December 12, 2013
Re: Responses to the Federal Reserve's request for comment on Payment System Improvement
Wanda Chambers
Suncoast Schools FCU

***Contact Name*:** Wanda Chambers
***Organization Name*:** Suncoast Schools Federal Credit Union
***Our organization is*:** Financial Institution

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

Please explain: For the U.S. to remain competitive globally, we cannot afford to remain behind the innovation curveball. Additionally, the opportunity to diminish fraud with real-time payments is desirable for all – consumer, merchant, third party payment providers, and financial institutions.

i. ***What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?*** One omission is the failure to acknowledge the need within a new payment system to provide a complete and satisfactory dispute process. While it is hoped that a real-time, verified and validated payments system would greatly reduce fraud, there will still be times a payment needs to be disputed. A dispute process would need to be developed that satisfactorily meets the needs of all – consumers, merchants, 3rd party payment providers and financial institutions.

Q2: Are you in general agreement with the desired outcomes for payment system improvements over the next 10 years? Yes
Please explain: Desired outcomes? Yes. However, we are concerned that it will take the U.S. ten years to achieve the ultimate goal. By that time, third party providers will have refined processes in place and consumers will have selected definitive partners for these transactions. The danger is that those partners will not be financial institutions. This will only foster more erosion in the trusted relationship between consumer / member and his financial institution.

i. ***What other outcomes should be pursued?*** Smaller institutions will struggle to provide an additional, new service to their customers / members. While most would argue the concept of interchange is no longer a valid business model, we still need to be cognizant that these small institutions need to find a way to provide and maintain a new payment system. For credit unions, the idea of charging our members for each of these transactions is an undesirable proposition.

Q3: In what ways should the Federal Reserve Banks help improve the payment system as an operator, leader and / or catalyst? The Federal Reserve has been a long-time trusted partner within the financial industry. For industry buy-in, that trust is paramount. It makes sense that the FRB drives the collaboration effort as well as ultimately becoming the central "hub" for routing these requests. Smaller institutions, in particular, would have fewer concerns with sharing private customer / member information with the Federal Reserve that we would with, perhaps, a third party or a "mega" bank.

Additionally, the pricing for these transactions needs to be equitable and fair. Having the Federal Reserve in control of this process would mean less cause for concern than if another entity sat in that driver's seat.

In regards to the Federal Reserve assuming a role that is more of a driving force and catalyst behind the change, we understand the need for the FRB to become that spark. The need for the U.S. payment system to be globally competitive is an imperative. The solutions currently available within the U.S. to support mobile payments are varied with little integration between the various providers. We need someone to step to the front to help form standardization and cohesiveness.

Ubiquitous near-real-time payments

Q4: In discussion 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?*** For reasons mentioned above, the FRB would better serve as the implementer to provide the ubiquitous solution.

ii. ***What other perspectives(s) should be considered?*** The Federal Reserve could consider adopting an existing solution model (i.e. clearXchange or something comparable). Again, the Federal Reserve should serve as the clearinghouse for the transactions – routing to the correct institution – to ensure acceptance and participation.

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?*** Yes

Please explain: The only way to achieve our ultimate goal - uniform participation with no reservation or security concern - is to protect the personal information of both sender and receiver. The ability to take settlement to near-real time will require resolution of challenges on legacy core systems but it can be done. Plastic card transactions, for the most part, settle next day. If the receiving institution has the knowledge that 1) the funds are good and 2) the receipt of funds are guaranteed, then immediate credit becomes less of a concern for that institution.

ii. ***What other characteristics or features are important for a U.S. near-real-time system?*** As discussed previously, a dispute process will also be necessary.

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 received 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.***

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?*** To determine the best solution, one needs to remember the preferred method to initialize a payment. We feel there is little doubt, especially with current trends, that in the future the typical consumer will rely upon a personal device to initiate a payment – whether that device is a mobile phone, a tablet, or the newest yet-to-be-invented electronic. And it would be hoped that the payment would be performed using an application provided by that consumer's financial institution (and only after authentication of his identity). With that, there are few options above with the exception of implementing a new system that could provide the appropriate features to make the process simple and fast.

ii. ***What are the likely pros and cons or costs and benefits of each option?***
To effect a payment of the future, our opinion is that it needs to be fast, easy, and with minimal exchange of information between the payee and the payer. Security will be scrutinized on all levels. This would mean that a centralized directory employing a token to route payment to a specific financial institution and / or payment processor makes the most sense. This would allow the payer to easily submit a payment using only the phone number or perhaps email address of the recipient.

Using this as a frame of reference and then examining the current payment platforms, one sees quickly that to be able to perform this type of activity on *any* existing platform would require a complete restructuring of that current system and that (with the current regulatory burden of each, industry groups bartering over standards while preserving special interests, et al) could prove to be a much slower process than creating a new platform designed for this purpose.

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?*** Provided that funds are verified by the payer's financial institution and that action means payment can then not be refuted, then near-real-time authorization and confirmation is sufficient for the payee to have access to

the funds immediately. In that case, settlement could be accomplished later – even next day.

iv. ***Which payment scenarios are most and least suitable for near real-time payments (B2B, P2P, P2B, POS, etc.?*** If the message could include a two digit field (or something comparable) that would designate a specific account to be credited, then we would think that any of the aforementioned scenarios could work. Our assumption is that account holders (particularly in the case of business accounts), may desire directing certain types of funds to specific accounts as opposed to using a single DDA to receive everything. This would allow the recipient to request the payer to designate account "01" for the funds. The receiving institution will know that "01" means to credit a specific account number for that recipient.

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?*** We believe the time and effort needed to implement changes in the current system would delay near-real-time payments. Time and effort is better spent on the development of a new system. Through use of the newer technology, checks would be more quickly eliminated from the system.

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?*** Yes

ii. ***If yes, elaborate:*** The risk of account takeovers would certainly be there. Understand that those risks already exist in today's environment. The difference in this scenario is the *speed* in which funds transfer could be performed. The monies would be inevitably gone prior to discovery.

Q9: To what extent would a ubiquitous near-real-time system bring about pivotal change to mobile payments? It would give us standardization and industry-imposed guidelines, the chance for better security and protection around the process, and a chance to further build and perpetuate the relationship between ourselves and our customer / member.

Q10: What would be the implication if the industry and / or the Federal Reserve Banks do not take any action to implement faster payments? The industry will continue to muddle along waiting for one initiative to form a more dominant presence and provide some direction for the rest of us to follow.

i. ***What is the cost, including the opportunity costs, of not implementing faster payments in the U.S.?*** The U.S. will continue to lag behind the rest of the world. This, in turn, will lead to the continued erosion of the dollar internationally. If international trades continue to migrate away from the dollar to the Euros, let's say, because of the opportunity to settle those transactions faster, what will the end result be? Plus it will be a great disadvantage for our businesses trying to make cross-border payments. The industry is already pushing both consumers and businesses toward alternative third party providers to easily perform cross-border payments. Is this what we want as an industry?

Q11: To what extent will the industry need to modernize core processing and other backend systems to support near-real-time-payments? The core will need to be modified to accept the new message format and to house new database tables to determine account numbers for the tokens received. Presumably, as previously discussed in these comments, if an account preference designator is also sent in the message, the logic and database entries will need to be present along with a default account setting if no designation is submitted.

i. ***What is the likely timeframe for any such modernization?*** Once format, standards, and guidelines are issued, then we believe such changes could be accomplished in 18 months to 2 years.

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 to account or routing information of the receiver.

i. ***What are the merits and drawbacks of this suggestion?*** It makes the most sense. However, the directory would not necessarily need to contain the account numbers. Rather, a centralized directory, housing routing information based upon token passed, would be all that is necessary to move the transaction on to the correct institution. The institution would know, based on the token, to which account to apply the transaction. Logistics on confirmation messaging and notifications would need to be worked through.

ii. ***What is the feasibility of this suggestion?*** We feel it is doable.

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.)*** If a near-real-time payments solution were to be developed for the sole intent of ridding the system of checks, it would not be well received. But to provide a *better* alternative to the solutions at hand would simply bring about the demise of a very inefficient system 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 end of 2018, 95% of all noncash payments will be made via electronic means."*** Yes, provided that the date is pushed out long enough to be certain that the new solution is stable, secure, and effective.

iii. ***What is the appropriate target level and date?*** We feel 10 years to bring about a new solution is far too long. The option for a near-real-time payment needs to be sooner rather than later and the target date for the demise of noncash payment methods needs to be determined based on the actual rollout of the solution.

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?*** Checks are always the failover / fall back solution. ACH is preferred after the validity

of the information is ascertained but the first, initial payments are always done by check. Checks continue to trend downward but hang on persistently.

ii. ***What other barriers need to be addressed to accelerate migration of these payments****?* We feel that solving the problems around bill payment will yield the biggest "bang for the buck." NACHA is currently working on an initiative to have all billers provide a QR code on their billing. This QR code could be read by bill payment applications to more easily set up billing information fields within bill pay applications. Since this project is already underway, it would make sense to utilize the same to automate messaging within the new solution set to transmit the payment electronically instead.

iii. ***What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?*** None come to mind that have not been mentioned previously.

iv. ***What industry bodies should be responsible for developing and / or implementing these tactics?*** The initiative should be driven by a broad, wide-ranging group that encompasses members from all major industry groups.

Cross-border payments

Q15: To what extent would the broader adoption of the XML-based ISO 20022 payment message standards in the U.S. facilitate electronification of business payments and / or cross border payments? On one hand, in the "backend" of the process, it could prove beneficial and provide a base on which to begin. On the other hand, we are reminded of the old KISS adage – (Keep It Simple Stupid). There could be a danger of adding more complexity and overhead to the transaction as well as adding years (decades?) to the timeline.

Q16: 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? Simply, provide the tools and methodology and the rest will fall into place.

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?*** Our biggest concern lies with the threat of account takeover. As a financial institution, we already have extensive measures in place to mitigate this risk. We would need to scrutinize each step within the process and be certain all potential threats are minimized and the data is completely protected from intrusion attempts.

ii. ***Which of the threats are not adequately being addressed?*** While each component of the transaction flow would need to be examined with a critical eye, the component where we have little or no control would be the infrastructure carrying payment messages. While we can secure internal communication systems, as well as connectivity to the FRB, we have no control at the local consumer's home. He may connect "securely" to a home banking

application, but we have no control over who else might have access to his network and / or devices.

iii. ***What operational or technology changes could be implemented to further mitigate cyber threats?*** The attraction of using a mobile device as the tool used to effect payment is for several reasons. For one thing, you can receive information from the SIM card to help identify the device. Additionally, you could make it a requirement of the payment process to turn on the GPS capabilities of the device. You could then determine if the transaction to pay a merchant in Washington, DC, let's say, makes sense when that same consumer just purchased gas in Denver, Co.

Q18: What type of information on threat awareness and incident response activities would be useful for the industry? Having a central directory residing in one location, handling all the routing for electronic transactions, would provide a unique opportunity to utilize software to analyze and monitor for trends, major fraud patterns, and potential intrusion. Being able to react quickly to mitigate those risks as well as being able to alert institutions of the potential threat would be invaluable.

i. ***How should this information be made available?*** Real time alerts through Fed messaging (Fedline Direct) or email as well as access to reports for additional pattern detection.

Q19: What future payment standards would materially improve payment security? Implementation as described in Q17 would help immeasurably.

i. ***What are the obstacles to the adoption of security-related payment standards****?* Privacy is always a concern and potentially how the information around transactions could be used (think Google and National Security Agency).

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? The FRB has traditionally done an excellent job at protecting data and promoting security of payments. Our assumption is that nothing will change with a new payment platform in that regard. But public education is the vital key to getting the consumer to intelligently transact business. Assistance with the constant reminders necessary to maintain vigilance and on how to stay safe, particularly while using social media, would certainly be welcome.

Q21: Please share any additional perspectives on U.S. payment system improvements.
We only wish to again reiterate that we need a solution faster than the forecasted 10 years. We look forward to hearing the results from this industry survey in the near future.