank executives. For the past several years, I have run my own Seattle-based writing business, "ivantohelpyou," with one of my main products being case studies and custom marketing materials for technology companies that sell software and services to the financial services industry. My bias is toward policies that promote technological change; that is, my clients spend more on marketing when they have prospects actively requesting proposals for new systems from multiple vendors, creating demand among those vendors for marketing-led differentiation.

On that basis, it would be to my personal advantage if the payment industry were to enable low-cost, near-real-time retail payments. In order to support near-real-time payments, the entire retail banking industry would have to upgrade their core banking solutions from batch to real-time, a once-in-a-generation upgrade that would certainly lead to profitable opportunities both for my clients and my B2B marketing business.

Yet as a citizen and an informed observer, I have to question whether the Fed is the appropriate entity to be championing the cause of near-real-time payments.

The laudable goal of payment industry reform is to lower costs, improve services, and expand access to payments for retail customers and businesses. However, in its scope and complexity, payment industry reform is comparable to the recent legislation in health care reform. In both cases, legacy providers derive financial benefit from the complexities of an inefficient system. It should be considered a form of market failure when an industry proves unable or unwilling to reform itself without external pressure, and such market failure provides reasonable justification for government-led intervention.

Should the Fed, as an independent central bank, have anything to do with crafting policy that would create significant winners and losers in the real economy?

The Federal Reserve's independence from day-to-day political interference enables it to perform its role as overseer of the proverbial "punch bowl," taking it away just when the party is getting good. Without this independence, the Fed would be find it politically difficult to take actions that might slow economic growth in an overheating economy. The power derived from this independence is important to maintain, and it should be applied only to activities within the Fed's direct charter.

It is self-evident that substantial regulatory or legislative changes to the payment system would have profound and irreversible effects upon banks, non-bank payment providers, retail firms, telecom providers and major Internet companies. We need not identify the winners and losers in advance in order to recognize that big winners and big losers will arise from payment system reform. Accordingly, the entirety of payment system reform should stem from our democratic political process, which in its ideal form is designed to balance the demands of multiple interest groups through the discipline of elections. That the current political climate may prove to be an insurmountable barrier to payment system reform should be considered a benefit rather than a drawback of the political process.

Reform should arrive as the product of law rather than through the force of regulation. As with telecom reform, electric utility reform, and health care reform, payment system reform should be the sole product of the political process, rather than the brainchild of an entity with unique privilege to operate outside of the day-to-day political process. The very appearance of the Federal Reserve favoring one interest group over another may lead to questions of its impartiality, which in turn could jeopardize its very independence under future administrations.

The Federal Reserve's primary and overriding role should be to evaluate proposals for payment system reform as a primary stakeholder in the safety and soundness of the banking system. For example, what effect would real-time retail payments have on the money market? Would real-time retail payments enable a wider range of non-bank entities to act as shadow banks? If so, how would the Fed to respond to a crisis? What are the implications for the banking industry? The banking experts at the Federal Reserve should be intensely and exclusively focused on these high-level questions in the interbank market.

There are plenty of voices saying, "Hey, I've got this great idea that will shake things up." The Fed's role should be passive, listening carefully to these ideas and then stepping in when necessary to say, "No, that idea's too dangerous." That's an appropriate responsibility for the person standing vigil near the punch bowl.

For the Federal Reserve to act simultaneously as the promoter of invention and the voice of reason is a dangerous idea in itself. Let some other banking regulator take the lead on consumer issues, and leave the championing of payment system innovations to industry associations and trade groups. If the political will exists, it would be great to see a low-cost, real-time payment service with a universal franchise. Maybe the US Postal Service wants to take on a new role for the 21st century. Yet it should be a force other than the Fed that wills such a scenario into being.