

## Summary

BBVA Compass supports the Federal Reserve Bank's (FRB) efforts in acting as an active change agent to further enhance the payments system. The goals of improving the speed, efficiency, and safety of the payments system are very much in alignment with the strategic direction and investments that BBVA Compass has undertaken. Although we believe that the market, driven by customer demand, will continue to move toward real-time/near real time payments, we strongly believe that the Federal Reserve can and should help accelerate that change while focusing on the overall safety and soundness of the payments system.

General

### **Q1. Are you in general agreement with the payment system gaps and opportunities identified above?**

*We are in general agreement with the gaps and opportunities.*

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?**

*Additional opportunities exist in narrowing the differences in rules and regulations that govern each payment type including the differences in return rules and those that treat consumer and business's transactions differently. Reduce the potential for duplicate transactions.*

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

*We are in general agreement with the 5 desired outcomes that have been described and would be highly supportive of Fed actions to insure the stability of core systems, utilizing proven and emerging standards to ensure disruptive events/attacks not impact the US Banking Industry's capability to provide confidence in the delivery of commerce.*

*i.* **What other outcomes should be pursued?**

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

*The FRB should continue to be a major leader in the promoting change in the payments system by encouraging dialogue with all participants in the payment chain. In addition to promoting the change, the FRB can also help shepherd laws and rules that reduce barriers to a safer, more efficient payments system. The FRB could work with other central banks to accelerate outcome 4 (cross border payments). The FRB could explore offering services (expanded cross border payments, routing/account number translation to an alternative consumer identification model).*

## Ubiquitous near-real-time payments

**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?**

*We believe to achieve the stated goals, a coordinated effort between public authorities and industry groups will be necessary. Check 21 is an example of new rule making that accelerated the pace of change beyond what could have been anticipated with the normal evolution of that payment channel. Although the current evolution of the payments system is creating new payment innovations, there is a need to ensure the safety and oversight of these systems that a public authority can provide.*

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

**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.**

*We concur that the features outlined are important. The need to ensure good funds is vital for many transactions and the end to end costs of handling return items continue to increase while fostering uncertainty and risk in the system.*

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

*Low cost of entry for initiation of payments should lead to more ubiquitous participation. Also, we should be cognizant that our approach should not be a one size fits all. For instance, near real time posting certainly has advantages, but a*

*lower cost slower delivery system may be acceptable for many transactions as long as we ensure secure payment.*

**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.
  - 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.
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- 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.)

*Overall, the least desirable option is the creation of a new payment system. We believe modifying existing channels is preferable due to stability already achieved in those systems. We support the faster and more frequent settlement of ACH transactions. Although the debit card networks provide the capability of ensuring good funds through an existing authorization structure, the continued litigation in the signature based transactions and the large scale breaches have caused some distrust in this system. We believe that it is most desirable to have both near real time authorization and fast, predictable settlement. The near real time scenario*

*probably is more advanced in the personal payment realm; while B2B may be more difficult until the ability of relaying detailed payment information is achieved.*

**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?**

*We are supportive of continued electrification and faster end to end processing for all systems including check. Verification of good funds efforts should be pursued which may decrease the need to focus on the acceleration of return information.*

**Q8. How will near-real-time payments affect fraud issues that exist with today's payment systems, if at all?**

*Near real time payments create a higher level of fraud potential as many current fraud systems are operated in a day 2 environment. The reduction of time involved to detect fraud as we move to a more near real time environment will require us to re-think the current detection and prevention models.*

*Faster payment systems, the ability to move funds between different accounts and shortened timelines to recover the funds create more risk in the network. Risk control systems that are focused on different limits to new customers vs. known established customers and behavioral based payments engines to monitor activity will be required to protect from the evolution of fraud that takes advantage of the speed of the payments.*

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

*Near real time payments present increased fraud risk due to the fact that the bank has less time to review, detect, investigate and stop fraud. Today, much of the fraud can be mitigated during the window prior to the payment being released. As that window narrows, the time to find and stop fraud also narrows.*

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

*The availability of low cost mobile devices and the increased functionality of those devices make them a natural vehicle for greater usage in the payments world. The possibility of increased security features make this even more potentially beneficial. The very nature of mobile devices allowing for faster dissemination of information of all types (instant everything) makes near real time payments fit into the already existing expectations of the users of mobile.*

*Consumer mobile payments have initially focused on lower value payments where convenience is important. We expect that will evolve over time based on history, experience, and relationship quality. Commercial payments need to be based on the customer type, and client experience including length of relationship, sophistication, business needs, risk ratings, etc.*

**Q10. What would be the implication if the industry and/or the Federal Reserve Banks do not take any action to implement faster payments?**

*Non-bank entities will continue to flourish which will create a more fractured payment system and ultimately a less trusted system if the public believes that data is being gathered concerning their payment habits perhaps resulting in increased privacy concerns (real or perceived).*

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

*If the rest of the world is moving toward or has already achieved near real time payments, the US may appear to be more difficult to do business with. Additionally, a less efficient payment system will add cost to the overall transaction making it more difficult to compete.*

**Q11. To what extent will the industry need to modernize core processing and other backend systems to support near-real-time payments?**

*Banks will probably continue to cobble together near real time capability through memo posting in their legacy batch systems with limitations. Banks that do go to real time posting will begin to “think” in real time. Ultimately, the industry will need to modernize to evolve with the current generation’s expectations.*

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

*The timeframe for this modernization is difficult to predict. Due to the financial implications and disruptive nature of this type of change, it is likely to take some time.*

**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?**

*Corporate Customers in general guard their account information very closely. The solution to that requirement may be a “credit only” account for receipt of bill payments. Conversely, we have found that Consumers in all of the countries in which we operate have demonstrated comfort levels while issuing checks containing this information. BBVA would support a solution that drives both*

*scenarios and establishes an account information exchange understanding that what works for Corporate Customers may be different from the Consumer solution. One major drawback of a centralized repository would be the impact of any potential security breach. This is an area where the FRB may be viewed as a potential leader and service provider.*

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

**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?

*Overall, we support the continued migration to electronic payment methods from checks. We also see value in improving the current check system by exploring opportunities to utilize electronic payment orders if the regulatory concerns are eliminated and we would not see these efforts as mutually exclusive.*

*Additionally, we support Federal Reserve leadership in developing guidelines for electronic migration, including end dates. We believe the slow migration by many consumers and businesses will continue to be a drag on the efficiency of noncash payments well beyond the 2018 "example" date that was suggested in the last question.*

**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?**

*We are continuing to see a decrease in checks and an increase in electronic methods of payment. Increasing the ability of consumers to “control” their payments and the ease to which the payments can be made will help accelerate the migration.*

*The migration of corporate payments to electronic payments has been steady but slow. One area of electronic payments – purchasing cards – has been extremely successful in recent years entirely due to market forces. The industry efforts (e.g., ACH CTX and Fedwire CTP) require significant technical knowledge and investment in order to implement. When these standards are used to push credit payments they have been somewhat successful, but require the payees to take some action (programming or enrollment in a new service such as EDI reporting). One of the most significant non-technical barriers has been the reluctance of companies to share account numbers for fear their accounts will be compromised. Through the use of ACH debit block and ACH positive payee, those fears can be mitigated, but more education is needed in this area.*

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

*Ease of passing and ingesting remittance information remain barriers.*

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

*Increased pricing for paper-based services. We recommend differential pricing based on speed of settlement.*

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

*NACHA, the Federal Reserve, card associations and check clearing organizations can play a role in developing these tactics; however, implementation should be market-based.*

## **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 electronification of business payments and/or cross-border payments?**

*Cross Border Payments – As the economy continues to become more global, the need for safe, fast, and cost-effective cross border payments is a requirement. Certainly, adherence to international standards will accelerate the development of the systems needed to comply with these standards.*

**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?**

*Convergence of SWIFT and US electronic payment standards; expansion of global ACH capabilities*

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?**

*As with any system, increased access and availability for the customer also creates risk as that access and availability is also available for fraudsters to abuse as well. Fraudsters are very well resourced financially, technically, and with staffing. They use the resources to constantly look for vulnerabilities and gaps in systems and processes that allow fraud to occur. Fraudsters also take advantage of lack of knowledge of the customers about the risks and what the customers should do to protect themselves. In many cases, the fraudsters are actually using the customers technology (account takeovers, identity theft, malware on computers and mobile devices) to commit fraud and steal funds (as opposed to attacking or trying to "hack" the bank).*

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

*The threat to the customers due to their own lack of security awareness and lack of technical knowledge about the devices they use (computer and mobile) which the fraudsters take advantage of to commit fraud including financial and identity theft. This is seen through phishing (fraudulent emails) and the prevalence of many types of malware (viruses etc...) that are used by the fraudsters to steal identity and money.*

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

*Real time and/or near real time payment systems will require real-time fraud detection solutions that can quickly and accurately detect and stop fraud.*

**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?**

*Much of this type of information is shared today through groups like BITS and FSISAC. Participation has increased as more banks are becoming aware of these issues with online and mobile banking including real/near real time payments. It is important for the Federal Reserve to also partner with its institutions to share information around threats and incident response activities (both successful and not) so that the overall industry knowledgebase continues to elevate.*

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

*No suggestions at this time.*

**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?**

*As it relates to front end online and mobile banking systems, we recommend continued efforts to share knowledge around how to effectively and efficiently detect and mitigate fraudulent activity. This is not only a technology issue but a human issue and requires increased understanding of how real time/near real time posting systems work, along with potential fraud impacts. Also, working with the industry to focus on customer awareness of the risks, and not only what the industry is doing to protect the customer but what the industry is and can be done to empower customers to better protect themselves with education and technology.*

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

*No additional comments at this time.*