



November 27, 2013

To: Fedpaymentsimprovement.org

This letter is to provide thoughts on the Federal Reserve Bank's Payment System Improvement – Public Consultation Paper, and offers concepts for consideration in several areas, as noted below. The thoughts outlined in this letter are my own, offered as a current member of Norway Savings Bank's senior management team and a former member of senior management of the Federal Reserve System.

Ubiquitous Electronic Solution

I concur with and strongly support the section of the paper that describes the need for a retail payment system that does not require the sender to know the bank account number of the recipient, in a real-time environment. The solution to this likely will involve use of a database that will need to be maintained centrally that would assign a "universal account number" to an account holder. This universal account number would be linked to the account holder's bank (by use of routing and transit number) and to the account holder's account(s). Changes in banking relationships could be made easily by the account holder, possibly by interfacing directly with the central database to make the change. This would eliminate the need for the account holder to change multiple, recurring payment arrangements.

A focus of this process should take into account whether the transaction being initiated is a credit or a debit. In the case of an individual initiating a credit to another party (and an offsetting debit to his/her account), the recipient's universal account number would be provided to the initiator, and the transaction could be achieved in a safe and sound manner. A key to this process would be that the universal account number would permit "credits only" to the account, except as permitted by the account holder for anticipated payments. This type of transaction may serve the needs of many Consumer – Consumer, Consumer – Business, and Business - Consumer transactions that currently rely on the use of checks to accomplish. Minimal security would be required, as "credits only" would be permitted to transact against the account represented by the universal account number security, except as noted above.

Debit transactions, where the account holder is looking to initiate a debit to the account of another individual or entity (and a corresponding credit to his/her account) would follow a different process that would require a strict authentication process, due to the increased risk. A feature such as an ACH "debit filter" might be adapted to limit debit transactions.

The process described would facilitate transactions where there is lower risk of fraud (i.e. a credit is initiated) and therefore the process is more functional and easier to use. It places enhanced controls on debit initiations, which are higher-risk transactions

thank credit transactions. Retail payment systems that could potentially be used with this process include debit/credit cards and ACH.

Role of the Federal Reserve Banks

The role of the Federal Reserve in this process should be three-fold, in my opinion, as follows:

- Develop a strategy to move payments to achieve a stated objective;
- Provide support for the strategy by identifying and working to remove regulatory and legal barriers;
- Maintain an operational presence, as necessary to ensure operational functionality.

I offer an analogous effort from several years ago as an example- specifically the role played by the Fed relative to Check 21 implementation. In that case, the Fed was instrumental in the three steps noted above. The Fed developed the Check 21 vision, with input from many in the payments industry; the Fed worked to achieve regulatory and legal changes that enabled the conversion to image of paper checks, for the purpose of creating an open (ubiquitous?) clearing system; and the Fed initiated the technology and related process to collect on images, instead of paper checks, and did so in a way that allowed for entry into the process by the private sector.

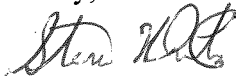
The Federal Reserve should play similar roles in developing the Ubiquitous Electronic Solution. They should develop a strategy, including a timeline that includes various, appropriate phases; they should remove regulatory and legal barriers as necessary to facilitate the outcome; and they should take on an operational presence as deemed necessary. One example of an enabling operational presence might be the development of a “ubiquitous universal account number data base”. This would likely need to be developed, and perhaps managed by a central entity. The Fed’s presence in this process would be invaluable, serving as a ‘trusted intermediary”.

ACH

The ACH may or might not be the ultimate choice of consumers to serve as the payments system that survives and thrives in the environment described in the Fed’s paper. However, I view it as critical for the ACH to begin to offer same-day payments capabilities. And, it should be done by mandate – not by attempting to appease all, likely resulting in only voluntary participation by Receiving Depository Financial Institutions (RDFI’s). I acknowledge the additional cost and operational burden that would result to banks such as mine with such a change, yet I view same-day payments as a key component to maximizing the long-term functionality of the ACH. This would better position the ACH to be considered as an option for use in conjunction with the Ubiquitous Electronic Solution.

The concepts described above are admittedly forward-looking, and make assumptions regarding the ability to provide technical solutions in certain areas, including development of the ubiquitous universal account number data base, with the described features. I hope that you find this to be helpful and perhaps thought-provoking. If there are questions, please feel free to contact me.

Sincerely,



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