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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. In general UMACHA supports the direction the Fed has taken with the paper. Collaboration is the key when it comes to moving forward to deal with the opportunities noted. Suggestions like near-real-time payments for consumer transactions and better enabling cross-border payments will take a great deal cooperation from financial institutions, vendors, regulatory agencies and other support organizations to bring fruition.

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. It's not the desired outcomes that will most likely be the issue, but instead how to get there. Can we use existing payment rails to make those improvements, hybrids of those rails, or do we need a new network. And how will the industry defray the costs of the changes suggested. All of this will take significant investments by all stakeholders, can the industry generate enough revenue from these improvements to justify supporting them?

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?

There seems to be a great deal of discussion concerning the role of the Fed in moving toward the outcomes suggested in the paper. We've heard some suggest that the Fed should just go ahead and mandate the changes suggested although it's also been commented that the Fed doesn't really have the power to do that. We would like to see the Fed be a leader in moving the process forward but do not support the Fed mandating the changes. In the end the marketplace will drive the financial institution market segment to make whatever changes that need to be made, albeit less rapidly than what the Fed might desire.

### **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?

**We don't know yet which of the approaches mentioned will allow for the most efficient and effective system to support ubiquitous near real time payments. There are networks out there that offer near real-time payments but they are not ubiquitous and, if history serves us right, probably won't be for some period of time. Some form of public authority would undoubtedly help make this happen more quickly but adding that component would most likely increase costs and add complexity.**

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

**Check 21 happened because of a change in the law. It was an expensive change for many financial institutions to start with but in the long run it has saved millions of dollars in processing costs. Should we consider a change to the law that mandates certain changes in payment systems to move us along? At which point we need to ask what changes need legislative help and which do not.**

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?

**Do both the sender and receiver have to have bank accounts or can these be done with other instruments as well?**

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?

Building an entirely new payment system would be too expensive and resource consuming. It would seem that a combination of the ubiquity of the ACH network, the timeliness of the ATM network and the simplicity of the card network would be ideal. When it comes to the need to notify both parties, that would most likely have to include some role for the telecommunications networks since much of that would undoubtedly happen through the mobile networks.

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?

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?

At this point in time it would seem reasonable that near real time authorization and confirmation with the payment happening the next day would be sufficient for most use cases. However that might not be sufficient in 10 years. We think this is something that may need to evolve, beginning with better information and ending with payments being truly real time at some point.

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

The wire network already allows near real time payments for those that want it (mostly B-to-B) but it's VERY expensive. If we want a low cost network then we need to bring in the best of those payment networks that are not "high cost", including the ACH network, to enable this.

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?

Looking around the world it would seem that extending the life of the check system is not the best way to move to a fully electronic, high speed, efficient payment system. UMACHA feels those resources that are available should be utilized to help find ways to design and implement a fully-electronic paper network not tied to the legal framework of the check system.

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 be impacted by fraud, both positively and negatively. The positive impact is that a financial institution and their customers will know about fraudulent transactions more quickly and can therefore react more quickly to stem additional losses. At the same time fraudsters will be able to strike quickly and because of the real-time nature, be gone with whatever funds they can get almost immediately. A near real-time payment system will demand a high level of security, but then we demand that today as well.

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

Not sure

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

From what we've seen, mobile payment users, of which there are not that many today, are expecting their payments to be faster than traditional payments. If there was a ubiquitous network that enabled real-time mobile payments today, we can't help but think it would be something many in Generation X and Y would be using. In other words it could be pivotal to the success of mobile payments.

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

At some point in time the marketplace, in both the business and consumer spaces, would demand faster payments. The international market is already there in many countries, and as the world becomes "smaller" from an economic standpoint, the US would be forced to find ways to implement faster payments.

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

This would be very difficult to quantify.

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

In reality, much of what financial institutions use today for core processing needs to be updated. The question becomes, is it less expensive to build connections or links for a core processing system to whatever payment process supports real-time payments or less expensive to purchase and install a new core processing system.

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

That's almost impossible to guess.

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?

It's very difficult to manage a directory of that size. It would be very difficult to build because of its sheer size, and once there the maintenance would be a challenge. There could be thousands, or millions, of changes every day to that directory. Who would make those changes? How would they be authenticated? What if a hacker broke into the directory and stole some of that data, who would be responsible? Rather than one large directory it might be more feasible to have a number of different directories that interface with each other which could simplify the process.

12ii. What is the feasibility of this suggestion?

### **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. Checks, and check images, have been a highly effective, and ubiquitous way to move money but from an efficiency standpoint, if we want a truly low cost real-time payment system then we need to be end-to-end electronic. Even using an EPO anticipates that we continue to collect all the information that is on a check and that isn't necessary in an all-electronic environment.

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 having an impact but let's not forget that a big part of the problem isn't with the financial industry but instead with the business community. They have to be willing to change the way they handle their payables and receivables and for many of them there isn't enough reason to change. Paper is easy and all their systems are geared to go that way.

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

Many of the vendors that support business payables and receivables do not include electronic invoicing and remittance options for their users. UMACHA is a QuickBooks user and our options are very limited. The Fed could work with those sorts of vendors and incent them to upgrade their products to make electronic remittance data a reality.

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?

ISO 20022 is a great international standard but it's like any standard, unless it's ubiquitous it has to go through significant growing pains. ANSI X-12 was a good solution back in the 1980's but it never became ubiquitous and therefore didn't become THE way to pass information between trading partners. So the question becomes, how does our industry make ISO 20022 ubiquitous. The Fed can help here but it will take a monumental effort by banks, regulators, vendors, credit unions, and the associations that support banking and industry to make this happen. And right now most don't even know what 20022 is so we have a long way to go!

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?

### **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?

Key threats are primarily from hackers and hacktivist groups and nation states that are looking to steal data or damage systems. Through malware and spam attacks they have stolen millions of dollars from financial institutions and their customers. Any changes we make to payment systems and messaging systems has to take fraud into account.

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

Because the threats are constantly changing our industry struggles to keep up. That will continue to be a problem for the foreseeable future.

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

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

What FS-ISAC is doing today is just what the industry needs. More of that type of sharing would be very helpful. If the Federal Government continues to work with private industry and allows more sharing of information about attacks and mitigation techniques we will all benefit.

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?

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?

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

