



December 13, 2013

The Federal Reserve Banks
c/o Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

RE: Payment System Improvement: Public Consultation Paper

Dear Ladies and Gentlemen:

The Western Payments Alliance (WesPay) values the opportunity to respond to the Public Consultation Paper on Payment Systems Improvement (Consultation Paper) published on September 10, 2013 by The Federal Reserve Banks (The Fed). We applaud The Fed's efforts to elevate the discussion of our nation's payment systems and focus on the future needs of users and stakeholders.

The purpose of this letter is to summarize potential impacts of the ideas raised in the Consultation Paper to the financial institution members of WesPay. These comments represent the position of WesPay's membership, leadership, and staff involved in reviewing the Consultation Paper.

Introduction

WesPay facilitates and promotes the growth and best use of electronic payments through education, information, advisory services and advocacy on behalf of its 1,000 clients. As the oldest and one of the nation's largest Regional Payment Associations, WesPay works with NACHA - The Electronic Payments Association to serve as an Automated Clearing House (ACH) rule-making body for the ACH network in the western United States. Eight western states – Alaska, California, Hawaii, Idaho, Nevada, Oregon, Utah, and Washington, as well as American Samoa, Guam, and the Northern Mariana Islands – constitute WesPay's current service area. The region represented by WesPay is home to 20 percent of the nation's population and a corresponding volume of payments.

Significant Topics Raised by the Consultation Paper

WesPay is generally supportive of the five desired outcomes for the U.S. payment system identified in the Consultation Paper and has identified several issues for your further consideration.

1. Business Case

WesPay agrees with The Fed that the technological ability and consumer demand for faster payments has reached a tipping point. A critical factor in the effectiveness of the next generation

payments system will be ubiquitous access for all payment process participants. One potential challenge to that ubiquity will be entry costs to financial institutions, especially on smaller institutions, in terms of investment, technology, and human resources needed to participate. Many potential factors in creating ubiquity for a new payments system - complexity of implementation, technical challenges, expense of adoption and ongoing support - may create a larger obstacle for smaller institutions to participate and fail to achieve said ubiquity. This could impact the ultimate success of the new system.

Our community bank and credit union members have expressed interest in a faster payments network. To compete more effectively for younger customers that are interested in a range of mobile payment solutions, small and mid-sized institutions want access to advance payments channels that can connect them to all other U.S. banked consumers. WesPay urges The Fed to consider “bridging technologies” that enable the participation of smaller institutions on Day One, while allowing those institutions to update their infrastructure over time. One analogous example is The Fed’s use of Image Replacement Documents (IRD) in the early days of check imaging.

2. Adoption Strategy

In the Consultation Paper, “Question for the Public #6” asks the best method for providing a near-real time payments system, whether it be by enhancing an existing payment system or creating a new one.

WesPay believes the most efficient and user-friendly method of achieving the Consultation Paper’s goals is to focus on enhancing existing types of payments where there is a specific need for faster settlement, clearing or reporting, while leaving legacy payments to continue with current settlement and reporting systems.

Real-time or near-real time payments are ideal enhancements for certain use cases (i.e. emergency payroll, consumer bill pay, consumer account transfers and business remittances) while the benefit for other use cases are not as immediately apparent (i.e. consumer point of sale transactions).

Enhancement of existing payment systems to achieve the goals of the Consultation Paper will reduce investment costs and leverage industry expertise in modifying large, complex legacy systems. This approach avoids the unintended consequence of developing a completely new payments system that, because of development, implementation, and opportunity costs, may be prohibitive for a large majority of participants.

3. Regulatory Complexity

One of the payment environment challenges not mentioned in the Consultation Paper is the regulatory complexity in today’s financial services industry. Financial institutions are dedicating more resources to satisfy expanding compliance obligations. A truly comprehensive strategy to improve the efficiency and speed of the U.S. payments industry should include an equal focus to streamline the regulatory framework for financial institutions to operate.

One critical task to facilitate broad adoption of a new or expanded payments system will be to ensure that related payment regulations are updated to account for expanded capabilities, or to address the gaps that currently exist. For example, our members have expressed concern regarding

perceived ambiguity in certain components of Regulation E related to mobile payments. The financial industry is much more likely to engage and invest in a new payments system when regulatory bodies adopt clear compliance requirements to allow financial institutions to implement new payments capabilities efficiently and confidently.

4. Risk Management

One unintended consequence of faster settlement and clearing is an expanded opportunity to commit fraud. We anticipate faster payments will result in higher criminal activity, unless the associated risk management infrastructure is also improved. This must be a critical element to the Fed's final assessment strategy document.

The Consultation Paper mentions that many legacy payment types require the participant to have a transaction account that may be "cumbersome" to establish. Regulatory demands placed on financial institutions to establish and monitor the identity of the account holder significantly impact the efficiency of the process and the consumer experience. These regulatory requirements (i.e. monitoring for AML and OFAC compliance) currently act as a deterrent to fraud, but are maintained at a significant expense to financial institutions. If this process is shifted to time of payment, it will likely result in a higher cost to payment system users.

As The Consultation Paper states, payments are "evolving rapidly due to demographic shifts and application of new technology." The non-financial institutions introducing new technology and facilitating new payment types are not always subjected to the same compliance standards as financial institutions, posing a potential risk to all payments system participants. Lesser-regulated players are the "weakest link" in terms of data security, fraud prevention, customer due diligence, and error resolution. We welcome the participation of non-financial institutions to help drive industry innovation, but expect they be required to meet the same regulatory standards placed on financial institutions to ensure overall payments quality and security.

5. Expand Operating Hours of National Settlement Service System

One essential prerequisite for facilitating real-time or near real-time settlement will be to expand the operating hours of the Reserve Banks' National Settlement System beyond its current window of 8:30 a.m. to 5 p.m. Eastern Time. This would reduce the settlement risk of the participating financial institutions by ensuring they can settle for the funds they release on a real time or near-real time basis during a greater part of the day, including holidays and weekends, when these faster payment methods will be expected to be available. This also provides the potential for a more level playing field for Western U.S.-based financial institutions.

6. Consumer Perception

WesPay shares the Federal Reserve's concern that "consumer fears about payment security sometimes inhibit adoption of electronic payments." As part of the strategy in adopting a new payments system, we encourage the industry to organize an awareness and education program as an investment in promoting public adoption. Consumer fears will only serve to delay the inevitable and critical need for the U.S. to offer faster payment options, in order to remain competitive with the growing list of countries already offering such services to their consumer and business customers.

In summary, WesPay shares The Federal Reserve Bank's end state vision of a faster and more efficient U.S. payments system and is eager to work cooperatively with The Federal Reserve Banks and other payments associations to effectively achieve the Consultation Paper's goals. I would be pleased to discuss the thoughts expressed in the communication in further detail.

Sincerely,

A handwritten signature in blue ink, appearing to read "W. Schoch", is positioned above the typed name and title.

William Schoch
President & CEO

cc: WesPay Board of Directors