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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. Overall and on behalf of UMB, we are comfortable with the leadership position that The Federal Reserve is recommending they take on aligning participants, facilitating collaboration, addressing industry gaps and agree with the general direction of future improvements to the U.S. payment system. We are in favor of the approach the Fed is taking to initiate a long-term plan to promote the evolution of payments, balance innovation, regulation, security, and economic models to support the investment in the payments infrastructure.

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

Proprietary technology tends to promote closed loop payment networks contrary to a single integrated commerce ecosystem. Expanding on widely accepted legacy channels like check or ACH, help reduce the added expense and effort of implementing a new platform resulting in increased adoption.

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

Yes. The 10-year plan does provide adequate time to develop and deploy a successful but complex future-state payment solution. Technology tends to evolve at a rate that exceeds any software development lifecycle therefore requires ongoing analysis in addition to agile development methodology. It is crucial for our success to embrace technology as a software development provider not as an industry bogged down with regulatory initiatives at the cost of innovation. We believe a phased approach will result in faster time to market, enable user confidence, and allow for scope change as changes in technical paradigms change the face of payments within the next 10 years.

2i. What other outcomes should be pursued?

Developing an automated "do not accept payment" process to identify accounts in bad standing in addition to ineligible accounts will help mitigate anticipated spikes in exception volume as a result of real time payments. Managing a central database which houses criminal and/or OFAC accounts in addition to questionable historical activity provides efficiencies over managing multiple systems of record.

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

UMB believes the Fed can provide additional research and educate constituents on real-time/near real-time networks, both international and domestic to determine the most successful archetype. Understanding any lessons learned increases our probability of success and provides us a baseline to anticipate the cost of implementing such a drastic change.

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?

Alternative payment technology is still in its infancy and requires a level of oversight to insure payment activity is protected from illegal transactions or funding criminal organizations resulting in catastrophic impacts to our economy. In addition to the risk of unregulated cross border payments, some payment alternatives are specifically designed to bypass a central payment authority providing a layer of anonymity. Emerging technology has gained the attention of regulatory organizations however has not employed the level of oversight required to reduce criminal activity. Support for a credit push workflow versus a debit pull does not present itself as a challenging effort. The challenge is creating a global means to identify end points using logic other than account and routing number. A schematic of interoperable directories with global standards could facilitate a highly efficient, ubiquitous system.

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

We believe thorough analysis should be performed to determine if the Fed should consider a change as dramatic as real-time payments. We need to understand the end user needs and use cases (e.g., B2B, P2P, P2B, etc) for real-time payments to level set the complexity of this project. Ideally, we would encourage for the Fed to work closely with other solutions providers, consultants, foreign payment experts, and other associations to garner feedback on this topic

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. Demographic trends indicate consumers and commercial user expectations will include the items listed in a-e above (i.e., real-time capabilities and the ability to provide a simple, convenient, and information-rich user experience).

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

Real-time account validation and funds availability are important features of a real-time system. In addition, risk mitigation, fraud, changes in compliance, OFAC and liability as a result of fraudulent activity require further discovery.

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?

We are a proponent of adapting legacy payment methods to meet the needs of successful future payment systems. Leveraging existing technology like ACH, card, image or wire reduces the overhead costs to implement. The largest effort we foresee is insuring ERPs are able to create or process multiple payment files within a particular day. A few banking systems are limited to one payment file

per business day requiring development however we anticipate utilizing integration points already in place will significantly influence successful adoption.

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?

It is difficult to estimate cost at this point of this effort.

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

A change of this magnitude requires all existing rules and regulations be reviewed to establish impacts to our system.

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?

“Near real-time” does not require immediate settlement as long as there is acknowledgement of receipt and a guarantee of non returned funds.

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

B2B merits high priority due to significant cost savings, increased efficiencies and greater control of funds make it a logical step.

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?

With the implementation of Check21, the industry has gained significant efficiencies. The goal of this paper is to identify the future-state of payments. Based on the future strategy and time to market research may direct us to review our check systems and make any modifications necessary to drive efficiencies and adoption towards more electronic payment options.

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

People will become very sensitive to confirmation of payment emails that are received. This sensitivity could reduce instances of fraud, however the rate at which they occur could take a toll on an organization with limited resources to handle a week worth of fraud cases in a day. Fluctuations in volume compounded with unrealistic or unchanged response times could put participating institutions at risk.

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

Yes. It is difficult to determine what potential risks may evolve without understanding the intended workflow of the new payment process. Authentication and authorization timing will play a large role in determining new points of failure. We do not want to create an environment that posts a transaction at the same time the receiving bank is made aware of the payment, which would open up a whole new realm of fraud.

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

An advanced ubiquitous payment system would create the foundation or rails that mobile, NFC, RFID digital wallets would travel. Like debit cards today, mobile would employ terminal systems that provide least cost routing services. The most significant change includes an increase of brick and mortar merchant that accept mobile payment options as the footprint of participating accounts expands within a network.

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

The threat of unregulated payment exchanges expanding and thriving to a point that could impact our security and potentially our economy. The affects of money laundering or transportation of our currency outside of the United States is one example of unregulated payment networks impacting our industry. Unregulated transaction fees or interchange could run amok inside a network of anonymity. It is crucial for the banking industry to provide a viable payment solution and solve the problem statement identified in this paper.

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

The costs include the safety and soundness of the financial system, the intimacy of FI's and customers and any income associated with payment transactions.

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

A thorough evaluation of core systems is required as a result of a banking infrastructure designed around batch processing and next-day settlement. Changes to file posting, availability schedule, servicing model, pricing and payments training are all crucial components to make this a successful effort.

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

36-60 months

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?

This would reduce bandwidth filtering requests for payments with ineligible and flagged accounts from making any attempt at posting to the receiving bank. Management of a centralized ledger in a fast-paced, high volume communication network reduces any non-essential requests helping to mitigate increased activity. However, the drawback of managing a central directory of data is more costly .

12ii. What is the feasibility of this suggestion?

A thorough analysis of the model along with appropriate Resource + Capitol must be employed to address this inquiry.

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. Natural progression from checks to electronic payments develops over a long period of time reflective of the number of checks still in circulation today however efforts for electronification (like Healthcare) help expedite transition from paper to more efficient forms of electronic payment.

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?

The Federal Reserve along with other associations has played an integral role in educating the benefits associated with adopting electronic channels over paper. The roadmap for the next 10-years should be defined prior to setting a target that way we can steer the payments behaviors of end-users towards an electronic payment options that meets their needs. Based on research by the Federal Reserve, we anticipate that within the next decade checks will no longer be clearing through the network.

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?

Technically savvy and appropriately funded entities are moving from costly inefficient processing of paper; however, small businesses struggle with the capitol to invest in updating or purchasing a true accounting system to track or generate electronic payments. Elements of risk also factor into the equation however reduced overhead should make B2B the logical first step as beneficiaries of this new service. Merchants are more cognizant of the cost of doing business which small businesses struggle with each time a payment is made or received using more expensive alternatives.

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

Confidence, oversight and incentive will accelerate migration. Leveraging services as a sound business decision would outweigh personal conflicts with electronic payments. The most successful businesses are ones that adapt best to changes in the industry.

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

Providing small businesses an efficient payment alternative that supports expedited funds availability increases benefits to those waiting on AR payments.

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

The institutions that manage the central account database and the operators with the greatest opportunity to benefit should spearhead the branding and marketing of this service.

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

XML offers an efficient means to deliver and process remittance information. Platforms that use XML technology have a higher transfer rate than batch file processes of today.

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?

Providing the ability to make payments to international suppliers through a robust network of automated AR and AP payments is a service in high demand. In addition, matching payment data to electronic invoices is a value added solution that is not present today. The increased risk of supporting a good funds or real-time payments model with nations outside of our jurisdiction must be considered before moving forward with 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?

The vulnerabilities of a heavily electronic-based economy increases as physical items like cash has limited exposure to outside factors. Fraud, denial of service, cyber threats, corporate account takeovers, the vulnerability of hardware and software tends to force providers to be more reactive rather than proactive. Technology designed to compromise a network is much easier to create than technology built to protect it.

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

The payments roadmap should be defined prior to evaluating the payments security options. The new payments roadmap may open opportunities to consider a revised security framework.

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

We believe limiting the use of international real-time payments makes sense. At least until we are more comfortable with securing it nationally for a period of time. We also do not want to lose any safety measures in place today, but, rather, expand on them.

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

Centralizing flagged accounts and alerts allow more efficient channels of tracking and preventing any criminal activity.

18i. How should this information be made available?

The authentication and authorization routine should incorporate logic to cross reference flagged account, names and amounts and have the ability to deny payment and report suspicious activity. It would take the guess work out of the equation.

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

Biometric authentication, multi factor authentication and out of band authentication.

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

Increased costs, additional time and resource and increased regulatory compliance.

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?

Management of the project as an Act as an independent authority to monitor the decision making process and aide in collaborating with outside authorities to insure organizational acceptance of any regulatory policy as a result of such a drastic change.

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