



September 6, 2024

Ann Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, NW
Washington, DC 20551

Re: Docket No. OP-1831, Expansion of Fedwire® Funds Service Funds Service and National Settlement Service Operating Hours

Dear Ms. Misback,

Univest Financial Corporation appreciates the opportunity to provide comments on the above referenced proposal to expand the operating hours of the Fedwire® Funds Service and National Settlement Service (NSS). Please be aware that we have actively contributed to the comment letter submitted by the American Bankers Association (ABA) which consolidated inputs from numerous banks reflective of the overall U.S. banking industry. Our summary comments below are aimed at reinforcing our support of the recommendations and concerns raised in the ABA letter and providing specific perspective on the considerations we believe are most essential for institutions within the community banking sector.

Competitive Considerations

The proposal provides that participating in the extended operating hours is optional. While in concept this optionality is designed to reduce the burden on individual financial institutions, it may inadvertently result in a competitive disadvantage for the community banking sector that may not have the resources or operating structure to support the extended operating hours as compared to larger competitors. While this competitive dynamic currently exists with larger banks typically being able to offer later daily wire and ACH cutoff times than smaller community banks, it would only be exacerbated by the current proposal. In addition to creating a competitive challenge at the institution level, the failure to participate in the extended operating hours may expand the actual or perceived capability divide amongst banks of certain sizes across the banking system. As such, some community banks may feel the need to participate in the extended operating hours in order to appear competitive despite not having substantial customer demand or sufficient financial returns to justify the extended hours.

Additionally, implementing extended operating hours will necessarily involve a significant and costly project that may also generate an opportunity cost for the participating financial institutions. This may lead to other projects with more advanced use cases and pent-up demand being delayed or cancelled, particularly in community banks with fewer resources to devote to multiple projects, potentially slowing the adoption of other value-added enhancements within the nation's payment system.

Customer Demand

While brand perception is a key consideration, institutions of all sizes will also need to consider the level of demand from their customers and prospects. Based on our customer base and industry engagement in multiple forums, we are not aware of widespread demand or common industry use cases that would benefit from the proposal. The absence of well documented and scalable use cases will be particularly concerning for community banks. While niche or specific use cases exist and will continue to emerge,

community banks may lack the volume to justify the need for the extended operating hours while larger institutions may be in a better position to justify a business case return on investment (ROI) based on the pure breadth of their business lines, services and customer types. While the expansion of operating hours may not be justified for many in the community banking sector, the failure to participate may carry the risk of widening the gap between community banks and larger regional and national competitors, as previously noted.

Operational and Financial Considerations

Implementing extended operating hours will require participating institutions to fund and manage implementation projects while potentially absorbing new incremental staffing expenses in payment operations and downstream support functions. While all financial institutions will need to consider operational and financial impacts, these impacts may be more material for community banks given their current operating model and expense base. As noted previously, there may be associated opportunity costs of these impacts, which may ultimately be felt through bank performance and customer experience over time. The operational considerations for community banks are likely to include the following: 1) current operating and service models including call centers generally follow a more traditional Monday-Friday schedule and would need to be materially amended; 2) existing teams are leaner including the subject matter experts required for payment operations and would need to be both deepened and strengthened with experienced personnel; 3) some institutions operate in geographies where qualified talent to support the proposed hours is in limited supply and may force community banks to look at staffing alternatives, including third parties or offshore solutions.

Platform and Product Considerations

While many financial institutions contract with third party platform providers to enable payment solutions for customers, community banks are generally more heavily reliant on these providers for hardware and software solutions and mission critical technical support. Regardless of an institution's desire to participate in extended operating hours, it may be dependent on the capabilities available from their providers. Consideration must be given to service offerings, as well as the ability to modify or adjust current contracts with third party platform providers. Unlike larger competitors, community banks often lack the leverage to influence the service offerings of their third party providers and may not have the flexibility to terminate existing contracts in order to engage a different provider. There are also additional questions to consider regarding platform and product enhancements, maintenance, and security patches, which are typically installed during what would become available processing times under the proposal. While service platforms will need to be considered by all financial institutions, these considerations may be more impactful for community banks that often rely more heavily on third party providers. The entire payment support ecosystem, including will need to be fully aligned and ready before financial institutions will be able to participate in extended operating hours.

Balance Sheet Management Considerations

The proposal's potential impact on liquidity management, including funding sources and operational processes, would be amplified for community banks. Similar to the points raised around the third party platform ecosystem, the funding ecosystem must also be in sync and ready to support the extended hours model to ensure continued safety and confidence in the banking system. Community institutions rely on a number of funding sources, including wholesale deposits, the Federal Home Loan Bank, the Federal Reserve Bank and other financial institutions, in both routine and emergency scenarios. Unlike larger institutions with sizable balance sheets that can withstand greater variances, community banks will need to maintain fluid access to these essential sources during the extended hours.



Payment Options

There is undoubtedly value in the continued innovation towards faster payment capabilities within the U.S. system. The advent of both RTP and FedNow® have provided consumers and business with viable options for 24/7/365 immediate payments. However, adoption by financial institutions and end user customers is still very much underway with use case and customer channel experiences such as mobile banking continuing to evolve around these rails. The community banking sector is still actively enabling these capabilities, building products and processes around them, and educating customers. The current proposal better aligns the capabilities of existing rails such as wire and ACH but carries the potential risk of diluting some of the value proposition for which RTP and FedNow® were developed in the first place. For the reasons outlined throughout this letter, that scenario would be more problematic for community institutions compared to their larger peers that maintain a wider array of customer types with immediate payment needs, a better ability to implement, operate and scale multiple new capabilities and have a more robust model to sustain operations, including customer support.

In conclusion, we believe that additional time is needed for the industry, including community banks, to collaborate and thoroughly assess all the potential impacts and considerations related to this proposal. It is important to note that we are strong proponents of ongoing payment innovation and want to help ensure that our customers have access to safe, value added, ubiquitous solutions to meet their money movement needs. We believe that the U.S. banking system, comprised of banks of different sizes along with fair competition amongst them, is essential to a vibrant economy and provides needed capital and liquidity to both consumers and businesses of all sizes. Thank you for your thoughtful attention to the community banking perspectives we have summarized herein.

Respectfully,

A handwritten signature in black ink, appearing to read "Jeffrey M. Schweitzer". The signature is fluid and cursive.

Jeffrey M. Schweitzer
Chairman, President and CEO
Univest Financial Corporation