

Name: Jeff Foote
Organization: Broadway National Bank
Industry Segment: Financial Institution

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.

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?

The top paragraph on page 6 of the public consultation paper represents a significant hurdle for our industry/country. Significant and expensive changes to infrastructure will be required. And benefits will not be realized as quickly as costs will have to be recognized. Additionally, rapidly changing technology will create a moving target in terms of specific technological capabilities. This will further complicate and add expense to system/infrastructure improvements. The Federal Reserve will likely need to lead (serve as a catalyst) in some facets of this change process in order for the objectives to be realized in the desired timeframe.

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?

I lean toward the latter perspective. Payment systems are evolving toward this outcome. However, some level of public authority may ultimately have to be exercised in order provide consistent parameters and security standards around how systems are being developed and the capabilities they will possess. The last thing that financial institutions, their customers, or their systems vendors can afford is for continual major/fundamental changes to be required in our payments infrastructure at many times the cost simply because no clear standards/expectations were established up front.

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

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.

No.

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

While the characteristics noted would be ideal, I do not believe that all of them are equally important features. A & E for example seem fundamental and very important to me, while the other three have varying (and lesser) levels of importance. I think the ideal is good to set in terms of a general direction.

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?

To me, B, C & D seem to be the most logical approaches - improve current systems rather than creating a brand new system.

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?

a) This method seems like it would entail another (separate) payments system option. Adoption would be uncertain, and the cost to adopt it may be significant. b) I like this idea a lot, although I suppose that the costs of making the networks compatible may well increase the costs to consumers (directly or indirectly) of such payments. If this occurs, it could impact adoption rates significantly. c) I also like this option a lot. However, new systems/system features will need to be developed by many different technology service providers so that most/all FIs achieve these capabilities at close to the same time in order to achieve the ubiquitous result noted in the overall goal. This will not be a simple or quick change. d) Most batch-based core systems are not far removed from this capability today. e) The desired change within a decade is not likely if this is the chosen path.

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?

I do not have strong feelings about this. Authorization is probably more important than the time of literal settlement.

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

POS and P2P seem the most suitable, although near real-time payments seem applicable in some form for all of these payment types.

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?

I think I agree more with the latter opinion. The cost/benefit tradeoff of smaller changes may not make sense for most smaller FIs, whereas a fundamental change in their core systems in order to remain competitive/compliant may tend to drive wider and faster adoption.

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

If real-time authorizations are provided ahead of a transfer/payment being attempted, they would certainly alleviate some fraud, but in cases of identity theft, compromised credentials, etc, I don't know that near-real-time payments will help. In fact, such systems may allow more money to be stolen faster than ever in some cases.

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

Yes. See comment above.

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

Once FI core systems catch up with consumer-facing technology, one could imagine that mobile payments would see a big jump thanks to the convenience and added security that such payments would afford consumers.

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

I do not believe that the sky is falling in terms of our payments system being broken. However, it is true that other parts of the world are moving ahead of us in terms of payments technologies, speed, and security. We need to keep up. I do not like the idea of Federal Reserve Banks mandating such changes by statute or regulation, at least not as the primary means of serving as a catalyst for such improvements.

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

Global competitiveness would begin to weaken eventually; however, for some period of time, others would adapt to our system deficiencies as they do today.

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

YES! This is a major issue/hurdle for our industry in order to support near real-time payments. It represents a very expensive initiative for every institution, and a corresponding long-term, fuzziest set of benefits. This will be a big challenge.

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

At least 8 years - possibly 10-12 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?

This would cause privacy concerns for many people/businesses. A centralized database, with the potential for breaches and other security concerns, would create resistance. The idea of a governmental body having access to such a database would also create resistance. As it stands today, the security of MY account information is MY responsibility. Only those who I trust to charge my account appropriately have my account information. In the scenario above, access to my bank account seems more open and harder to control, despite the fact that I no longer have to provide account information to specific people or vendors.

12ii. What is the feasibility of this suggestion?

I believe that both political and social challenges exist for this suggestion. This change would require a huge public education effort.

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. Yes, it is a desired outcome, BUT if moving away from checks aggressively implies some form of forced behavioral changes on the part of consumers - especially older consumers - I would agree that it could be very disruptive.

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?

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?

They are helping, but progress is rather slow. Ever-emerging security/fraud concerns will continue to act as a headwind against such adoption for consumers. Over time, I would expect competitive forces to accelerate the pace of change/electronic payments adoption.

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

Consumer confidence, the cost of changing/upgrading bank systems to support such changes, elevating such system changes amidst the priorities of growing regulatory pressures and requirements, etc.

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?

XML-based standards would certainly help.

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?

This is not a top priority for our institution.

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?

Widely-publicized data breaches, evolving fraud techniques on the part of criminals, a general suspicion toward online and mobile payments for some consumers, the cost versus convenience requirements around real-time self-service payments, etc.

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

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

Finding better (reliable, secure, inexpensive) out-of-band secondary authentication methods for consumer applications will be critical.

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?

The demand on the part of customers for greater and greater convenience must be balanced with the obviously legitimate expectation for ever-improving security. And the expenses associated with such system improvements must be balanced with the size and product set of every FI.

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?

The key to adoption and success in my view will be to maintain a collaborative posture with various players in the industry. This includes FIs and technology vendors of various scopes and sizes. The better the Federal Reserve understands the real-life challenges of the various stakeholders, the more likely we will find solutions and improvements faster.

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

