

Name: Greg Kidd

Organization: Ripple Labs

Industry Segment: Payments Rules and Standards

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, but the paper ignores the structural issues that stifle the U.S.: - only banks have access to the ACH rails and they operate as a gating mechanism killing participation by others unless permission is granted -- limiting innovation - Money transmission regulation has not been pre-empted by federal oversight. Thus moving money is the fiefdom of small minded state regulators with no overall view or authority - The law lets payors decide how they want to pay (i.e. using checks) rather than allowing payees dictate how they will accept being paid - The U.S. has subsidized legacy systems for years (check clearing). Rather than investing ahead of the curve, the U.S. mis-calculates the costs (i.e. fixed and variable) associated with preserving the status quo

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

Banks are fearful of supporting innovators because they get beaten up by their regulators when things don't go well. Rather than allow failures and setbacks (and consequent learning) the regulatory environment creates a fearful anti-innovation regime. Just look how hard it is for digital currency companies to interact with mainstream banks Legislating against processing of payments for legal activities (gambling, medical marijuana, etc.) is indicative of a double standard of what's legal versus allowed in the payments industry.

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

Yes. But I was at the Fed 10 years ago, and the same tone / attitude was taken then as now. The U.S. was behind the world then, and is more behind now.

2i. What other outcomes should be pursued?

IP rails should be allowed as a parallel processing environment to the legacy systems. That means breathing room for digital currencies. The assumption that sovereign governments should have a monopoly on the money supply and payments infrastructure needs to be re-examined. Alternate money systems based around the internet should be given a chance.

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

The Fed needs to stop making the banks it oversees afraid of making mistakes through allowing innovations. Fraud loss and other risk issues are not as big as the opportunities that are being missed by the Fed and other regulators making banks too nervous to support innovation in the payment space that is already barreling ahead in other countries.

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?

These systems exist (i.e. Ripple). Banks are just afraid to work with them because of compliance concerns and the uncertainty of the regulatory environment. State oversight of money transmission makes the above goals impossible to practically pursue when there are 50 different regimes with 50 different opinions of what's allowable.

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

Allow a dual set of IP payment rails. Give a hands off like Amazon enjoyed on sales tax for a decade. See what the internet can produce before you choke it with the same strictures on the legacy rails.

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.

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

Yes. It's clear this is already possible in other countries. It's sad that the U.S. is so far behind.

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?

Allow IP based protocols that already achieve all this to operate without fear of being shut down.

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?

There needs to be a materiality threshold. Transactions below a certain threshold should not have the complexity of Reg E compliance to worry about. Some things are too small to worry about. Regulation of every transaction does not have to be one size fits all.

6iia. What rule or regulation changes are needed to implement faster payments within existing payment processing channels?

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?

funds don't have to arrive in real time, but it's actually simpler if they do (i.e. a stateless system). The internet already "gets" this but it's not being given a chance to breath.

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

all are suitable. This should have occurred 20 years ago

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?

Investing in improving checks is a waste of time. I worked for the payments group at the Board overseeing the check clearing system. We don't need to spend more resources on this antiquated system. It should be run well, but there's no need or future for focus on the vestige.

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

Real time does create fraud risks, but also reduces fraud risks. There's so much happening in this realm that there are no black and white answers on this front. Real time is not a direct causation agent with fraud

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

No. see above.

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

It's not a mobile specific thing other than that a stateless (real time) system is consistent with the simplicity, low cost and speed of the internet. Anything else is an inferior legacy throwback.

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

2023 will look a lot like 2013 just as 2013 looks a lot like 2003 (when I was at the Fed). The U.S. should lead rather than lag other countries by opening up options rather than sitting on top of the status quo with the current stifling regulatory environment and uncertainty.

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

The rest of the world out innovates us and has a lower structural cost of business.

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

Not at all unless current thinking and inertia changes. I saw the Fed ACH presentation at Money 2020 - nothing could be more depressing for innovators. The message was loud and clear: "nothing is going to happen"

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

For the legacy system -- possibly never. Too many protected interest and too much fear that change might have negative consequences along the way to finding positive outcomes. Best hope is a parallel track based on IP rails

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?

Centralized has to be global -- doing this for once country is just more head in the ground thinking. Look to how the internet solved similar problems for domain names, email servers, etc. The solutions are there -- but the description above shows the same tunnel vision as has characterized this discourse for years

12ii. What is the feasibility of this suggestion?

It's easy enough if one has the will. but the challenge is global, not national.

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. It doesn't matter one way or the other. checks wouldn't be necessary if we had alternatives. One only has to get on an airplane and go to other countries to see that this is so. The problem isn't the old thing; it's the lack of access for the new thing

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 lever and date?

No.

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?

Gosh, has no one looked to see how well and easily these issues are solved in other countries. This is a lack of will. Let the payees determine how they will be paid (rather than the payees). Biasing law to favor payor rights over payee means we are mired in the past. Check 21 showed just how timid we are/were

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

Stop punishing banks who would partner with players offering alternative payment rails. How many bitcoin friendly U.S. banks are there? Zero not because they are not curious, but because they are afraid of their regulators and regulation and law enforcement

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

Reducing the risk of trying alternative systems. Allowing failures to happen rather than having a zero tolerance for failure of financial payment networks. Its ok to have failures in payments systems. We learn from those.

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

Federal pre-emption is needed where states meddle. You can't have a national (let alone a global) payments system with the current level of meddling and shakedowns at the state level and the inconsistency of regulation between overlapping regulatory bodies

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?

Ugh, this has been dribbling along for 20 years. Just accept that the internet is more efficient than these incremental half measures

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?

Allowing internet based innovation as a parallel track to legacy channels. Resistance to lobby groups that make digital payments alternatives look too scary to be integrated through gateways to the traditional payment system

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?

The main risk is the arrogance of the NSA and other Federal bodies that have shown a lack of respect for privacy and have made a mockery of encryption. If the Federal government has no credibility on this front, how can they be seen as an honest broker of future progress in this arena. The Federal Government has to follow the same rules it asks others to live by otherwise all of the above are just speed bumps to bad actors.

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

The double standard of the national government's own actions and the silence from other authorities on whether such violations of privacy are warranted for national security.

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

Stop the Federal Government from compromising the very standards that are built to protect us from cyber threats. It is ridiculous to believe that the Feds have a monopoly on managing cyber threat technology. By weakening the internet, they weaken the future system that is best positioned to carry payments of the future.

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

I think Twitter already has this well covered.

18i. How should this information be made available?

See above.

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

Follow (rather than subvert) internet protocols IP as a foundation for real time, free, easy payments (and secure).

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

Our own government's double standard for undermining privacy and all security standards by the major internet and communications service providers. Bitcoin and Ripple have shown the way to a more secure standard but the governments are still fearful of these innovations in security.

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?

showing leadership in understanding the benefits of a global rather than parochial money system that is secure by design (and via open source protocols).

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

The bank monopoly on many aspects of the money system of the U.S. does not contribute to innovation. The banks fears that they will get on the wrong side of their regulators reinforces a stagnant dynamic that makes the U.S. a terrible laggard relative to the innovation and cost structures being achieved elsewhere in the world. Accepting risks and that there will be payment systems failures needs to be an ok outcome. This requires a fundamental change in thinking from the fear ridden, status-quo oriented perspective that I saw when working at the Fed. It's ok to have payment system failures, just like its ok to have bank failures. Once you start thinking otherwise, then you've left the objective world of experimentation and are living in a self-referential bubble. The internet shows an alternative that the Fed has done almost zero to open itself to. I watched this during the horrific process of doing something as simple as making it easier to submit an ACH file over the web. What a nightmare and how indicative of Fed reticence. A great place to start would be federal pre-emption of state money transmission licenses. This process is so universally acknowledged as stupidly obtuse by everyone yet nothing ever changes here. It's two years and several million dollars just to get a seat at the table. And when you get there, it's a hodge podge shakedown as PayPal and Square can well relate. The Fed could step up to the plate and show that regulation could/should be rational, fair, and pragmatic. But it never steps up to the plate, and the consequential lag in our country's competitive position continues to stretch. I see it in the figures of money moving through our network via China versus the U.S. We are missing out.