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General

1. Are you in general agreement with the payment system gaps and opportunities identified in the "Payment System Improvement Public Consultation Paper"? Please explain, if desired.

Yes. Desired outcome 2 will have the biggest impact on End Users and will require significant attention in terms of building the infrastructure needed to process such payments.

1i. What other gaps or opportunities not mentioned in the paper could be addressed to make improvements to the U.S. payment system?

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

Yes.

2i. What other outcomes should be pursued?

3. 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

4. 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.

4i. Which of these perspectives is more accurate, and why?

This will require coordinated action by a public authority or industry group. Without this effort we will continue to see small networks that do not have a broad base of members making cross network payments inconvenient or impossible; instead of a legacy network that we need.

4ii. What other perspective(s) should be considered?

5. 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

5i. Do you agree that these are important features of a U.S. near real-time system? Please explain, if desired.

Yes.

5ii. What other characteristics or features are important for a U.S. near real-time system?

The most important feature is ubiquitous participation.

6. 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.
 - e. Implementing an entirely new payment system with the features described in the second desired outcome above.

6i. 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?

Modifying ACH or enhancing the debit card networks is plausible. There is already a move to speed up ACH with a Fed Option to complete same day file transfers. Currently it is not mandatory. While it is valuable to larger Financial Institution with business customers, many small institutions or those without business customers will not see a need to adopt-in. Requiring mandatory participation in any system that is created will be needed in order make the system ubiquitous.

6ii. 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?

The idea of an ACH authorization has merits, allowing for near real time notification of funds availability, coupled with same day file processing for faster availability of funds. Creating a wire-transfer like system would work as well. However, with any system, there needs to be a link between the information that an end user provides and the receiving account number. Sending something to John Smith at a large financial institution will require a human element to sort through the information to find the correct John Smith. Any time you require a human element in the equation, you step further away from near-real time. To have a true near-real time system, you have to automate process. Without the account number or some sort of identifying information that links to the account number, this will be unachievable. At the same time, any time you create an automatic link to an account, you increase the risk for fraud.

6iii. 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?

Settlement will need to be same day. The amount of funds that flow through the system will be significant enough that Financial Institutions will need same day settlement to fund near real time availability.

6iv. Which payment scenarios are most and least suitable for near real-time payments? (B2B, P2P, P2B, POS, etc.)

All forms should be suitable for near real-time payments.

7. 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?

I believe there is merit in continuing with speeding up check returns. As long as checks are available for use, end users will use them. Steps are already being taken to speed up check returns at the Federal Reserve by implementing AM return file processing.

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

I don't think it will create new fraud risks, those risks already exist. While intending on limiting fraud by not requiring the end user to know account information, you still have to have some sort of identifying information of the end user. This identification can be used to perpetrate fraud.

8i. Will near-real-time payments create new fraud risks? If yes, please elaborate on those risks.

No

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

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

There is a need for faster payments driven by consumers. If the US Industry and Federal Reserve don't take steps towards solutions, someone else will, especially with the globalization of almost every market.

10i. What is the cost, including the opportunity cost, of not implementing faster payments in the United States?

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

11i. What is the likely timeframe for any such modernization?

12. 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.

12i. What are the merits and drawbacks of this suggestion?

Consumer back lash regarding privacy. Even with a directory, you still need some sort of identifying information to link an account to an end user. In order for this to be near-real time that link must be automatically identifiable through computer systems. This of course opens the potential for fraud.

12ii. What is the feasibility of this suggestion?

With today's privacy regulations and consumer concerns for privacy, I don't believe this is feasible.

Electronification

13. 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.

13i. 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.) Please explain, if desired.

Yes. A higher priority should be placed on migration from checks to an electronic payment method. As long as this option is available you will have end users that insist on using it; some maliciously as a way to beat instant confirmation of funds. In order to succeed, you have to make the alternative more attractive to engage end users.

13ii. 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." If Yes, what is the appropriate target level and date?

Yes.

14. 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.

14i. To what extent are these efforts resulting in migration from checks to other payment types?

14ii. What other barriers need to be addressed to accelerate migration of these payments?

Two of the major barriers that exist include consumer confidence in security of electronic payments and the cost to update infrastructure.

14iii. What other tactics, including incentives, will effectively persuade businesses and consumers to migrate to electronic payments?

14iv. Which industry bodies should be responsible for developing and/or implementing these tactics?

Cross-border Payments

15. 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?

16. 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?

Safety

17. 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.

17i. Among the issues listed above, or others, what are the key threats to payment system security today and in the future?

Today the major threat is on infrastructure and databases. Large scale breaches of these areas result in high dollar fraud situations.

17ii. Which of these threats are not adequately being addressed?

The security of software and devices used by end users is the top. The technology for mobile devices, and apps are fairly new. As with any new technology, security weaknesses and threats are more exploitable than older technology.

17iii. What operational or technology changes could be implemented to further mitigate cyber threats?

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

Information on breaches, including how and what actions are being taken to rectify breaches.

18i. How should this information be made available?

Perhaps through FRB Alerts, or something similar to VISA CAM files.

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

19i. What are the obstacles to the adoption of security-related payment standards?

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

As a central base for the majority of institutions, the Federal Reserve Bank should collaborate with the industry with research and development on improving existing networks, or creating a new system.

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

