

MEMORANDUM

December 12, 2013

To: The Federal Reserve Banks

From: Tenth District Payments Advisory Group

Subject: Payments System Improvement – Public Consultation Paper

The Tenth District Payments Advisory Group is comprised of executives from financial institutions headquartered in the Tenth District of the Federal Reserve System. We meet periodically with Kansas City Fed staff to provide insight on developments in the U.S. payments system and advise on actions the Federal Reserve might take to ensure the payments system's safety and efficiency while providing broad access. The eleven current members of the Advisory Group represent credit unions and commercial banks with assets ranging from \$12 million to nearly \$14 billion and therefore, offer a breadth of perspectives and experiences.

We commend the Federal Reserve Banks for issuing the *Payment System Improvement – Public Consultation Paper* to gather information on how the U.S. payments system can be improved. In the attached, we submit for your consideration not only our responses to the paper's specific questions, but also our collective outlook on the state of the payments industry today, our perspectives on the historical role of the Federal Reserve and our recommendations for what the Fed's role should be going forward.

We thank you in advance for this opportunity and for your thoughtful consideration of our responses.

Respectfully,
The Tenth District Payments Advisory Group

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Attachment

Payments System Improvement – Public Consultation Paper
Tenth District Payments Advisory Group Response
Kansas City, Missouri
December 12, 2013

I. Introduction

We are witnessing firsthand the remarkable changes the U.S. payments system is undergoing. While the payments industry has initiated and managed through significant transitions before – check MICR, ACH and, most recently, Check21 – it was galvanized to make the necessary improvements/investments by the need to reduce the cost of processing payments. Current conditions are quite different.

Today, we see the need for change is being driven by changing demographics, rapid adoption of technology and evolving end-user expectations. The outcome of modernization of the payments system will be public benefits such as real-time transactions, continued efficiencies from fewer paper payments, linking payments with rich information and more convenient and secure global payment capabilities. These benefits are difficult to quantify as part of a business case to an individual organization, which raises concerns about how improvements will be paid for and over what period of time. In the absence of a galvanizing financial imperative, reaching consensus on how we accomplish these desired improvements is unlikely.

The payments industry is becoming fragmented across and even within traditionally aligned segments. The card networks have evolved from association models, where financial institutions were members, to publicly traded companies. Dodd-Frank has fragmented financial institutions by establishing rules that categorize them based on asset size. Even various banking associations are at odds about what course to take to best serve their members' needs. Consequently, efforts to speed up the ACH network were unsuccessful and the pace of transition to better card-security technology has the United States lagging other countries. Our infrastructure is not keeping pace with the needs of end users; the status quo is not serving the broad public interest.

Access to technology is another issue. Financial institutions are increasingly reliant upon third-party providers to keep up with technological advancements. Many of these third parties are themselves competing for market share and may impose differing priorities on deploying technology to financial institutions of varying sizes. The consequence may be that even when a financial institution has the desire to modernize, it can only do so at the pace of its service provider.

As financial institutions try to work through the previously stated issues, the influence of nonbank payment providers is increasing. Nonbanks have been able to use technology to innovate in ways that have begun to address end-user needs that are not being met by traditional payments methods and their products and services are appealing to a growing number of consumers and businesses. We recognize the benefits these providers offer, but the difference in regulatory oversight and enforcement produces a different risk management discipline than exercised by depository financial institutions. Consumers may not be fully aware of these differences or the potential risks associated with the

nonbank products and services they are using. When consumers are asked who they most trust to provide financial services, the most frequent response is their bank. If or when there is a nonbank crisis, consumers will look to their financial institutions, not their nonbank provider, to make them whole. Modernization is needed to ensure the continued safety and soundness of the payments system.

Finally, though the U.S. economy, banking structure and payments system are markedly different from those in other countries, we would be remiss if we did not acknowledge the impact of modernization efforts under way abroad. Global trade is denominated in dollars and takes place through the U.S. payments system. We must have a payments system that meets the growing demand for broad and efficient international payments.

It is from this vantage point that we offer our comments to the *Payments System Improvement – Public Consultation Paper*. In Section II of this document, we focus on the historical role of the Federal Reserve and what that role should be going forward. In Section III we express our overarching views on the desired outcomes outlined in the consultation paper. Section IV provides our collective response to the specific questions posed in the paper. Section V provides a summary and our conclusions.

II. Role of the Federal Reserve

The Federal Reserve has historically played a critical role in the U.S. payments system, serving as an operator, a regulator and an industry leader with a public policy perspective. We note that recently, the Fed's regulatory role is expanding and its operator role is declining as the use of checks decreases while the use of card-based payments increases. We believe an active Fed, in its operator and industry leader roles, is particularly beneficial moving forward given its public policy focus. Federal Reserve involvement in the payments system has been guided by three fundamental public policy objectives. The first, integrity, dictates transactions should be safe and reliable, removing individual and systemic risk to the greatest extent possible, to achieve broad public confidence in the payments system. The second, efficiency, dictates the cost of making payments should be reduced as much as possible, enhancing productivity and efficiency in the overall economy. The third, accessibility, dictates the payments system should be available to all depository institutions, so they can provide for the payments needs of their customers. These fundamental public policy objectives, together with monetary policy and supervision, work to meet broader goals of financial stability and economic growth.

We believe Federal Reserve System (the Board of Governors and Reserve Banks) collaboration and engagement, as a leader and operator, with payments industry stakeholders, is key to achieving enduring strategic improvements to the U.S. payments system. This approach has proven successful in the past when the Federal Reserve served in a consultative capacity before it became actively involved in the implementation and adoption of MICR standards; when the Federal Reserve became an ACH operator at the industry's request; and when the Federal Reserve Board worked with a broad range of interested parties to craft the Check 21 legislative language and the Reserve Banks offered check image services to all financial institutions to pave the way for the elimination of costly paper check clearing.

The current payments environment calls for Federal Reserve System leadership. The Reserve Banks' revised strategic direction and this consultation paper are evidence of that leadership. However, we

acknowledge the important role the Federal Reserve Board of Governors plays in setting U.S. payments system policy. We believe the Reserve Banks and the Board of Governors should work together to determine the right balance of leadership and participation needed to move the industry forward to achieve the desired outcomes sooner rather than later. Toward that end, we suggest the existing Federal Reserve System's Payments System Policy Advisory Committee (PSPAC), comprised of members of the Board of Governors and Reserve Bank Presidents, become actively engaged in reviewing and adjusting as necessary the principles and policies needed to advance the Reserve Banks' goals.

We offer the following suggestions for PSPAC discussion, specifically focused on the role of the Federal Reserve to address issues and opportunities in achieving the payments system improvements it seeks:

1. It is our view that regulated financial institutions should remain the gatekeepers of the payments system to ensure its integrity. However, we recognize the role market forces and competition play in bringing about payment innovations that serve a range of consumers, including the unbanked. We, therefore, recommend the PSPAC assess the risks accompanying nonbank indirect access to the payments system and explore ways to strengthen the management of such payments activities and relationships, as appropriate.
2. The Federal Reserve Banks should be an industry catalyst for the development of a near real-time payments architecture drawing upon experiences of other countries and collaborating with industry participants. If real-time payments can be achieved using ACH, check or wire infrastructure, we believe the Federal Reserve should also be an operator. If a new payment rail is required, the role the Federal Reserve should play should depend on the private market's response to the challenge. However, given what is at stake for the U.S. payments system, in the absence of sufficient industry collaboration to deliver a safe, broadly accessible, and efficient payments infrastructure, the Federal Reserve may need to take a more active role as an operator of a near real-time payments system.
3. The Federal Reserve Banks should continue in their operator role providing and improving their own payments networks however the payments system evolves.

III. Views on Desired Outcomes

The Advisory Group agrees with the desired outcomes. We agree a ubiquitous system for real-time payments should be a long-term goal. To achieve a good funds model, having funds irrevocably debited from the payer's account and made "immediately" available to any payee, regardless of where the account is held, will necessitate the adoption of a credit push model that utilizes a directory with strong authentication of ownership and account number to route the payment information. Whether existing rails can be modified to accommodate these payments is uncertain. Today, credit push payments can be made using either ACH or wire transfers. ACH credit push is most often used for future-dated payments like payrolls and bill payment and the payment recipient must provide his/her account information to receive an ACH payment. Wire transfer payments facilitate immediate debit of the payer's account, but receipt of the payment by the payee is not immediate, and again, the payee has to provide his/her account information. Creating a directory that would eliminate the need for the payment recipient to share his/her account information could take various forms; it could be a directory of directories (like BIN tables) serving as a switch for payment information between various closed-loop systems or it could

be a central directory of all end users that routes payment information from the payer's financial institution to the holder of the payee's account. What is needed in a directory will depend on the rails used to process the transaction; ACH does not have real-time authentication/authorization while debit and credit card transactions do. Regardless of the rails, however, creating a central directory raises major concerns about security and reliability which must be addressed in the technical architecture and administrative processes.

We are uncertain about the 10-year time horizon to achieve this goal. However, assuming a phased approach for implementation, 10 years should mark the outer limit for full implementation, with substantial progress made within two to four years. We believe real-time payments will be additive to existing rails. Given that existing payment methods will not necessarily be made obsolete, continued enhancement of existing infrastructures will be needed. To prepare for the transition to real-time payments, the Advisory Group advocates that a task force comprised of members of the Federal Reserve Banks, NACHA and the Clearing House work together to develop a blueprint for faster payments. The blueprint could include incremental steps of multiple ACH file processing windows, changes to rules related to the frequency and timing for picking up and processing files, and exploration of the use of ATM or credit card network real-time messaging as a means of validating payment account information.

Any potential solution – whether it utilizes existing rails, creates a new real-time payments rail, creates a directory of directories or a central switch – will likely take several years to develop and implement. The Advisory Group feels strongly that a well-defined roadmap/timeline for analysis of options and, where appropriate prioritization of phases, are critical components of any future recommendations. The Federal Reserve needs to get everyone to the table to facilitate understanding of how this can be achieved.

The Advisory Group believes the development of real-time payments will provide an electronic alternative for payment use cases that are, at present, best satisfied with paper checks. If the real-time payments mechanism is built properly there will be no need to establish goals for reducing the use of paper checks; it will happen naturally. And, over the long run, end-to-end costs of payment transactions will be greatly reduced and innovative payment services that deliver improved value to consumers, businesses and governments will be offered.

In as much as the dollar is the world's reserve currency, the U.S. payments industry should work to remove barriers that hinder our ability to make cross-border payments. Adoption of standards is key. Having an international payment option that is broadly accessible is very important, particularly for small merchants. The Federal Reserve should work with SWIFT and CHIPS as well as consider both ACH and wire transfers as channels for cross-border transactions. Further, the Federal Reserve should consider whether there are architectural changes it can make to facilitate adoption of standards.

Underlying all of our comments is the importance of promoting the security of the payments system from end-to-end in this rapidly evolving payments environment. Speeding up payments may introduce new risks (increasing the need to swiftly authenticate the sender, for example), but we expect that, on

balance, it will offer net benefits. There are tools we have at our disposal to help manage some of the risks. For example, at an industry or network rules level, value and velocity limits can be set for payments. Within those limits, financial institutions can then make decisions about what works best for their individual institutions. Financial institutions also can utilize dynamic authentication credentials. In addition, we need to identify ways in which to address weaknesses of security at the point of sale. Here persistent breaches serve as proof that there needs to be a governing body that oversees how authenticating technologies and rules are established and implemented. The Federal Reserve can be the catalyst, but leverage industry expertise to strengthen payments security generally and authentication specifically.

IV. Responses to Questions for the Public

General

Q1. Are you in general agreement with the payment system gaps and opportunities identified above?
We are in agreement with the identified gaps and opportunities.

Q1i. What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?

Q2. Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years? Please explain, if desired.

We are in agreement with the desired outcomes. However, we are uncertain the 10-year time horizon is appropriate. Assuming a phased approach for implementation is employed, 10 years should mark the outer limit for full implementation, with substantial progress made within two to four years. We believe the Fed should outline/establish well-defined near and midterm goals toward the achievement of the desired outcome.

Q2i. What other outcomes should be pursued?

Since existing infrastructures will not necessarily become obsolete with the introduction of real-time payments, we believe the Fed should continue to make enhancements, where it is cost-effective, necessary and/or reasonable to do so, to facilitate the migration toward real-time payments. Doing nothing in the interim is not a viable option.

Q3. In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader, and/or catalyst?

See recommendations in Section II.

Ubiquitous near-real-time payments

Q4. 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 attention by a public authority or industry group is required.

Q4i. Which of these perspectives is more accurate, and why?

Coordinated action by a public authority or industry group will be required to achieve the desired outcome. The payments industry is not nearly as cohesive as it was when modernizations were made to facilitate check routing, to develop an electronic alternative to checks, or even to facilitate the acceptance of check images in lieu of paper. The industry is very fragmented and there are issues of access and uneven regulation that make it significantly more difficult to work together for the greater good.

Q4ii. What other perspective(s) should be considered?

Q5. 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

Q5i. Do you agree that these are important features of a U.S. near-real-time system? Please explain, if desired.

We agree the outlined features are important for a U.S. real-time payments system. We believe credit push and 24-by-7 availability are implied by these features.

Q5ii. What other characteristics or features are important for a U.S. near-real-time system?

Initial use of value and velocity limits may be important. Further, the system needs to be built in such a way to recognize future advances in technologies that will affect means for accessing payments, potential new players in the ecosystem, as well as new means for mitigating/preventing risks. Finally, "ubiquitous participation" should include how individuals without bank accounts gain access to these payment capabilities.

Q6. Near-real-time payments with the features described in the second desired outcome could be provided in 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.

Q6i. 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?

With strong industry engagement, the Federal Reserve should perform an analysis of the available options, flesh out the economics and risks of each and put forward recommendations for the best, quickest, most-effective, etc. ways to market. The path forward should be delivered in 2014 so industry participants can incorporate it into their technology roadmaps.

Q6ii. 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?

The likely pros of utilizing existing infrastructures are each has features and functionalities that are well-liked, well-used, and for which there is long-term expertise in operating. The likely con is the existing payment infrastructure is a patchwork of layers upon disparate legacy systems. There are redundancies across systems that are certainly inefficient in ways we can't even begin to measure. Further, the rules/regulations for payments that are made via existing infrastructures may not be at all well-suited for the ways in which payments are made today. For example, authentication rules for transactions via the ACH are lacking and existing ACH return rules are not suited to making irrevocable payments. There also are no rules for protecting consumer information for one-off consumer credit push transactions of the type that might soon be made at the point of sale.

The pros of creating a new infrastructure for real-time payments are that it can be built to leverage current technologies and accommodate end-user needs not met by traditional banking services. The biggest con to an entirely new payment system is the required investment – for both financial institutions and third-party providers. However, if properly developed, the new payment system should have a lifespan of many years allowing the initial capital investment to be recaptured over time.

Q6iii. 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?

No. Near-real-time might be an interim step on the road map, but we must work toward real-time availability and settlement. We should not be thinking in terms of half measures for the outcome.

Q6iv. Which payment scenarios are most and least suitable for near real-time payments? (B2B, P2P, P2B, POS, etc.)

The most immediate applications for real-time payments are likely P2P, urgent consumer bill payments and P2smallB. B2B payments could benefit from real-time, but these payments have additional needs for information to accompany the payment. Further, it may serve us better to address B2B from the perspective of being able to receive payments in a more-timely manner, than from the perspective of being able to make payments quickly. Payments at the POS may benefit from real-time in the long-term, but for now, available payment options appear to adequately meet end-user needs.

Q7. 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?

The former. Inertia may be the biggest barrier to electronifying B2B payments. B2B systems are built upon checks. So, an EPO solution may serve the business community very well. However, we are aware that NACHA is working on improvements that can enhance remittance information and to get best practice ideas for businesses. If NACHA is able to effectively engage with end users to better understand their needs, it may be able to encourage businesses to begin to more fully utilize the ACH.

Q8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?

Faster payments will likely result in faster fraud.

Q8i. Will near-real-time payments create new fraud risks? If yes, please elaborate on those risks.

Faster payments will likely introduce new types of fraud. But, they may also help identify fraudulent activity more quickly. This is where consumer engagement truly becomes critical. With alerts/notifications of payments, consumers can detect fraud sooner than they would otherwise. There is also the potential of including an approval process in the notification of debit payments to abate fraud risks. Further, financial institutions may at least initially choose to employ value and velocity limits on transactions and/or use some form of dynamic credentialing.

Q9. To what extent would a ubiquitous near-real-time system bring about pivotal change to mobile payments?

Credit push real-time payments with dynamic authentication credentials could serve as a platform for mobile payments.

Q10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?

Q10i. What is the cost, including the opportunity cost, of not implementing faster payments in the United States?

The cost of not implementing faster payments in the U.S. is that nonbanks will continue to innovate in ways that appeal to consumers' desire for speed and convenience, but may not keep the security and safety of the payments system at the fore of their thinking. Financial institutions will be placed in the position of solving the inevitable problems that will arise.

Q11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?

Core systems will need to be updated to accept and process near real-time payments.

Q11i. What is the likely timeframe for any such modernization?

The timeframe required will vary by institution and processor with an expected window of two to four years.

Q12. 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.

Q12i. What are the merits and drawbacks of this suggestion?

The merits are all financial institutions would have access to the ability to facilitate payments between parties without having to be a member of a particular consortium or user of a particular provider's service. The drawback is this appears to be a major undertaking.

Q12ii. What is the feasibility of this suggestion?

A directory is a feasible solution. While a major undertaking, part of the Federal Reserve's analysis should include an evaluation of the use of existing networks – ATM, credit, wire transfers – as well as the creation of a new directory. When contemplating the creation of a new directory, the Federal Reserve should consider whether a directory that routes between existing directories (like BIN tables) might be a sufficient solution or whether there should be a central directory containing all end-user information. What is needed in a directory will depend on the rails used to process the transaction; ACH does not have real-time authentication/authorization while debit and credit card transactions do. Regardless of the rails, however, creating a central directory raises major concerns about security and reliability which must be addressed in the technical architecture and administrative processes.

Electronification

Q13. 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.

Q13i. 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.)

No.

Q13iii. If yes, 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.”

In the absence of a suitable alternative, this would be a futile goal. If a real-time payments mechanism is built properly there will be no need to establish goals for the reduction of use of paper checks; it will happen naturally.

Q14. 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.

- i. To what extent are these efforts resulting in migration from checks to other payment types?
- ii. What other barriers need to be addressed to accelerate migration of these payments?
- iii. What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?
- iv. Which industry bodies should be responsible for developing and/or implementing these tactics?

See response to Q7.

Cross-border payments

Q15. 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?

ISO 20022 is the best messaging standard from a technical perspective and is being adopted in a uniform way by other countries. The U.S. should investigate its merits and those of other standards and work toward adopting whatever standard it finds to be superior overall.

Q16. 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?

There needs to be an “API” to which everyone writes for cross-border payments. Having an international payment option is very important, particularly for small merchants. The Federal Reserve should work with SWIFT and CHIPS as well as consider both ACH and wire transfers as channels for cross-border transactions. Further, the Federal Reserve should consider whether there are architectural changes it can make to facilitate adoption of standards.

Safety

Q17. 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.

Q17i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

All of the listed items are key. In addition, consumer awareness/education needs to be addressed.

Q17ii. Which of these threats are not adequately being addressed?

The security of payment databases, particularly at the point of sale, continues to present a threat. Further, as more consumer data is stored and potentially accessed by multiple parties, there is an even greater threat to consumer data privacy and security.

Q17iii. What operational or technology changes could be implemented to further mitigate cyber threats?

The Federal Reserve should work with industry leaders and build a system that takes advantage of the latest technologies available to secure payments. For example, introduction of biometric authentication, such as the use of mobile device based fingerprint authentication in combination with another out-of-band authentication such as voice biometrics, could serve to greatly reduce ID theft and improve security.

Q18. What type of information on threat awareness and incident response activities would be useful for the industry?

Q18i. How should this information be made available?

Secure, bank access only database.

Q19. What future payment standards would materially improve payment security?

Stronger authentication credentials.

Q19i. What are the obstacles to the adoption of security-related payment standards?

Current infrastructure and costs associated with retrofitting existing systems.

Q20. What collaborative actions should the Federal Reserve Banks take with the industry to promote the security of the payment system from end to end?

Q21. Please share any additional perspectives on U.S. Payment system improvements.

V. Summary and Conclusion

The Tenth District Payments Advisory Group commends the Federal Reserve for issuing the *Payment System Improvement – Public Consultation Paper* to gather information as to how we can improve the U.S. payments system. In addition, through various symposiums, town hall meetings and committees, the Federal Reserve has brought a broad range of participants of the payment ecosystem together to discuss this important issue. The U.S. payments system has not kept pace with the demands of our fast moving, technology-driven society, or with payment systems in other countries. It is our view that regulated financial institutions need to remain the gatekeepers of the payments system to ensure its integrity. However, we recognize the role of competition and market forces in bringing about payment innovations that serve a range of consumers, including the unbanked. Developing a “win-win” solution for all players will be difficult, especially given all of the competing interests. As a result, it is incumbent upon the Federal Reserve to play a leadership role in bringing the industry together to fashion a payments system that is secure, efficient and accessible to all participants. We believe that the Fed should outline well-defined near and midterm goals toward the achievement of the desired outcome, with substantial progress made within two to four years; 10 years should mark the outer limit for full implementation. Absent consensus about how to best move forward with modernizing the U.S. payments infrastructure, the Federal Reserve may again need to serve as both a leader and an operator; just as it has for checks, wire transfers and ACH transactions.