FedPayments Improvement Community Roundtable: An Industry Perspective on Payments Modernization

Hosted at PAYMENTS 2019 in Orlando, FL
May 7, 2019

A diverse group of ~70 industry stakeholders came together at the FedPayments Improvement Community Roundtable this spring to engage in dialogue about improving the U.S. payment system. Attendees heard updates from senior Fed leaders, then discussed the industry’s latest payment modernization efforts.

The Federal Reserve’s Role in Advancing Modern Payments

The Fed’s Payments Strategy Director, Dave Sapenaro, reminded attendees of the industry’s journey since the Fed’s payments improvement paper was released in 2015. This journey continued with the 2017 release of Strategies for Improving the U.S. Payment System: Federal Reserve Next Steps in the Payments Improvement Journey.

Sapenaro noted recent Fed actions based on recommendations of the Faster Payments Task Force consider infrastructure enhancements or new services to support faster payments implementation. Following the Fed’s October 2018 Federal Register Notice seeking comment on our initial analysis, we received more than 400 comments and 250 form letters from a range of payments industry stakeholders. The Board is now in the process of assessing the formal comments.

“Given the complexity and magnitude of the potential actions outlined in the Notice, and the far-reaching implications for the industry, the Board is taking a deliberative approach in its considerations,” Sapenaro told attendees.

Payments Security Strategy Update

Payments Security Strategy Leader Ken Montgomery updated the audience on the Fed’s current payments security work. The ACH, Wire and Check Fraud Definitions Work Group began work in March to develop a fraud classification model so industry participants can use the same terminology to report fraud and detect trends. As part of the Fed’s commitment to working transparently and collaboratively with the industry, the effort is also supported by the Community Interest Group for anyone interested in providing feedback on the work.

Montgomery also described efforts to collaborate with the industry to understand and address synthetic identity

CONTINUED ON PAGE 2
fraud, and pointed to a published summary report and webinar with industry and Fed experts that explained synthetic identity fraud, contributing factors and how it affects the payments industry.

“We have begun work to better understand the scope and scale of synthetic identity fraud. This issue affects the payment system and other industries, such as healthcare and federal benefits payments,” Montgomery said.

Advancing Faster Payments: A Collaborative Approach

“Hard work and unprecedented industry collaboration has been the foundation for this faster payments journey,” said Connie Theien, Senior Vice President of Payments Industry Relations and Faster Payments Strategy Leader for the Federal Reserve System.

In response to Faster Payments Task Force recommendations, the Governance Framework Formation Team was formed in 2017. This short-term industry work group was tasked with recommending and establishing a faster payments governance framework for the U.S. marketplace, and to that end, launched the U.S. Faster Payments Council (FPC) in November 2018. The FPC is currently focused on recruiting members and beginning foundational work.

Theien reminded attendees that two other industry work groups were established as a result of the task force’s final report to complete necessary groundwork for the eventual governance framework, now known as the FPC. The Rules, Standards, Law and Regulations Work Group (RSLRWG) analyzed how existing and potential laws, rules and standards could be used to mitigate risk, remove barriers, and encourage interoperability, ubiquity, and accessibility for faster payments. The Directories Work Group (DWG) completed a gap analysis and benchmark of existing directories, identified a potential model or models for directory capabilities that could facilitate payments between multiple faster payments solutions, and determined the best approach for standing up a body to oversee the ongoing operation and governance of a faster payments directory model.

Theien also highlighted efforts and upcoming opportunities for commentators to engage in work on e-invoicing, in addition to providing perspective on forthcoming cross-border payments initiatives.

Theien concluded her remarks by emphasizing, “Payments improvement will only occur if we continue to work with those of you in this room, and the thousands who are not here today. Together, we can achieve a safe, efficient, and faster payments system in the United States.”

Desired Outcomes: Group Discussion

Attendees engaged in table discussions and provided views on industry efforts and challenges related to the payments improvement desired outcomes:

Faster Payments

At separate tables, attendees discussed faster payments implementation strategy and meeting consumer and business needs with faster payments.

- In both discussions, attendees noted that interoperability remains of high importance. In addition, transparency for sending and receiving parties could help bolster the faster payments value proposition.

- Consumer and business education was also mentioned as a key driver of adoption.
Stakeholders would like to see clear use cases outlined for any faster payments product, such as use cases in healthcare and for low-income populations.

**Payments Security**

Attendees could discuss two security topics: fraud classification for ACH, wire and check or synthetic identity and remote payments fraud.

- Attendees agreed that a lack of consistent fraud classification makes it difficult to collect accurate fraud data, which in turn, often limits the ability to classify how the fraud occurred and across which payment types.
- Discussions on synthetic identity and remote payments fraud focused on how these types of fraud occur.
- Many said that both types of fraud are growing as fraudsters evolve their tactics for account takeovers, Social Security number theft and creating mule accounts.
- Attendees emphasized the need for continued communication and education on both topics, especially among consumers and industry stakeholders who are not familiar with payments fraud.

**Payments Efficiency**

Attendees were able to discuss ISO 20022® for corporate clients or e-invoicing challenges and opportunities.

- Attendees who selected either of these topics emphasized their interest in learning more about payments efficiency market trends.
- Stakeholders engaged in the ISO 20022 discussion focused on benefits for corporate users, inclusive of remittance data, reporting and delivery of requests for payment, all of which stem from ISO 20022 use of structured data.
- Participants interested in e-invoicing discussed the Business Payments Coalition’s efforts to assess requirements for an e-invoice interoperability framework.
- Of note, attendees commented that such a framework could benefit customers by reducing the time needed to access invoice information, improving data quality, and reducing fees to exchange electronic invoices across networks.

**Cross-Border Payments**

Discussion at these tables centered around three key themes: use cases, transparency and compliance.

- Attendees pointed out there are important differences between cross-border use cases, particularly small P2P remittances versus large B2B payments.
- Additionally, stakeholders noted that it’s critical but difficult to implement full visibility into end-to-end funds status and up-front foreign rate transparency.
- Attendees also said accountability, know-your-customer and anti-money laundering present significant compliance challenges.