



National Grocers Association

December 13, 2013

The Federal Reserve Banks
Payment System Improvement-Public Consultation Paper
Released September 10, 2013

Comments of the National Grocers Association

The National Grocers Association (NGA) takes this opportunity to respond to the Federal Reserve Banks (FRB) request for public comments on the "Payment System Improvement-Public Consultation Paper" released on September 10, 2013. NGA welcomes the opportunity to provide its views on the purposes of the consultation paper which are to:

- 1) provide the Federal Reserve Banks perspective on key gaps and opportunities in the current payments environment and desired outcomes to close the gaps;
- 2) solicit input on the Federal Reserve Banks' perspectives and potential strategies and tactics to shape the future U.S. payment system, and the Federal Reserve Bank's role in implementation.

Introduction

The National Grocers Association (NGA) is the national trade association representing the retail and wholesale grocers that comprise the independent sector of the food distribution industry. Independent retail supermarkets and the wholesalers that supply them play a vital role in the communities they serve and are a major contributor to the economy of the United States. Most are privately held, family-owned entrepreneurial businesses that are dedicated to their customers, associates and communities. They generate billions in sales, create thousands of stable, well-paying jobs, pay billions in taxes and stimulate additional economic activity through investments in stores, inventory, technology and equipment.

From single store operators to large multi-store regional operators, independent grocers account for a significant portion of the food, beverages and other consumable products sold to American consumers. The independent grocery sector includes 21,000 of the 36,500 U.S. supermarkets, generates \$131 billion in annual sales that represents 25 percent of the total domestic market, and is accountable for about 1% of the nation's overall economy.

Independent grocers are economic and social anchors in the communities they serve and are directly responsible for creating and maintaining 944,000 stable, reliable jobs, generating over

\$30 billion in wages, and the total number of jobs and wages jumps to 1.5 million and \$58 billion when the ripple effect of their goods and services purchased (such as equipment, supplies, technology, transportation, etc.) are taken into account. They pay \$14 billion in state and local taxes and \$13 billion in Federal taxes. The combined \$27 billion in taxes is equal to approximately 1.75 percent of Federal, state and local tax revenues.

This all illustrates the depth of grocers' involvement in the various payment systems whether through consumer sales or payment of wages, taxes, and supplier invoices. It also serves to demonstrate the important societal effect future Federal Reserve payment policies will have on consumers, grocers, and the American economy.

Effects of Technology

Advancements in technology and its impact on grocers operations, including payment systems, are in a state of rapid change. This is an issue that not only is of concern to the Federal Reserve Banks, but other federal agencies as well. For example, in March 2013 NGA submitted comments to the Federal Trade Commission on "Guides for Advertising Allowances and Other Merchandising Payments and Services" (the Fred Meyer Guides). The FTC in soliciting comments asked several technology related questions, "How, if at all, should the Guides be revised to account for new methods of commerce introduced as a result of the Internet since 1990? What, if any, developments in technology or economic conditions require modification to the Guides?"

NGA emphasized that the practices being used in the marketplace by both Internet and brick and mortar companies are recognizing that the internet no longer restricts retailers to just a brick and mortar environment. NGA members big and small are using advancements in technology to not only market to consumers, but to receive and make payments. In the 1970's the grocery industry began its transition to checkout scanners and over the last 40 years consumers and merchants have adopted different payment methods. In addition, the food industry has worked to simplify and standardize invoice practices and adopt faster payment methods. Today, as then, food retailers, NGA and the industry continue to evaluate and seek to adopt new cost effective and competitive payment systems.

Federal Reserve Policy

The Federal Reserve Banks have expressed the belief "that ubiquitous, open payment networks and/or broadly interoperable networks best serve the public interest because the more members of society who can be reached with a payment instrument, the more valuable the payment instrument is to each of the other members of members of society."

NGA's mission is committed to ensuring independent community-focused retailers and wholesalers have the opportunity to succeed and better serve consumers. NGA members, from the single store operators to multi-store retailers are reaching out to embrace technological changes that will cost effectively increase efficiency and better serve their customers. Because their customers are using a wide and ever changing variety of payment methods that

encompass cash, checks, ACH, debit and credit cards and now various mobile apps among others, they face the challenge of responding to customer payment preferences with efficient cost effective technology solutions. In addition, independent retailers and wholesalers along with grocery industry suppliers are constantly evaluating opportunities to improve business to business transactions.

The Federal Reserve Banks have undertaken a positive step by researching and reporting on payment issues, recognizing the remarkable change taking place in the payments arena, and requesting comments from all parties affected. NGA believes that the Federal Reserve should be actively engaged in the oversight and facilitation of payment system standards and encourage the establishment of competitive, transparent, cost effective payment choices for end users, such as merchants and consumers. The goal of the Federal Reserve should be to foster innovation in future payment systems, and legacy systems should not serve to be the gatekeeper to stifle new innovative cost effective payment options. The engagement by the Federal Reserve is necessary in order to assure innovation and to preserve competition by preventing dominant private entities from anti-competitively abusing their market power to the detriment of the public interest and members of society.

Gaps and Opportunities

Consumers, merchants, suppliers, and society as a whole would benefit from efficient near-real-time transactions presumably resulting in reduced settlement time and costs. However, development of a single “ubiquitous near-real-time retail payments system” may not be achievable. Cash, checks, ACH, debit, credit and the advent of mobile payments present challenges to achieving the stated objective. In the fall of 2012, according to Sandra Pianalto, President of the Federal Reserve Bank of Cleveland, cash payments accounted for 50 percent of payment transactions, checks 10 percent, and credit, debit, prepaid cards and other electronic transactions the remaining 40 percent. However, as the FRB recognizes, the trend in recent decades has been increasingly to electronic payments.

Multiple competitive electronic payment choices, rather than a single universal electronic solution that is designed for one size fits all, may be an alternative. For example, the Federal Reserve Banks paper illustrates that checks remain an important end user option. While in the Banks view checks are not fast and efficient, it remains low cost. Check 21 reduced costs through technological electronic innovation. For cost and societal reasons significant numbers of end users are likely to still utilize cash and checks for the foreseeable future. The Federal Reserve, similar to its role in check payments system, should maintain a role in future payment systems.

Open and interoperable systems are important. For example, the NGA and numerous state food industry associations successfully collaborated with the United States Department of Agriculture and state governments in the creation and development of the interoperable Electronic Benefits Transfer payments system for the Supplemental Nutrition Assistance Program. The Federal Reserve should encourage open and interoperable systems, as well as

public and private collaboration for future payment solutions. For example, one important element in an open interoperable system for both consumers and merchants would be the Federal Reserve's commitments to assuring merchants have competitive routing options and choices.

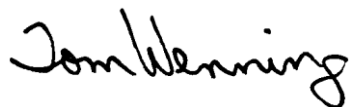
NGA strongly supports a public authority like the Federal Reserve being involved in the review and implementation of a system for near-real-time payments, and providing the opportunity for all stakeholders to participate, not just those in the banking and payment provider community. The Federal Reserve could lead the way in setting standards for electronic payments, monitor compliance, foster competitive choices and other solutions. The FRB paper enumerates a number of different ways in which near-real-time payments could be provided. Several examples illustrate the need for Federal Reserve involvement and oversight. It cites that new front-end equipment or rules may be required for a wire transfer-like system and a modified ACH. If legacy systems operated by dominate credit card companies were to dictate those rules and equipment requirements, retailers would likely be subjected to more anti-competitive rules and costly fees in the future. The Federal Reserve must exercise appropriate oversight and open stakeholder involvement to prevent such an outcome.

Conclusion

Mobile payments offer food retailers an opportunity if workable standards are adopted. However, evolving technologies present evaluation and cost challenges for merchants. In today's evolving marketplace it is difficult for Main Street merchants to evaluate all the options that are rapidly being developed and offered. NGA is focused on being a resource for retailers to better understand the new technological innovations and the opportunity for cost effective payment solutions. NGA appreciates the Federal Reserve's efforts to be engaged in developing payment standards and looks forward to working collaboratively to establish competitive cost effective electronic payment solutions. NGA encourages the Federal Reserve to continue to study and take into consideration alternative electronic payment solutions that countries such as Australia, Great Britain, Kenya, South Korea and others have or are adopting.

Should you need any additional information or assistance from the National Grocers Association please do not hesitate to contact me.

Sincerely,



Thomas F. Wenning
Executive Vice President and General Counsel
National Grocers Association
1005 North Glebe Road, Ste.250
Arlington, VA 22201