

December 13, 2013

Federal Reserve Banks  
via eMail: [comments@fedpaymentsimprovement.org](mailto:comments@fedpaymentsimprovement.org)

RE: Comments on Payment System Improvement - Public Consultation Paper

Dear Ladies and Gentlemen of the Federal Reserve Banks,

I am writing on behalf of the California and Nevada Credit Union Leagues (Leagues), the largest state trade association for credit unions in the United States, representing the interests of more than 400 credit unions and their 10 million member-consumers. The Leagues welcome the opportunity to provide comments to the Federal Reserve Banks (the Fed) on their Payment System Improvement - Public Consultation Paper (Consultation Paper).

The Fed has stated that the Consultation Paper is designed to start a conversation and ultimately improve the US payment system. In the face of rapidly evolving technology, the Fed is hoping to centrally coordinate the development of "open payment networks and/or broadly interoperable networks" by bringing together the payments industry and fostering coordination to drive payment system improvement.

### **General**

The Leagues applaud the Fed's efforts in constructing this Consultation Paper and their vision for improving the speed and efficiency of the payment systems. The Leagues believe the Fed's role in payment system improvements should be to provide strategic vision, establish rules and standards (similar to NACHA and ACH) that ensure payment systems are safe and secure, ensure consumer protection laws related to payment systems are streamlined and updated, provide consumer education, and promote global adoption of new strategies. In addition, the Fed must be competitive as a service provider to the financial institution network.

While the market continues to drive payment system innovations and improvements, it is important the Fed or other industry group provide this strategic direction and construct standards that all participants must meet in order to achieve ubiquitous participation and overall payment systems quality and security.

### **Ubiquitous near-real-time payments**

The desired outcome number 2 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, and (e) Funds are debited from the payer and made available in near-real time to the payee.

While the Leagues agree that these are important features for a near-real-time payments system and should be included in the goals and objectives for any new payment system strategies, we are greatly concerned with the security of data in such a system. The Leagues stress that data security infrastructures must also be improved before ubiquitous adoption of a new system can take place. Please see our comments below under "Safety."

The Consultation Paper provides several suggested methods for achieving near-real-time payments and asks which method would be most effective (Q. 6, ii). The Leagues believe the most effective and expedient method is to modify the ACH system to speed up settlement (option C). Moving batch posting processes to near-real-time processing and moving more payments through an EFT system would benefit all payment participants. Enhancing existing payment systems reduces potential investment costs and utilizes existing

infrastructure and industry expertise. In contrast, developing an entirely new payment system will be cost prohibitive for many participants, including credit unions, thus preventing a truly ubiquitous adoption of a new system.

The Leagues also believe that providing near-real-time authorization and confirmation is not sufficient; end user funds availability should take place in near-real-time as well. One of the features in desired outcome 2 is that funds will be debited from the payer and made available to the payee in near-real-time. The Leagues suggest that any payment system improvement should be driven with the end user experience in mind and well as the implementation costs for financial institutions of all sizes. With today's technology, including mobile banking, and continued technological advances, consumers expect immediacy in all areas of their lives. Their expectations regarding financial transactions are no different.

## **Electronification**

Desired outcome 3 focuses on greater electronification. The Consultation Paper discusses the shift from paper checks to electronic payments, noting the steady decline of check usage. The Consultation Paper references a 2009 Federal Reserve Payments Study that indicates 80 percent of noncash general-purpose payments were made electronically. Question 13 asks whether accelerated migration from checks to electronic payments is a high-priority outcome and, if so, if the Fed should establish a target for the percent of noncash payments to be initiated via electronic means by a specific date. The Fed gives an example of, "By the year 2018, 95% of all noncash payments will be made via electronic means."

The Leagues feel that it will be extremely difficult to change the behavior of consumers who still write paper checks. Typically, this is an older generation that may not embrace today's technology. In addition, consumers' fears about payment security and data security will hinder adoption of electronic payments. The Leagues believe the use of paper checks will continue to decline and eventually become obsolete, with or without specific action by the Fed or the payment system industry. Therefore, we do not see a need to establish an accelerated migration target. We do support an education and awareness campaign to promote public adoption of electronic payments and any new payment system improvement strategies. This must be coupled with improved data security and risk management infrastructures.

## **Safety**

The Leagues believe that desired outcome number 5 regarding security of the payment system and public confidence is vital. The Consultation Paper asks if near-real-time payments will create new fraud risks (Q. 6). It further asks which payment security issues are the key threats to payment security today and in the future (Q. 17).

The Leagues believe that faster payments will result in higher criminal activity. All of the security issues listed in Q. 17 are key threats in that every point along a transaction payment route poses a risk or threat. Payment and data security will be a critical element to any new payment system strategies.

Desired outcome number 2 lists several features that are desirable for a near-real-time payments system. This includes that the sender does not need to know the bank account number of the recipient. This suggests that there is 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. Question 12 asks the merits and drawbacks of this suggestion.

This collection of personally identifiable financial information raises several concerns, questions, and challenges. Who owns and controls this directory, what are the backup measures, how is the data protected, and what are the rules regarding use of the data? If the IRS is not immune to data breaches or unwittingly exposes sensitive data, what trust can the American public hold that another government entity or third party can accurately collect and protect their bank account information? How will consumers be protected not only from data breaches, but from mass and targeted marketing that might results from their profiles?

## **Regulations and Consumer Protection Laws**

The Consultation Paper outlines eight gaps and opportunities in today's payment system. In addition to those identified, the Leagues suggest that regulatory complexity is a challenge that should be addressed (Q. 1). It is critical that the Fed consider streamlining and updating consumer protection laws and regulations that apply to electronic payments and under which financial institutions must operate. For example, credit unions often question how certain components of Regulation E apply to mobile payments. Credit unions will be more likely to offer new electronic payment methods when their compliance requirements, liabilities, and consumer rights are clearly defined.

### **Conclusion**

In conclusion, the Leagues support the Fed's efforts and their vision for improving the speed and efficiency of the payment systems. We contend that data and payment security is of the utmost importance and a critical element in implementing new payment system strategies. Related to that is the critical need for consumer education and awareness about electronic payment security in order to transition consumers from paper checks to electronic payments. The Leagues also stress the importance of streamlining and updating consumer protection laws and regulations related to electronic payments.

Thank for the opportunity to comment on the Consultation Paper and considering our views.

Sincerely,

Diana R. Dykstra  
CEO/President  
California and Nevada Credit Union Leagues

cc: CCUL