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Date: 12/14/2018

To: Federal Reserve
From: Bank Midwest, Spirit Lake, IA
RE: Request for Comment on Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments – Docket No. OP-1625

Thank you for the work that the Fed has done over the past several years to research and explore solutions to modernize the U.S. Payments System. We appreciate the opportunity to comment on this important decision.

We are a $900 million community bank based in Spirit Lake, IA serving an ag, small business, and consumer customer base. The future of payments and the unknowns as to whether or not the Fed will take action is a growing concern for our bank as larger financial institutions and non-bank, non-regulated players continue to dominate the market with innovative solutions. Customers are rapidly gravitating to products like Zelle and Venmo, giving a clear indication of the changing wants and needs of the public sector. Meanwhile, we continue to do our best to serve customers with solutions provided through our core vendors, trying to keep pace with change, but nowhere near to the level of providing a great experience for our end users.

We fully support the direction of the Federal Reserve to provide Real Time Gross Settlement and the creation of Liquidity Management Tools. While these are two separate initiatives, both are imperative to the fulfillment of modernization of the payments system.

Our depth of knowledge on this subject matter has come from our own observations as well as research and information coming from a variety of sources, including the ABA, IBA, and other interested parties.

Again, thank you for the work that you are doing for the benefit of all stakeholders and the expediency of forthcoming solutions.

Sincerely yours,

Mary Kay Bates, President and CEO
Bank Midwest

Questions

1. Is RTGS the appropriate strategic foundation for interbank settlement of faster payments? Why or why not?

   Yes, there is a fundamental need to modernize payments by creating a Real Time Gross Settlement system that allows equal access for all financial institutions and provides ubiquity and interoperability for speed, convenience, and accessibility for the end user.

2. Should the Reserve Banks develop a 24x7x365 RTGS settlement service? Why or why not?

   Yes, we believe the Fed should remain fundamentally responsible for a robust and modernized infrastructure that supports the payment systems across the US, similar to its role in the past with Check 21 and ACH. This will satisfy the need for fair access and interoperability among all financial institution.

3. If the Reserve Banks develop a 24x7x365 RTGS settlement service, a. Will there be sufficient demand for faster payments in the United States in the next ten years to support the development of a 24x7x365 RTGS settlement service? What will be the sources of demand? What types of transactions are most likely to generate demand for faster payments?

   Yes, survey data indicates that mobile is quickly becoming the primary channel of choice for consumer transactions and the generational gap among users will continue to diminish over the next 10 years. Simple, fast, convenient, and safe are the demands we're trying to fulfill.

   b. What adjustments would the financial services industry and its customers be required to make to operate in a 24x7x365 settlement environment? Are these adjustments incremental or substantial? What would be the time frame required to make these adjustments? Are the costs of adjustment and potential disruption outweighed by the benefits of creating a 24x7x365 RTGS settlement service? Why or why not?
   Liquidity Management Tools will be essential to faster payments and must work with any internal Federal Reserve solution as well as private sector solutions. LMT should be considered a separate initiative and developed as quickly as possible. All said, it must be cost effective to financial institutions as it's unlikely that consumers will be willing to assume the burden.

   c. What is the ideal timeline for implementing a 24x7x365 RTGS settlement service? Would any potential timeline be too late from an industry adoption perspective? Would Federal Reserve action in faster payment settlement hasten or inhibit financial services industry adoption of faster payment services? Please explain.

   We're already falling behind globally and the longer we wait, the more opportunity there is for the large banks and/or non-bank, non-regulated players to enter this space, creating greater risks and concerns for security and making it increasing difficult for community banks to compete.

   d. What adjustments (for example, accounting, operations, and agreements) would banks and bank customers be required to make under a seven-day accounting regime where Reserve Banks record and report end-of-day balances for each calendar day during which payment activity occurs, including weekends and holidays? What time frame would be required to these changes? Would banks want the option to defer receipt of such information for nonbusiness days to the next business day? If necessary changes by banks represent a significant constraint to timely adoption of seven-day accounting for a 24x7x365 RTGS settlement service, are there alternative accounting or operational solutions that banks could implement?

Bank core providers will be critical to facilitating transactions around the clock. Memo posting of transactions will come from the core and most are automated requiring limited attention during off hours.

e. What incremental operational burden would banks face if a 24x7x365 RTGS settlement service were designed using accounts separate from banks' master accounts? How would the treatment of balances in separate accounts (for example, ability to earn interest and satisfy reserve balance requirements) affect demand for faster payment settlement?

Banks are in the business of account (funds) management. Most financial institutions have more than one correspondent bank account that requires ongoing near real time oversight. Managing two accounts should not be a challenge, and less so if liquidity tools are available. Earning interest for both the master account and RTGS account on excess reserves would significantly reduce the tendency to squeeze or minimize the RTGS account balance and thereby reduce inter-account transactions.

f. Regarding auxiliary services or other service options, i.e. a proxy database or directory that allows faster payment services to route end-user payments using the recipient's alias, such as e-mail address or phone number, rather than their bank routing and account information, needed for a 24x7x365 RTGS settlement service? How should such a database be provided to best facilitate nationwide adoption? Who should provide this service?

Yes a proxy database or directory using the recipient's alias is essential. The form of that alias will evolve as tokenization utilizing biometrics or other unique characteristics are perfected and will also allow stakeholders to evolve and innovate as well. Participating financial institutions will have to decide how aggressive they want to be in populating the proxy directory and that will be driven by their confidence level in security, privacy and the end user's expectation of privacy versus their demand for convenience. These are essentially the same privacy challenges that exist today with current closed loop options. In order to achieve the level of confidence that financial institutions and end users will want and should demand – it is critically important to embrace common protocols and standards to facilitate the clearing of transactions – and similar to the internet model – it should provide a broad public benefit with no one entity owning the standards. To help minimize the differences of transacting in real time around the globe, harmonized and consistent information should be present from payment initiation through reporting, regardless of region, currency, platform or channel. Adoption of global standards helps banks to reduce integration costs, interact more efficiently with other banks and financial institutions, and more effectively leverage data to run the businesses.

ii. Are fraud prevention services that provide tools to detect fraudulent transfers needed for a 24x7x365 RTGS settlement service? How should such tools be provided? Who should provide them?

iii. How important are these auxiliary services for adoption of faster payment settlement services by the financial services industry? How important are other service options such as transaction limits for risk management and offsetting mechanisms to conserve liquidity? Are there other auxiliary services or service options that are needed for the settlement service to be adopted?

Yes a fraud prevention service is critical and an important component to real time payments. A shared data base of known fraudulent accounts and automated fraud detection tools are needed. The Fed should provide these services and work in tandem with private sector providers. These tools will also enable end users to utilize best practices in protecting themselves and make a real time payment system affordable for all.

g. How critical is interoperability between RTGS services for faster payments to achieving ubiquity?

Imperative.

h. Could a 24x7x365 RTGS settlement service be used for purposes other than interbank settlement of retail faster payments? If so, for what other purposes could the service be used? Should its use be restricted and, if so, how?

Yes – it should be used for P2P, B2B as well as for retail payments. We cannot not think of any good reason for it to be limited to settlement of retail faster payments. A key component to business adoption will be the associated pass through of remittance information and the ease of integration into the normal payable and receivable systems. There has been a lot of work done by the industry to move this forward and use cases will develop once real time settlement is the norm.

i. Are there specific areas, such as liquidity management, interoperability, accounting processes, or payment routing, for which stakeholders believe the Board should establish joint Federal Reserve and industry teams to identify approaches for implementation of a 24x7x365 RTGS settlement service?

Teams in all of these areas will be helpful in the development, implementation and delivery of these services. The Federal Reserve has and is playing an important role as a convener of industry stakeholders to support its mission to foster safety and efficiency of the payment settlement system. The Fed has facilitated an exhaustive process of stakeholder engagement resulting in a set of consensus recommendations that should serve as a roadmap for the Federal Reserve and other participants. Continuing stakeholder collaboration to flesh out and identify approaches for implementation of a 24x7x365 RTGS settlement service is the logical next step and should be undertaken immediately.

4. Should the Federal Reserve develop a liquidity management tool that would enable transfers between Federal Reserve accounts on a 24x7x365 basis to support services for real-time interbank settlement of faster payments, whether those services are provided by the private sector or the Reserve Banks? Why or why not?

Yes – The risk of end users experiencing individually rejected payments and broader scale payment interruptions caused by insufficient liquidity in an RTGS-based faster payment services implies a general need for banks to manage their liquidity related to settlement and the need for the Federal Reserve to develop a liquidity management tool. This tool would enable financial institutions to settle real-time payments without the need to staff their funds management operations 24/7. It also falls within the historical role of the Fed in providing mechanisms for the settlement of payment obligations between and among financial institutions using balances at the central bank for the smooth functioning of the payment system and for the broad financial stability of the country.

5. If the Reserve Banks develop a liquidity management tool, what type of tool would be preferable and why?

i. A tool that requires a bank to originate a transfer from one account to another

ii. A tool that allows an agent to originate a transfer on behalf of one or more banks

iii. A tool that allows an automatic transfer of balances (or "sweep") based on pre-established thresholds and limits

iv. A combination of the above

v. An alternative approach

A combination of the above. For most banks, a tool that allows an automatic transfer of balances (or sweep) possibly based on pre-established thresholds and limits would likely be preferable but for other entities that have the appropriate expertise and controls in place, other options might prove more effective and efficient. The LMT proposed by the Fed would to allow 24/7/365 funds transfers from a financial institutions master account to a faster payments account helps alleviate concern about funds sitting idle in faster accounts or low balances causing payments to be halted overnight or on weekends when Fedwire is closed.

b. Would a liquidity management tool need to be available 24x7x365, or alternatively, during certain defined hours on weekends and holidays? During what hours should a liquidity management tool be available?

The goal should be 24x7x365 but the Fed could start with defined hours and the marketplace can determine if more is needed. However, if the tools are in place and functional there seems to be little practical purpose to limit the timeline.

c. Could a liquidity management tool be used for purposes other than to support real-time settlement of retail faster payments? If so, for what other purposes could the tool be used? Should its use be restricted and, if so, how?

Liquidity tools as envisioned above would serve the current system as well as the anticipated RTGS account.

6. Should a 24x7x365 RTGS settlement service and liquidity management tool be developed in tandem or should the Federal Reserve pursue only one, or neither, of these initiatives? Why?

The tools should be developed in tandem. There is no practical reason to delay implementing the liquidity tools as – it is achievable and will serve today's industry needs. It should not; however, be counted as an accomplishment that precludes the RTGS account. The goal is real time settlement. Liquidity tools will make adoption more likely and more manageable for many financial institutions. If the Fed becomes an operator, it must interoperate with existing real time payment solutions in the private sector. This will ensure that financial institutions don't have to choose between offering only one solution that won't connect with the entire marketplace or the inefficiency and expense of operating two different systems. Private sector solutions should not be subject to an interoperability mandate.

7. If the Federal Reserve pursues one or both of these actions, do they help achieve ubiquitous, nationwide access to safe and efficient faster payments in the long run? If so, which of the potential actions, or both, and in what ways?

Yes – both RTGS and the supportive liquidity toll will be beneficial to achieving long term ubiquity and nationwide access to safe and efficient faster payments. To date there are ongoing challenges in private sector solutions. The Federal Reserve's long standing public policy objectives for the payment system to be safe, efficient and accessible to all eligible financial institutions on an equitable basis, and through them, to the public nationwide is best achieved by pursuing both a 24x7x365 RTGS settlement service and liquidity management tool. Adoption will provide an on-ramp for financial institutions and their customers, will create a platform for payments innovations, and is essential to fostering end-user choice. We applaud the Federal Reserve for the work it has done in this area to help ensure there is a safe and robust U.S. payment system.

8. What other approaches, not explicitly considered in this notice, might help achieve the broader goals of ubiquitous, nationwide access to faster payments in the United States?

Providing banks with more latitude to serve the under and un-banked population should be encouraged and viewed as a high priority. Facilitating low volume, low value, as needed cross border payments should be a goal as communities grow and diversity expands and should not be left entirely to non-bank high cost solutions. The current requirement that restricts direct access to the payment systems only to chartered financial institutions must apply to any new payment rails developed by the Federal Reserve. Limiting access to well regulated, capitalized entities that are required to protect consumer data by meeting high data security requirements would minimize the risks of payments not being completed and the security of any data in transit or at rest. Introducing non-bank participants into a faster payments system will increase the threat to the safety and soundness of financial institutions and weaken the stability of the system itself.