



December 13, 2013

Ms. Sandra Pianalto  
Chairman  
Financial Services Policy Committee  
President and CEO  
Federal Reserve Bank of Cleveland  
1455 E 6th St, Cleveland, OH

Dear Chairman Pianalto,

The Copper River Group would like to commend the Federal Reserve System and the Financial Service Policy Committee for your efforts regarding the dialogue focused on the improvement of the payment system. We also appreciated the opportunity to participate in the Fed sponsored town hall meetings at the Chicago Federal Reserve Bank and the opportunity to comment on the public consultation paper.

### **Perspective**

Payment system risk is increasing as more technology based payment options are launched. Businesses and consumers have become increasingly mobile, consequently the demands for mobile payment options continues to grow. Furthermore, these new and creative products have one communication technology in common; be it text (SMS) messaging from a cell phone or a more complex platform such as a smart phone or tablet, mobile devices are driving change, the internet is providing the access and financial institutions are not keeping up.

Identity theft is increasing, commercial and individual account take-over incidents are also on the increase. Moving to the internet, reports of successful hacking of financial systems be it retailers, commercial enterprises, personal computing devices or financial institution data processing vendors is becoming an all too common occurrence enabled through the exploitation of weak system security and poor or no monitoring of customer activity. In addition, the de facto standard for identifying potential security issues is to wait until the customer files a complaint and then take action. The result is reactive as opposed to preventative.

Simply stated, the front end of the payment system continues to speed up as mentioned earlier, but the back-end, primarily within the community banking space, remains an at-the-end of the business day batch based system. Be it internet banking, remote check capture, mobility banking, debit card use or ACH, there is an illusion created by the system that implies the transaction is completed, but the deposit has not even been processed.

Financial institutions provide debit cards, but they do not have real-time interfaces. Financial institutions allow accounts to be established using internet enabled enrollment products that are being funded using ACH debits, but do not understand the role and the risks of an ODFI. To be competitive, institutions offer immediate availability on remote deposit, but do not process the item at the end of day. Finally, Wi-Fi hotspots combined with poor system user security continue to weaken the system.

To improve the payment system, the consideration must be end-to-end, from origination to settlement of the payment transaction. Furthermore, security and safety must also be strengthened in the same context, from end-to-end and real-time, in transaction monitoring. Finally it is recommended that revised fraud intervention transaction monitoring measures be implemented in concert with payment system improvements not after.

The Copper River Group, welcomes this dialogue with the hope that the Federal Reserve will again exhibit leadership as it has in the past with Same Day Settlement Rules, Electronic Cash Letters and Check-21 legislation.

Q1. Are you in general agreement with the payment system gaps and opportunities identified above? Please explain, if desired.

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

**Copper River Group Response:** *We are in agreement with the gaps and the opportunities that exist and suggest that all Financial Institutions should be required to implement Real-Time transaction interfaces between their core systems and their card processing vendor. Batch or positive balance file are inadequate and are option to exploitation after business hours, weekends, holidays.*

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

- i. What other outcomes should be pursued?

**Copper River Group Response:** *We are in general agreement with payment system improvements, but a ten year time line is too long. Given the rate of technological change and Digital Native adoption of new technologies, 24 months would be more appropriate. In addition, the ACH system is one of the weakest links in the payment system. It is rules based, difficult to enforce due to the ligation based model to resolve conflict, and is fraught with fraud. The ACH system should become a regulation based, not rules based, payment system under Regulation E for all consumer transactions.*

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

*Ubiquitous near-real-time payments*

**Copper River Group Response:** *The FFIEC should require timely monitoring and intervening responses by Financial Institutions of all transaction account prior to customer complaints. ACH Debits should not be used to fund new accounts at financial institutions; Signature Debit Only programs at financial institutions should be eliminated. All financial institutions should be required to offer the PIN debit transaction option to consumers.*

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

**Copper River Group Response:** *It is naïve to assume that the current evolution is adequate and no special action is required. Very soon the United States will be the only country in North America that will not have EMV technology available for debit cards. Time is of the essence. Real-time systems with real-time alerts should be implemented with all speed.*

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? Please explain, if desired.
  - ii. What other characteristics or features are important for a U.S. near-real-time system?

**Copper River Group Response:** *We feel strongly, that individual financial institutions and the corresponding disparate payment system technologies in use throughout the industry will not effectively and securely accommodate this concept. It is recommended that a central repository be created that is available to all financial institutions. The Monetary Control Act of 1980 empowers the Federal Reserve with such authority.*

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.

**Copper River Group Response:** *We feel strongly, that individual financial institutions and the corresponding disparate payment system technologies in use throughout the industry will not effectively and securely accommodate this concept. It is recommended that a central repository be created that is available to all financial institutions. The Monetary Control Act of 1980 empowers the Federal Reserve with such authority.*

- 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.

**Copper River Group Response:** *Our suggestion is that ALL ACH files should be downloaded and posted intraday by all financial institutions within thirty minutes of file availability and that a Same-Day Settlement for ACH items should be an available product offered similar to the same-day settlement rules for checks. This should be an open product that does not require the Financial Institution enroll. Today's Digital Natives and society have instantaneous expectations for every aspect of their lives, including when their deposits are available and transactions are processed, and settled. In addition, any financial institution that offers Internet Banking or Mobile banking should also implement a real-time transaction interfacing with the core processing system to ensure up-to-date information for the consumer and Business.*

- d. Enhancing the debit card networks to enable ubiquitous near-real-time payments.

**Copper River Group Response:** *Eliminate positive balance files and implement real-time transaction processing interfacing for all debit card transactions and limit stand-in amounts (during off-line events) for all non-EMV enabled debit cards.*

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

**Copper River Group Response:** *Implement an on-line and real-time banking initiative that establishes pricing incentives (through the Fed) for institutions that are fully real-time integrated with the Federal Reserve.*

*Our suggestion is that the Fed should offer a continuous send and receive product suite that provides files at a minimum of every hour (Inclearing, ACH, transit processing) throughout the day.*

*The concept should be similar to the paper versus electronic pricing that exists today within the Federal Reserve System.*

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

**Copper River Group Response:** *The consumer and business expectation is that when a transfer or payment is enabled or authorized online, that it is completed immediately, this should be the objective. The next logical step is to provide this same ability to stop or return real-time payments from posting to their accounts or being transferred from their account.*

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

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? If yes, please elaborate on those risks.

**Copper River Group Response:** *Speeding up the payment system is only half of the challenge. Fraud monitoring must also occur real-time across the transaction enterprise not just debit card.*

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

**Copper River Group Response:** *Mobility based payments and real-time payments should occur end to end in individual financial institutions that offer mobile based systems should also settle the transaction real-time.*

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?

**Copper River Group Response:** *The opportunity, or consequence, for not modernizing the payment system is increased industry fraud losses and a loss of confidence in the banking system.*

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?

**Copper River Group Response:** *Most financial processors have the ability to provide real-time interfacing, but there is an unwillingness by the financial processor to provide interfacing functionality (depending on the card processor). Financial institutions should be given twenty four months to comply (similar to the implementation of multi-factor authentication) and processors should not thwart or impede a FI's decision to select a vendor other than their core vendor or their preferred vendor partner.*

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?
- ii. What is the feasibility of this suggestion?

**Copper River Group Response:** *We feel strongly, that individual financial institutions and the corresponding disparate payment system technologies in use throughout the industry will not effectively and securely accommodate this concept. It is recommended that a central repository be created that is available to all financial institutions. The Monetary Control Act of 1980 empowers the Federal Reserve with such authority and that the concept is feasible.*

### *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.)
- ii. Please explain, if desired.
- iii. 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."
- iv. What is the appropriate target level and date?

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?
- ii. What other barriers need to be addressed to accelerate migration of these payments?
- iii. What other tactics, including incentives, will effectively persuade businesses and

- consumers to migrate to electronic payments?
- iv. Which industry bodies should be responsible for developing and/or implementing these tactics?

### *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 electrification of business payments and/or cross-border payments?<sup>12</sup>

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?

**Copper River Group Response:** *The Federal Reserve should expand the cross-border payment relationships to other central banks using the ACH “credits only” to more countries that are in place 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?
- ii. Which of these threats are not adequately being addressed?
- iii. What operational or technology changes could be implemented to further mitigate cyber threats?

**Copper River Group Response:** *Financial Institutions as a whole, when offering internet based products, have reluctant or very slow to implement Multi-factor authentication or other security measures. The concern from a competitive position is other financial institutions do not require it, why should they? Also, customer push back when institutions implement the additional security step is a factor. As mobility in banking services continues to grow fraud losses and account takeover crimes will continue to grow if the industry does not strengthen security requirements both active (login and BFA credentials) and passive (transaction scoring and monitoring).*

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?

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

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

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?

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

**Copper River Group Response:** *It is the opinion of the Copper River Group that the industry, meaning financial institutions, regulators and processing vendors, need to get serious about financial information and payment system security.*

*Technology and user adoption is moving faster than financial institutions are. These products are often offered by non-financial non-regulated entities. Payment systems that do not have the proper security design and financial institutions that do not have up-to-date security tools can be problematic by creating a gap in security, or at least a weakness. This gap is being exploited by criminals, causing a growing lack of confidence by the consumer and it needs to be closed.*

*Realistically speaking, the financial institution, with the right tools in place, is in the best position to know when something is going wrong within a customer relationship before the customer does. This position should be strengthened and systems should be hardened with all speed.*

The Copper River Group would like to thank the Federal Reserve for the opportunity to provide our comments in support of Payment System Improvement effort. We also look forward to a continued dialogue on this topic.

As you review our comments, if you have any questions, please feel free to contact us.

Respectfully submitted,

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