Payment System Improvement – Public Consultation Paper

Questions for the Public

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General

Q1. Are you in general agreement with the payment system gaps and opportunities identified above?
Yes

i. What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?

The growing regulatory/compliance burden on FI's that increase cost. These burdens are not the same for all players in the market creating inequality in business models. Cost structures are vastly different across the industry that leads to more incentives geared towards revenue and not the consumer. No different than today but left unaddressed then change may be much slower than desired.

Q2. Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years?
In general, yes

i. What other outcomes should be pursued?

Q3. In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader and/or catalyst?

FRB should act in all three capacities to ensure all sized entities are represented and the "new industry" is not defined by and for the largest players.

Ubiquitous near-real-time payments

Q4. 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.

i. Which of these perspectives is more accurate, and why?

Both are true. The industry is moving closer to near real time but the industry should not define the framework of rules/safety alone. I do not see how a public authority would not be involved and if not early then they would surely step in at some point creating a change in dynamics and potentially a new torturous path.

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

Clear definition of what "near real time" actually means

Q5. 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

i. Do you agree that these are important features of a U.S. near-real-time system?

No
This suggest there is a central repository containing PII for all consumers/businesses. Too many unknowns/variables to be comfortable with this concept.

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

Near real time settlement between FI's will need to occur or a regulation governing how differences between notification and settlement will be resolved, where will liability fall.

Q6. 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. Implementing an entirely new payment system with the features described in the second desired outcome above.

i. 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?

A combination of "b" and "c" may gain the broadest support.

ii. What are the likely pros and cons or costs and benefits of each option?

Working backwards from least favorable, option "d" would cost billions and take over a decade (or two) to develop and implement. Option "a" appears to be less of a hurdle but these transactions generate fee income for FI's from consumers. Assuming it is desirable to get more transactions than a few in a month, this may create heartache for both FI's and consumers. Options "b" and "c" have most of the infrastructure in place. Developing new rules and standards should be less costly (not necessarily less painful).

a. What rule or regulation changes are needed to implement faster payments within existing payment processing channels?

This has a much broader impact then check 21 for example. Any rule or reg touching a payment mechanism would be up for review.

iii. 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 believe settlement will need to occur near real time or regs governing that will stand up in court

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

My assumption is that P2P demands are greater today but every scenario wants credit immediately, charges maybe not as quick. P2B still has high paper volumes from remittance and B2B uses paper for AP purposes. Business may be the slower to adopt.

Q7. 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.

i. Which of these perspectives do you agree with and why?

The first one, real benefits are being gained today. Checks are continuing to decline but still account for 20 billion items per year.

Q8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?

i. Will near-real-time payments create new fraud risks?

Although real time should help minimize fraudulent activity the reliance on stronger preventative/protective measures to ensure intrusion does not occur within technological platforms. Fraudulent hits may decline but monetary loss my increase, specifically towards centralized storage of PII. The more complex and impenetrable systems become the greater the challenge is for those who wish to do harm.

Q9. To what extent would a ubiquitous near real-time system bring about pivotal change to mobile payments?

Mobile is a mechanism to transact a payment, not sure a near real time system would actually have any "pivotal" impact. Adoption rates will expand if safety, ease of use, and cost are within reason.

Q10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?

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

There are over 300 billion transactions globally and the US is a main player. A do nothing approach doesn't seem appropriate. The cost of doing nothing is much greater then my budget can carry, billions would be my guess.

Q11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?

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

There are most likely a number of legacy systems that may take some time to update, newer systems may have some of the basics in place and require much less time. Cost and who pays may cause more delays. I'm not a historian but check 21 went into effect in October 2004, but check imaging was being discussed at least two decades before.

Q12. 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.

i. What are the merits and drawbacks of this suggestion?

As stated earlier, a centralized directory would create new challenges. Who owns and controls directory, backup and contingencies, fraud, settlement, adjustments, litigation, lawyers, oh my!!

ii. What is the feasibility of this suggestion?

I'm not sure I've ever seen two payments people totally agree on anything. Much like check 21, this becomes feasible once it becomes law.

Electronification

Q13. 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.

i. 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.)

I agree that it will be disruptive to the end user but necessary, in my opinion, in order to move forward. The cost will continue to rise much faster and will cross the rate of decline in volume sooner.

ii. If yes, 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."

May be more difficult to reach a target but seems like it should be an industry objective.

iii. What is the appropriate target level and date?

I think the industry as a whole will better understand this challenge once this study is complete and findings published.

Q14. 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.

i. To what extent are these efforts resulting in migration from checks to other payment types?

B2B and C2B are small components of our processing volumes and therefore I can't comment on impact of these efforts.

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

iv. What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?

Incentives would be the recommended first route but forms of discouragement may be needed later on.

v. Which industry bodies should be responsible for developing and/or implementing these tactics?

Fed, NACHA, ECCHO

Cross-border payments

Q15. To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the United States facilitate electronification of business payments and/or cross-border payments?

Standardization promotes efficiency, expanding the standard to include ASN 1 earlier this year should aid in the broader adoption.

Q16. What strategies and tactics do you think will help move the industry toward desired outcome for - consumers and businesses have greater choice in making convenient, cost-effective, and timely cross-border payments?

I think this is a great step, gaining insights from the different entities within the industry if nothing else draws a baseline on where we are today.

Safety

Q17. 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.

i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

Every point along the transactional life cycle there is a risk or threat. The key threat today is the point(s) that are currently being attacked. The key threat tomorrow is whatever the new target is. As an industry it seems we are still more reactive today but that too is changing as we gain more experience and knowledge, leading us to be more proactive.

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

None that I am aware of.

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

This will continue to evolve over time, I have no suggestions other than convert more of the criminal element to law abiding citizens.

Q18. What type of information on threat awareness and incident response activities would be useful for the industry?

i. How should this information be made available?

A national alert network that provides details on activities and actions, with a library or archive. Probably maintain by one of the government agencies. Provide a layered approach so user can dive as deep into an incident as they see relevant. And no subscription fee

Q19. What future payment standards would materially improve payment security?

i. What are the obstacles to the adoption of security-related payment standards?

The payments industry typically shakes out the pretenders and does get to a standard. That occurs over time as demands change or mature. I'm not sure a philosophy of build it and they will come actually works in this industry very well.

Q20. What collaborative actions should the Federal Reserve Banks take with the industry to promote the security of the payment system from end to end?

This is a good step and shows FRB as a leader (not a dictator). Press ahead!!

Q21. Please share any additional perspectives on U.S. payment system improvements.