

Secure Payments Task Force Steering Committee

Federal Reserve Bank of Kansas City, Denver Branch

JULY 21-22, 2015 Meeting Summary

The meeting was kicked off with introductions by steering committee members, Fed staff and representatives from Deloitte, the consultant engaged to support task force work efforts. Gordon Werkema, Federal Reserve Payments Strategy Director, led the first topic on the agenda outlining the Secure Payments Task Force's (Task Force) mission, objectives, timelines, and structure, as well as the Steering Committee's (Committee) responsibilities.¹ He characterized the Committee as a leadership group that will help guide the efforts of the SPTF. Mr. Werkema also discussed the Federal Reserve's goal of fostering an open forum for discussion during the meeting so that Committee members are able to represent the views of their respective stakeholders.²

Breakout Discussion 1: Defining success of the Secure Payments Task Force

Meeting participants met in small groups to discuss perspectives on how the Task Force should define success. When asked what they hope the Task Force will have achieved by next year, Committee members expressed a wide range of opinions, but several expressed the desire for Task Force efforts to result in measurable progress, for example, by establishing a clear strategic plan or roadmap to improve payment security in the long run. Several members expressed the concern that the Task Force's progress would be too slow and that competing interests of its members could impede progress. Committee members envisioned the Task Force's legacy would include a measurable reduction in payment fraud as well as the implementation of a fast and secure payment system. Committee members generally agreed that the definition of success for the Task Force should include swift progress toward near-term goals that support the longer-term roadmap and building consensus among a wide range of disparate parties. On day two, a representative from each group shared the perspectives of his or her group with the full Committee.

Secure Payments Task Force Objective One

Barbara Pacheco, Senior Vice President, Federal Reserve Bank of Kansas City, introduced the first two objectives of the Task Force: advising the Federal Reserve on payment security matters and determining areas of focus and priorities for action. As background, Ms. Pacheco presented high-level findings from the Payment Security Landscape Study, a research effort conducted by the Federal Reserve in 2014 to enhance its understanding of end-to-end payment security in the United States. Ms. Pacheco discussed a number of weaknesses identified by the study as well as potential opportunities to improve the security of the U.S. payment system. One Committee member suggested that suboptimal 'enrollment' processes should be added to the list of weaknesses.³

Zach Markiewicz, Lead Risk Specialist, Federal Reserve Bank of Kansas City, continued the discussion of perspectives on potential areas of focus for the SPTF by presenting the results of a survey of Task Force members. The survey solicited feedback on participants' experience with payment methods, payment security areas of interest, potential areas of focus for future Task Force efforts, and views on the importance of various payment security initiatives. Mr. Markiewicz highlighted those payment security topics that respondents rated as "high" in interest and important for Task Force focus. Mr. Markiewicz

¹ Deputy General Counsel at FRB Minneapolis, read a statement at the outset of the meeting reminding those in attendance to participate in a manner consistent with antitrust and other applicable laws.

² The Committee consists of 16 Task Force members elected by Task Force participants associated with a particular stakeholder category. Stakeholder categories include financial institutions, non-bank payment providers, end users, other stakeholders – e.g. payment networks, consultants, academics and others.

³ The Committee member described the term 'enrollment' as verifying the identities of (consumer and business) participants before they are able to join a payment system/network and execute transactions.

then asked Committee members whether they had any questions about or noted any gaps in the survey categories. One Committee member suggested the category of ‘Authentication’ needed to be expanded to include ‘Enrollment.’ Some said that the term ‘cryptography’ as presented in the survey may not accurately reflect standard industry terminology (i.e., encryption), which may have impacted the survey results. One Committee member opined that consumer education and research was rated “high” in importance infrequently because, from a business perspective, these areas have low rates of return on investment. One member said that under the survey’s research category, confidential and public disclosure of data should be differentiated because of competitive concerns.

Secure Payments Task Force Objective Two

Claudia Swendseid, Senior Vice President, Federal Reserve Bank of Minneapolis, facilitated discussion of the Task Force’s second objective: advising the Federal Reserve on payment security matters. Ms. Swendseid presented the Federal Reserve’s current actions and potential future plans to improve the security of the U.S. payment system. Regarding security standards, one Committee member suggested that the Federal Reserve engage with intelligence agencies to leverage their expertise in security technology; another noted the importance of implementing roadmaps to drive the successful adoption of security standards. When discussing instances where several competing standards exist in the industry, Committee members had conflicting views on whether the Federal Reserve should choose a single standard for participants to follow. Federal Financial Institutions Examination Council FFIEC guidance was viewed as a venue through which to promote security standards adoption effectively. Regarding publicly available fraud data, several Committee members stressed the importance of analyzing fraud data collected to provide actionable advice to payment system participants. A few members thought that institutions may be hesitant to share fraud results with the Federal Reserve because of its regulatory responsibilities and suggested that data be collected by an independent third party. A few members discussed the need to standardize the collection and increase timeliness of fraud data.

Breakout Discussion 2: Pursuing Objectives One and Two

Meeting participants broke out into one of three small groups to discuss their perspectives on objectives one and two, as well as their opinion on how to solicit feedback from Task Force members during the August Task Force meeting. Several Committee members said the Federal Reserve should continue its involvement in standards work and emphasized the need for enforceable standards that support end-to-end data encryption, both “in-flight” and “at rest.” When discussing potential deliverables of the Task Force, the Committee identified one output as a set of guidelines or best practices for payment security. The Committee also suggested that the Task Force should stagger the timing of its deliverables to show incremental progress. Most members agreed that the deliverables should be made available by the Federal Reserve to the public (via online or print channels). Some Committee members stated a preference for having the Federal Reserve named as primary author of the deliverables associated with the Task Force.

Faster Payments Task Force Overview and Effectiveness Criteria

Sean Rodriguez, Senior Vice President, Federal Reserve Bank of Chicago, reviewed the Faster Payments Task Force’s mission, objectives, work plan, timelines, and structure. In response to a question, Mr. Rodriguez indicated it could be an option to establish a joint work group with members from both task forces to work on the security components of the faster payments effectiveness criteria.

Ken Isaacson, Senior Vice President, Federal Reserve Bank of New York, reviewed the draft effectiveness criteria for evaluating alternative faster payment approaches. Mr. Isaacson noted that the Faster Payments Task Force recently produced a second draft of the criteria, but that the criteria would continue to develop through an iterative process of collecting feedback from both task forces. In discussing the legal and governance criteria group, several Committee members expressed concerns that new solutions often are not covered by existing legal and regulatory frameworks and questioned whether

it makes sense to evaluate new solutions based on that criteria. At the same time, these members noted the importance of making sure any new solution is covered by an appropriate legal and regulatory framework to help accelerate the solution's adoption in the market. One member said the legal and regulatory structure should not require a service provider to obtain separate licenses in each state (e.g., money transmitters).

Breakout Discussion 3: Security Criteria Breakout Exercise

Mr. Isaacson grouped the 12 faster payments security criteria into subsets for breakout group discussion and asked for the Committee members' feedback for incorporation into the next draft of the criteria. A few members suggested varying the criteria based on use case or business model.⁴ With respect to instances where a criterion cross references another criterion, one member suggested adding additional text to clarify how the two criteria are linked. Committee members also provided specific edits to the security criteria text. Mr. Rodriguez then asked about the best method to solicit feedback on the security criteria from the Task Force during the August meeting. Several Committee members agreed that creating a common glossary of terms was important. Another member suggested dividing the criteria into smaller subsets than those used in the breakout session. The same member suggested an alternative for grouping criteria that might be more intuitive for industry participants.

August Secure Payments Task Force Meeting Objectives

Committee members ultimately set four objectives for the meeting: (i) reach consensus on a common vision of success for the Task Force, (ii) leverage the expertise of participants to engage them and advance the SPTF work, (iii) identify and reach consensus on basic principles that will help the Task Force achieve its mission, and (iv) launch work streams and assign resources to support high priority focus areas.

⁴ In contrast, members of the Faster Payments Task Force suggested that the criteria should be use-case agnostic.