THE FUTURE OF REAL-TIME PAYMENTS

HEARING

BEFORE THE

TASK FORCE ON FINANCIAL TECHNOLOGY

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THE FUTURE OF REAL-TIME PAYMENTS

Thursday, September 26, 2019

U.S. House of Representatives,
Task Force on Financial Technology,
Committee on Financial Services,
Washington, D.C.

The task force met, pursuant to notice, at 2:05 p.m., in room 2128, Rayburn House Office Building, Hon. Stephen F. Lynch [chairman of the task force] presiding.

Members present: Representatives Lynch, Scott, Gottheimer, Lawson, Axne; Hill, Luetkemeyer, Emmer, Davidson, and Steil.

Ex officio present: Representatives Waters and McHenry.

Also present: Representatives Pressley, Hollingsworth, and Riggleman.

Chairman Lynch. Good afternoon. The Task Force on Financial Technology will now come to order. Without objection, the Chair is authorized to declare a recess of the task force at any time. Also, without objection, members of the full Financial Services Committee who are not members of this task force are authorized to participate in today's hearing.

Today's hearing is entitled, "The Future of Real-Time Payments." I now recognize myself for an opening statement.

Thank you for being here. I want to thank our esteemed panel of witnesses as we discuss the future of real-time payments in America.

Today, we will examine how the nearly instantaneous clearing and settlement of payments stands to benefit consumers and small businesses, as well as the challenges it presents to both operations and security. This is a timely conversation. Both consumers' and institutions' expectations have demanded innovation. And, in fact, just a few days after we announced this hearing, the Federal Reserve announced their intent to roll out a 24-hours-a-day, 7-days-a-week, 365-days-a-year wholesale real-time payment system called FedNow.

Much of the wider discussion surrounding FinTech is focused on consumer-facing applications like digital banking or applying for a loan on your smartphone. Along with these other applications, payments technology has seen a similar revolution. Every day, consumers use apps on their phone to split the check at restaurants or the utility bill at their apartment.

But unlike other FinTech applications, payment technology is still largely dependent on old infrastructure that only allows settlement to occur intermittently. For example, if you make a transaction or transfer money on a weekend, it might take up to 3 days for your account to reflect that transaction.

Americans have come to expect that they can make a payment with the tap of a button, and now our financial system is racing to catch up. For families living paycheck to paycheck, real-time payments mean that payday actually means payday, without having to resort to payday loans or other predatory alternatives while waiting for a check to clear. For gig workers, it means the option to get paid immediately after a job, something that can be the difference between paying a couple of dollars for a cup of coffee or paying $35 for a cup of coffee and an overdraft fee.

For small businesses, it means having instant access to the money customers pay, reducing the need for short-term borrowing to pay employees or finance the purchase of goods. This will allow our businesses to cut down on the cost of borrowing capital and spend that money on growing their businesses.

There is a wide array of benefits to be gained from moving to a real-time payment system, but it is not without some risk. Faster payments can mean a faster way for scammers to rip off unsuspecting victims, and the additional data used to track a real-time payment can serve as an inviting target for cyber criminals.

We are faced with the meeting of two cultures: the rules-based cultures of banking; and the move-fast-and-break-things culture of tech, which sometimes burns through investor cash early on, and that is a philosophy that has not worked well in banking.

Today's panel has a wide array of expertise from government, financial institutions, and financial technology firms. I am looking forward to hearing the testimony of our witnesses on the benefits and the risks of real-time payments, the hurdles that we still face on our way to universal adoption, and what lessons we can learn from other countries.

With that, I would like to recognize my friend and colleague, the gentleman from Arkansas and ranking member of the task force, Mr. Hill of Arkansas, for an opening statement of 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. Thank you for having another good hearing in our FinTech Task Force to talk about another critical element in our research on how best to propose policy changes, both regulatorily and legislatively, to enhance innovation in the United States, to make sure the United States remains a global leader in FinTech on the credit side, the payment side, and the depository side, both among incumbent financial institutions as well as nonbank innovators.

It is going to be good to have this conversation about the payments arena, because it is completely evolving and transforming as new technology, as you have noted, is brought on board. And throughout my over 40 years in finance, I have certainly seen every innovation that has happened since the mid-1970s, whether you are talking about checks or debit cards or credit cards, wires, or now paying through Apple Pay or from your watch.

And that payment space has been a big, important part of my personal career. I was a founder of the Southwest's largest shared ATM EFT network, PULSE, back in 1980, which is now owned by Discover. At the time, that was the cutting-age technology for retail banking, and it was interesting to see that. And then when I was a community banker in Little Rock, before coming to Congress, when Google AdWords first was created, we built an entire digital bank online through Google AdWords, specializing in health savings accounts. So, I have sort of seen this emerging technology as an incumbent player.

But during the first half of 2019, we have seen the extraordinary change globally in this with the venture capital business looking at payments, and then some of the biggest transactions on the world stage are in payments. First, Fiserv's acquisition of First Data, and then, Global Payments acquisition of Total System Services (TSYS), and those were $20 billion transactions. And then finally, recently, just a few months ago, Fidelity's agreement to merge with Worldpay at $43 billion. So, payments is a hot topic.

And real-time payments is a gateway for further FinTech innovation. We don't have the future of digital banking without real-time payments, just like we don't have any of that if we don't have real private authentication and have a real national privacy standard and real individual identification. Those are the building blocks, the foundational blocks, whether you are doing a credit product, a payment, or opening up a new way to do banking.

We have rudimentary innovation there. Visa Direct, Mastercard Send, these are real-time payments sort of, right? We have experiments there. If you have a person in college, you know all about Venmo, PayPal's Venmo. I thought for a while this was the best friend of my daughter in college, because Venmo kept getting money every week, and I figured out, no, of course not.

But these are our payments working around the existing system, which is why we need real-time payments that are broader, and more innovative, with a bigger reach. And so, I look forward to talking today about the payment space that we have. I look forward to talking to our friends at the Federal Reserve about their operations in this space, learning more about what is being proposed by The Clearing House, to offer their real-time payments network, and also the timing of all that, because that is important. Because America has a long history of being a leader and an innovator in this space, and we don't want to delay that. And as I say, if you want a future that is digital, that is blockchain digital, then privacy, personal identification, and this issue of real-time payments that have fraud protections are essential.

I look forward to the conversation today. And I would like to yield some time to my good friend, the ranking member of the full Financial Services Committee, Mr. McHenry.

Mr. McHenry. Thank you, Mr. Hill, for your leadership on this, and I appreciate the testimony today.

While we spent the last few years "updating" from swipe to PIN—which is not a newer technology, it is an older one—China created entire new world payments that connect consumers directly with their banks and merchants, where payments can be made at the click of a button. So, it is happening in real time there. It is happening on a very different scale there than here in the United States. And I don't know how we get it there in the United States. I don't know how we choose to get there, but what I do know is we have to get there. And if we don't, if we don't build our real-time payments here in the United States, rest assured, China will.

Let's get on with it, let's be aggressive, let's be bipartisan, and let's get this thing done.

I yield back.

Chairman LYNCH. Today, we welcome a panel of esteemed witnesses. First, the Honorable Esther George, president and chief executive officer at the Federal Reserve Bank of Kansas City. President George also chairs the Financial Services Policy Committee which oversees payment services in the United States. I thank you for being here, President George.

Second, Mr. Harsh Sinha, the chief technology officer at TransferWise, one of Europe's largest FinTech companies, which focuses on helping customers cheaply transfer money internationally.

Third, Mr. Bob Steen, chairman and CEO of Bridge Community Bank in Iowa. He serves as a member of the Iowa Bankers Association Payments Council, and on the Independent Community Bankers of America's Technology and Payments Committee.

Fourth, Mr. Rodney Williams, co-founder and chief commercial officer of LISNR, a company that has developed technology to use inaudible tones to transmit payment data between retailers and mobile devices.

And finally, we have Ms. Carol Benson, founding partner of the consulting firm Glenbrook Partners. Ms. Benson has significant experience in the payments field, having also worked at Visa. And she co-authored the book, "Payment Systems in the U.S."

Thank you all for being here.

Our witnesses are reminded that your oral testimony will be limited to 5 minutes. And without objection, your written statements will be made a part of the record.

President George, you are now recognized for 5 minutes for an opening statement.

STATEMENT OF ESTHER L. GEORGE, PRESIDENT AND CHIEF EXECUTIVE OFFICER, FEDERAL RESERVE BANK OF KANSAS CITY

Ms. GEORGE. Thank you. Ranking Member McHenry, Chairman Lynch, Ranking Member Hill, and members of the task force, thank you for this opportunity.

Chair Powell asked me to speak to you today in my role as the Federal Reserve Bank leader responsible for our payments improvement initiative since its beginning, and as Chair of the Financial Services Policy Committee, which oversees the provision of payment services to depository institutions and the United States Treasury by the 12 Federal Reserve Banks. I am pleased to offer my statement for the record, as well as an in-depth statement on the role of the Federal Reserve in the payment system and the recently announced proposal to support faster payments through the development of a new service called the FedNow Service.

Since our founding more than a century ago, the Federal Reserve has provided payment and settlement services as part of its core function of promoting an accessible, safe, and efficient payment system. Today, the Federal Reserve is continuing this important operational role and preparing to support the modernization of our nation's payment system with capabilities that allow payments to move quickly through a safe and efficient foundation, on top of which innovation and competition can flourish.

This decision was made only after three criteria were met. The first of these criteria is that other providers alone cannot be expected to provide the service with reasonable effectiveness, scope, and equity. Of notable importance related to this criterion is the Federal Reserve's ability to connect to more than 10,000 financial institutions. Through these connections, our existing payment services allow banks of every size to serve the needs of thousands of communities across the United States with competitive, fair, and transparent access. Providing this comprehensive nationwide reach is something that we believe will present significant challenges to other providers in the current market landscape. Coming from a region of the country with many small community banks serving rural areas of the central United States, I can tell you that the Board's decision to provide this new service has been very well-received.

The second criterion is that there will be a clear public benefit, including promoting the integrity of the payment system and reducing payment system risk. The Federal Reserve must continue to play an important role in promoting the safety of the U.S. payment system by providing liquidity and operational continuity in response to financial turmoil, terrorist attacks, natural disasters, and other crises. The FedNow Service will allow the Federal Reserve to retain its ability to provide stability and support to the banking system, as well as promote the development and implementation of industry-wide fraud-mitigation standards. Development of the service will also enhance the safety of the U.S. payment system by promoting resiliency through redundancy.

The third and final criterion is that the Fed be able to fully recover its cost over the long run. The U.S. payments infrastructure today includes alternative payment choices and providers. The Federal Reserve and The Clearing House currently operate competing and interoperable services which bring important benefits for resiliency and for competition.

In all of our services, we have been able to meet the requirements of the Monetary Control Act for cost recovery that ensures competitive fairness while fulfilling our public policy goals. We fully expect this will be the case with the FedNow Service.

As was explained in a 2016 GAO study, the Federal Reserve's role as an operator has long been judged as effective in promoting accessibility, safety, and efficiency for the nation's payment system and its customers. Last summer, the U.S. Treasury recommended that the Federal Reserve move quickly to facilitate a faster real-time payments system. We are in the process now of engaging with stakeholders for their input on features of the FedNow Service through a Federal Register notice which was issued last month. I am confident that together, we can achieve our public policy objectives for broadly accessible, safe, and efficient, faster payments.

Thank you, and I will be happy to respond to your questions.

[The prepared statement of Ms. George can be found on page 32 of the appendix.]

Chairman LYNCH. Thank you.

Mr. Sinha, you are now recognized for 5 minutes.

STATEMENT OF HARSH SINHA, CHIEF TECHNOLOGY OFFICER, TRANSFERWISE

Mr. SINHA. Chairman Lynch, Ranking Member Hill, and members of the task force, thank you for the invitation to testify today. My name is Harsh Sinha, and I am the chief technology officer at TransferWise, a global technology company with the mission to build the best way to move money around the world. I have spent the last 4 years scaling the technology and product teams in TransferWise. Before that, I was working in Silicon Valley for more than a decade leading and developing e-commerce and payment products for companies like PayPal and eBay.

TransferWise was founded in 2011, and now has more than 6 million customers moving $5 billion every month. It is one of the fastest-growing financial technology startups in the world, and offers international money transfer service, a multi-currency stored value product that can be linked to a debit card, and an application programming interface that can be integrated directly into large enterprises and banks.

Our company is attempting to solve the problem of cross-border payments. It is really hard to move money between different currencies and countries. The corresponding banking infrastructure is expensive, slow, inconvenient, and lacks transparency. That is why we have created our own cross-border payments network that serves 71 countries, including the United States.

The technology that powers our product relies on technical and regulatory understanding of local payment systems around the world. We connect directly to local payment systems as in the U.K., where we became the first nonbank to gain direct access to the Faster Payments scheme.

We strongly agree that the Federal Reserve should create a real-time payment system. Specifically, it should be a real-time, gross settlement system based on ISO 20022 standards, and the Federal Reserve should extend Fedwire hours to enable 24/7, 365 settlement.

There are four main reasons I believe the Fed should build the system. First, ubiquity and reach. The Federal Reserve already connects to over 10,000 financial institutions in the United States.

Second, pricing. FedNow should have a lower cost structure longer term, given their price recovery approach taken by the Fed.

Third, competition. Having multiple systems promotes market competition.

And fourth, a longer-term strategy. Real-time payment systems are here to stay. It would be prudent to not have a single system run by a single provider.

Hence, there is a clear public interest in the Federal Reserve building a fair and ubiquitous system accessible to every financial institution and payments provider that operates at low margins over time.

But as we talk about real-time payments, it is important to cover the rules that govern its access. In the U.S., to access a domestic payments infrastructure, a nonbank financial institution must partner with a bank to settle payment transactions. That results in added costs and complexity and partner dependence. In order to facilitate competition and ensure that the benefits of faster payments are passed on to the consumers, the U.S. should prioritize the accessibility and inclusion of nonbanks in the faster payment system. Additionally, diversification will reduce systemic risks that arise from a handful of banks hosting all indirect nonbank participants.

Finally, as we talk about payments, we should not only think about domestic payments but global payments. To make cross-border payments cheaper and faster for all Americans, we need to address two main areas.

First, transparency in fees. Every year, people and small businesses transfer $10 trillion internationally and lose $200 billion in bank fees, mostly hidden in inflated exchange rates. The average global remittance cost is 7 percent, and the World Bank says the lack of transparency is the major reason for the high fees. Governments around the world are working to make sure customers see what they are really charged, and we believe the U.S. should do so, too, as the largest originator of cross-border payments worldwide.

Second, implementing to international standards. With the U.S. lagging behind other major markets on faster payments, we can use this timing to our advantage and learn from other countries. The U.S. has the opportunity to leapfrog from having limited real-time payments domestically to having all payments, including international, being instant.

In conclusion, I believe there should be more than one real-time payment system in the United States, and the Fed is best positioned to deliver this and unlock the benefits for consumers, businesses, and the economy at large.

Thank you for the opportunity to testify today. I am happy to answer any questions.

[The prepared statement of Mr. Sinha can be found on page 49 of the appendix.]

Chairman LYNCH. Thank you.

Mr. Steen, you are now recognized for 5 minutes.

STATEMENT OF BOB STEEN, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, BRIDGE COMMUNITY BANK, ON BEHALF OF THE INDEPENDENT COMMUNITY BANKERS OF AMERICA (ICBA)

Mr. STEEN. Chairman Lynch, Ranking Member Hill, Ranking Member McHenry, and members of the task force, I am Bob Steen, chairman and CEO of Bridge Community Bank in Mount Vernon, Iowa. I am testifying today on behalf of the Independent Community Bankers of America, where I have played an active role over the years, including service on the payments committee. Thank you for the opportunity to testify today.

I believe it is imperative that the U.S. develop a robust, real-time payment system to meet consumer and business demand and stay competitive with the rest of the world. This system must create access for customers of all financial institutions, regardless of size, in every American community.

How we achieve the goal is critical. A real-time payment system is too important to be entrusted to a private monopoly. The two dozen largest banks simply cannot own and operate the U.S. payment system. ICBA strongly supports the Federal Reserve's decision to build FedNow, a real-time payment system that will give direct access to all financial institutions and our customers.

Bridge Community Bank is a $96 million community bank founded in 1903 and owned by our 20 employees. We serve real communities in growth markets in and around Cedar Rapids and Iowa City with small business, agriculture, and consumer banking. Our business model is relationship banking, in which we serve the totality of a family's business and personal banking needs, both deposits and lending. The transaction account is the key to the customer relationship and is at the heart of community banking. We have long recognized that payment innovation is critical to the long-term prosperity and independence of our bank and our community banking. This is why I have invested so much of my career in payment innovation and have developed multiple payments in our small bank.

Only the Fed can guarantee competition and choice. The U.S. does not need another closed-loop payment system in which some financial institutions can participate and others are excluded. All financial institutions and all customers must have access to real-time payments. And even those who live in small or rural communities are exclusively served by community banks. I firmly believe this simply cannot happen without the Fed's role in real-time settlement.

The Fed is uniquely positioned to provide access to all 11,000 financial institutions, because all of those institutions have access to a settlement account and a service connection with the Fed. The Fed already operates a universally accessible check, Automated Clearing House (ACH), and wire transfer service. If history is any guide, the Fed will maintain an affordable as well as universal access to faster payments. The Fed offers a fair and affordable pricing structure today, even to the smallest of the small financial institutions, like our bank.

The Fed is trusted among community banks. Each community bank has a relationship manager, and the opportunity for direct access to the payment system. I know our representative's name, I know his cell number, and he answers the phone. As a community bank, I know that I have direct and easy access to Fed support services, even after our banking hours. I place a high value on that access.

As I stated at the outset, payments innovation, offering customers what they want, when they want it, is critical to the prosperity and continued independence of community banks. As a neutral, real-time settlement network, FedNow will be critical to our ability to continue to innovate. For example, my bank, in partnership with another community bank, developed a mobile app we call ExcheQ, which allows a user to send money to anyone in the U.S. who has an account at any financial institution without a payment application on the receiver's end. Once FedNow is fully operational, ExcheQ will allow real-time transactions without being dependent on a core system. That, in and of itself, is transformational. Once ubiquity is achieved through FedNow, new use cases and new opportunities for innovation will emerge.

The Fed's entry into real-time payments is part of a natural evolution from its involvement in check clearing, ACH payments, and wire transfers. The Fed has strengthened the payment system by providing safety, integrity, choice, and equitable access to all financial institutions. I am confident the Fed will bring the same critical benefits to real-time payments.

Thank you again for convening this hearing. I be happy to answer any questions you may have.

[The prepared statement of Mr. Steen can be found on page 55 of the appendix.]

Chairman LYNCH. Thank you, Mr. Steen.

Mr. Williams, you are now recognized for 5 minutes.

STATEMENT OF RODNEY WILLIAMS, CO-FOUNDER AND CHIEF COMMERCIAL OFFICER, LISNR

Mr. WILLIAMS. Chairman Lynch, Ranking Member Hill, members of the task force, thank you for the opportunity to testify today. My name is Rodney Williams. I am the co-founder and chief commercial officer at LISNR, an ultrasonic proximity company that enables a universal and secure proximity mobile payment method. I am pleased to participate in this hearing panel alongside my esteemed colleagues.

As a financial technology founder, I have spent the past 7 years creating technology around the inefficiencies of how we pay and how we access funds for individuals in discretionary need. Both innovations were driven by the limitations of our current payment infrastructure and my experience growing up disenfranchised.

LISNR was founded in 2012 with a simple idea: A way to transmit data between two devices using software and a mobile device's speaker and microphone. Since then, LISNR has advanced the security and flexibility of our transmission method to support proximity-based payments and checkout experiences. Today, LISNR is actively working with the world's leading merchants and card networks on what will become a better way to pay.

LISNR's premise in payments has always been straightforward: Anyone with a mobile phone should be able to pay in proximity securely and universally. Today, secure mobile payments in a store are driven by card networks and mobile device manufacturers' use of near-field communication (NFC). This control limits the use of NFC only to mobile device manufacturer services, as all third-party mobile applications are restricted from using NFC for payment services. This significantly restricts what is considered a safe and secure way to pay as it is limited to the mobile device manufacturer's branded application.

This has driven many of our top retailers towards QR codes and barcodes as a method to pay in their mobile applications, incurring additional transaction costs and risks, which ultimately hurts the value that these merchants can give to the end consumer. Our company is addressing this core problem as LISNR allows a universal and secure way to pay for any mobile device or merchant at a better cost structure than today's alternatives.

We provide software that is inserted into a mobile application. Within these applications, we enable the speaker and microphone as a method to wirelessly send and receive proximity noncloudbased data. Merchants can leverage this method to transmit any series of proximity-based and verification data points to initiate and complete a transaction. A transaction can happen safely within a few inches or even up to 10 feet, powering more payment and checkout experiences than ever before.

Today's consumers expect to pay wherever they are instantly. These experiences are expected to happen on every device in every retail environment. We see a world where ultrasonic proximity verification will live across all payment scenarios globally. As we think about the future real-time payment system, it must democratize the proximity payment method at the edge of the mobile device securely so that anyone with a phone can pay with whatever source their mobile wallet holds.

Our technology relies heavily on financial regulatory infrastructure, an infrastructure that is due for innovation in real-time payments. We strongly agree that all payments should be instant and universal at proximity.

I grew up in Baltimore, Maryland, as an offspring of hard-working Jamaican parents. I personally experienced challenges of being underbanked and costs associated with being poor, as cash is expensive. As a kid, I can remember counting down to my parents' payday, as the electricity could be turned off. In this simple scenario, we were being taken advantage of as the fees, delays in funds availability, and the manual task associated with checking, or cash checking, became significant. My childhood was filled with many such memories as my parents tried to ensure proper cash flow to run the household. Walking to the ATM or money transfer services, paying bills in cash, and taking predatory cash advances were far too normal experiences. Looking back, even where I grew up, I believe that there was a genuine desire for advancement, to play by the rules, except the rules were not written for them.

This situation highlights the silent cost of payments and its unfair transfer to the poor and certain segments of our population. There is a social cost that many pay in the form of invisible tax. It is time that we use data networks and technology to eliminate delays and reduce costs. The time is now. The global widespread use of real-time payment systems lends compelling evidence to a discussion that is needed in the United States. The Federal Reserve must take the lead in building this vital social, commerce infrastructure with a heightened sense of urgency.

Thank you again for this opportunity.

[The prepared statement of Mr. Williams can be found on page 62 of the appendix.]

Chairman LYNCH. Thank you, Mr. Williams.

And Ms. Benson, you are now recognized for 5 minutes.

STATEMENT OF CAROL BENSON, FOUNDING PARTNER, GLENBROOK PARTNERS

Ms. BENSON. Hello, Chairman Lynch, Representative Hill, and members of the task force. We are in the midst of a once-in-a-generation shift in how payment systems work. The United States is joining countries around the world in bringing to its people a new class of payment systems. These systems work just the way you would want them to work, just the way you think they should work: You tell your bank you want to make a payment, and the money shows up in the receiver's account.

My firm, Glenbrook Partners, is working with the payments industry, both here and around the world, on the introduction of these new systems. Some countries are introducing these systems to improve efficiency and user experience. Others are primarily concerned with financial inclusion, ensuring that underbanked and unbanked people can use financial products. The same real-time payment systems support both goals.

Our objective, I believe, is to ensure that these systems are accessible, affordable, and secure. These are universal goals for such systems. But a real-time payment system must also be ubiquitous, that is, it must allow someone to pay anyone and be paid by anyone, regardless of where their funds are being held—a credit union, a community bank, a large national bank, or some other licensed financial services provider. This ubiquity is key to the vision put forth by the Faster Payments Task Force.

When we look around the world, most countries are meeting this goal by having a single, national faster payments platform, which all banks access. With the announcement of FedNow, it is clear that the United States is choosing a different model, with two or more providers of real-time payment systems. This mirrors our ACH system, which has two operators.

To achieve the goal of ubiquity in a multiple network model, these systems must connect. In the terminology of our industry, they must interoperate. That is what our ACH system does. That means that I can send you money even if my bank and your bank are using different systems. The only alternative is to have each financial institution implement every system, a daunting concept.

Let me be clear that there is no real technical challenge to interoperability; rather, it is a question of governance. The various systems should live underneath a common rule set, as is the case with our ACH. A common governance structure would also help to ensure that the industry works together, rather than in separate and fractious groups, on issues such as transaction security, payments addressing, and the ability to eventually connect to other countries.

Payments addressing is important. Today, when you use a debit card or write a check, you are giving your account information to someone who uses that to pull funds out of your account. We all know how that can go wrong. Faster payment systems, in contrast, can be designed so that an alias, a payment address, your mobile phone number, or "Carol 123", can be used to push money into your account. This address can never be used to pull funds from your account. That is a huge security benefit. The directory of these aliases, which is a critical piece of infrastructure, needs, in my opinion, to be a central utility, not separate directories for every service. Australia has moved in this direction with the establishment of what they call PayID. India is doing the same thing.

The industry's establishment of the U.S. Faster Payments Council is a good move in this direction, but the imperative is interoperability. Cooperation without that will be of little utility.

Last week, Glenbrook Partners launched an online survey with the Faster Payments Council to gain further insight from the industry on this. Findings of that will be available in November.

Other countries are already ahead of us on this journey. We have a large economy and a sophisticated infrastructure. I hope that we can cooperate and connect going forward.

Thank you.

[The prepared statement of Ms. Benson can be found on page 30 of the appendix.]

Chairman LYNCH. Thank you, Ms. Benson.

I now yield myself 5 minutes for questions.

President George, I think everyone was encouraged when we heard that the Fed was going to move to a real-time payment system. I know that the initial announcement, which only came recently, laid out a timeframe of perhaps late 2023 or 2024. With the velocity of change that we see in technology around the globe, can we wait that long? And is that something that—do you think that timeframe works or is there some way we could expedite that?

Ms. GEORGE. We are now beginning the process of getting the input for the design and features of this system which we think are critical to laying the foundation for that system. It was important to me that we have the dates and the Federal Register notice as a way to set expectations to talk about what the timeline might be. But I think we are very interested in moving as quickly as possible, and I believe we have the right team to be able to do that.

Chairman LYNCH. Okay. Now, do we have—obviously, we have outside help, we have our contractors involved on that. I know that The Clearing House is already involved in a parallel system. Are we learning from other countries in terms of how they have proceeded? Are we using the best practices that are out there?

Ms. GEORGE. Yes, Chairman Lynch. This was a very important part of our effort the last few years through the Faster Payments Task Force, was to bring together a broad range of stakeholders in that payment system that include innovators, the FinTech, all the way through the banking system. We looked carefully at what other countries were doing to inform the work that we will be undertaking now. So, we have looked broadly, and I feel good that those inputs will position us to be able to move forward with a design that we can serve as a foundation to the country for.

Chairman LYNCH. Great, thank you.

Mr. Sinha, when the U.K. adopted their system, at least initially, we did see a spike in fraud; it jumped about 132 percent. Since then, though, it has modulated, it has come down. What were some of the reasons for that, and is there some way we could avoid the same occurrence?

Mr. SINHA. Yes. I think we can learn a lot from the implementation that was done in the U.K. around security measures. Over time, the U.K. system and the banks who give access to customer funds implemented more checks and balances to confirm you are who you say you are, and that means not just having you sign into your online banking account with a user name and password, because we know customers, we use passwords all over the place, but actually requiring a unique code being sent either to your mobile device or your email to authenticate that you have the device and sanctioned the payment. That, I think, reduced fraud a lot.

And then from there, they have gone on to put in a regulation which recently came into effect on September 15th, which was called the Secure Customer Authentication regulation. And I think that is a step change which requires customers to verify themselves before initiating any payments. I think that is a very important part of the implementation in the United States that we can learn from other countries.

Instant payments and security go hand-in-hand, but the security should be moved into verifying the customer before the payment is initiated.

Chairman LYNCH. Great, thank you.

Mr. Steen, as a community banker, there are some of your colleagues from around the country who are a bit concerned about how competition for customers might occur where you have a traditional banking system with the rule of law and a whole menu of regulation competing with a stripped down, bare-bones operation that might not even have a storefront in terms of competing for banking business. Do you feel comfortable that at least with FedNow, it would help you to compete in that world?

Mr. STEEN. Yes, Chairman. It gives us a chance to be relevant in the payment space. What you described is a battle we are fighting as we speak. A number of nonbank payments systems are being used by my customers. They believe they are real-time. They are not. But as long as they have the money when they want it, it seems real-time to them. There is credit risks in those circumstances, and I think that we can solve a lot of those problems for our own industry, plus our consumers, with FedNow.

Chairman LYNCH. All right. Very good, thank you.

I now yield to the ranking member, Mr. Hill, for 5 minutes.

Mr. HILL. Thank you, Mr. Chairman. It was a great panel, and I thank everybody for being here today.

Mr. Williams, I really enjoyed your discussion about your family cash management issues growing up, and that is so important as a part of this. If we have the privacy, if we have authentication and security, both businesses and families will have more control over that cash management situation at a lower cost, ultimately. There are a lot of building blocks to get there, but I thought you made some very good points, and you can envision a world with no accounts payable and no accounts receivable, and that is going to affect bank lending to some degree, but lowering those agency costs for both small businesses and for families is an ultimate objective of FinTech, in my view.

I am interested, Ms. Benson, you mentioned this famous buzz word of all the testimony I have read: interoperability. And in The Clearing House letter that they have submitted here for the record, they really talk specifically about not just rules as being the key to that, so really the definitions of it, and it is not really bound by technology. Do you agree with that assessment?

Not to say that it is not technological, but the interoperability is more about definitions, rules of the road, than it is purely a technical issue. How do you feel about that?

Ms. BENSON. Yes, Mr. Hill. I agree that they are separate things. I am not sure I would say one is more important than the other, that technical interoperability is relatively simple, switch kind of mechanism exists in payment systems around the world. Frankly, the the role that the National Automated Clearing House Association (NACHA) plays, of having one rule umbrella over different operators is more challenging to put in place. And where we have seen situations where that doesn't happen—and I would note that the bill payment process in the United States is like that—there is no coordinated way in which that happens.

Mr. HILL. Right. It just flows haphazardly through the ACH system.

Ms. BENSON. And you look at another country that has put the rules in place for that, and it all works very—

Mr. HILL. Yes, thank you for that.

President George, the Fed has certainly been, for a hundred years, engaged in the payments process, no doubt. And in all the principal payment arenas, both wholesale and retail, the Fed is a player in some way. We have talked about ACH and we have talked about Fedwire. But I noticed in a 2015 study that there were recommendations made that both the National Settlement System and Fedwire stay open longer and make it more convenient for innovators and for banks, and yet you really haven't done that.

And yet, we are now looking to you to very quickly—you say in 5 years, I agree with my chairman, that seems like a lifetime in this business—have real-time payments. What is the Fed doing to extend customer service now with the products that you have now and Fedwire and the National Settlement System?

Ms. GEORGE. Across all of our current payment services, we are focused on improvements that would help with speed and security. In the most recent Federal Register notice, even as we are going out to look for the features of the FedNow system, we have agreed to explore how extending Fedwire hours can help facilitate private sector operations in this space.

Mr. HILL. I think that is important, whether you are in Mr. Steen's bank or over in London doing a transaction. We are the biggest economy in the world, and it seems like we are all bragging that we are faster and better and it's going to be wonderful in 5 years, when we have fantastic systems now, that if you were just open on the weekends and Federal holidays, it would be pretty nice for everybody, in my life. So, I encourage you to do that. And I hope you will make that a priority for the Fed.

Mr. Steen, in your testimony, on page 3, you talk at length about the Fed having fair, flat prices, but President George, doesn't the Fed, because of the Monetary Control Act, actually require to earn a return on all Fed investments and infrastructure, and, therefore, you do offer volume discounts and differential pricing for your products, don't you?

Ms. GEORGE. With our ACH, the law requires us to recover our costs, and so, yes, we have aligned our pricing relative to market practices. We have made that transparent as a way to, not only recover our costs, but to lower the cost overall for—

Mr. HILL. Sure, no, I think it makes sense to me. I am not complaining about it, as someone who looks out around here occasionally for the taxpayers. I think it is a good idea.

Would this FedNow process also be subject to that Monetary Control Act issue?

Ms. GEORGE. Absolutely.

Mr. HILL. Yes, I think that is good.

Well, I just want to make it clear to all of our listeners here that the Fed too recaptures its cost of capital and attempts to design systems that compete fairly in the private sector and that there is not some free lunch in Fed systems compared to a system run by one of the private competitors, whether it be ACH, or what I understand is proposed from The Clearing House, to talk about what they are proposing. They are not here today to answer questions about it, so I don't know that I can turn to that.

I yield back, Mr. Chairman. And thank you for the panel.

Chairman LYNCH. The gentleman yields back.

The Chair now recognizes the gentleman from Georgia, who has been a long-time Member with a keen interest in FinTech, and is a great member of this task force. The gentleman from Georgia, Mr. Scott, is now recognized for 5 minutes.

Mr. SCOTT. Thank you very much, Chairman Lynch. And, Mr. Chairman, let me also commend you for the outstanding leadership that you are providing on FinTechs. As you know, our FinTech industry is the new frontier of our great financial services industry, and you are certainly providing great leadership on it. And also, I am very excited about working with you on our FINTECH Act, where we will be dealing with harmonization of regulatory agencies as well as privacy, and I might mention also, with Ranking Member French Hill. And so we are all a team ready to go here, and I am really just proud to be a part of this great team. I'm very excited about it.

Let me just start out by making this very brief statement. The development of our faster payments framework in the United States, that indeed holds incredible potential for our payment system, advanced technological developments in our payment space, readily improves access to funds for consumers, and increases the convenience of availability of payment process. And, of course, this is very important to my State of Georgia. Georgia leads the nation: We produce and provide 70 percent of all of the electronic transaction payments. We have great companies down there like TSYS, Kabbage, and NCR, and we are very excited about the role we play in the nation.

But first I would like to discuss the mechanics of any faster payment system. As exciting as this new technological development is, it is also increasingly complex. For example, under the current payments infrastructure, payments can be either initiated by a sender, which is the push payment, or required by the recipient, which is the pull payment.

Now, this flexibility also includes certain protections under Reg E to ensure that consumers have some ability to recoup funds that were sent out without their authorization. A real-time payment system, however, is primarily a push payment system, meaning that once I hand over my money, it is going to be very difficult to get it back. Now, this is fine when considering correctly authorized payments. But as you all know, we live in a world where consumers must constantly be guarding against fraud and against cyber attacks.

So, President George, do you see any advantage or disadvantage that a real-time payment system may bring with regard to a consumer's ability to recoup funds that were initiated without authorization?

Ms. GEORGE. You have raised a very important question, because consumers will be initiating and the payment will go in real time. And this will be an area, as we work with the industry, on how education will work. Banks work closely with their customers on making sure they understand how their systems work, and I expect that will continue. We, of course, will be working with the industry more generally on other kinds of fraud mitigation standards and things that may help the system as a whole.

I concur with your concern about consumer protection, and we will continue to keep that in the forefront as we do the—

Mr. SCOTT. Tell me, Madam President, what about payments that were sent erroneously, perhaps incorrectly spelling the recipient's name, for example?

Ms. GEORGE. We have not designed the features of our system. Banks are dealing with this issue today and are operating within the legal structures to serve their customers, including with their own agreements with those deposit accounts. So I agree with you, it is an important issue, and one, as we provide the foundation here, we will engage with the industry on.

Mr. SCOTT. Mr. Sinha, very quickly, how are consumers and recipients notified of a real-time fraudulent payment, and what is the dispute process like for such a payment?

Mr. SINHA. Congressman, there are multiple ways we can notify the consumer. One is when they initiate the payment, they should be authorizing the payment with a separate code that only belongs to them. And that is done—sent to them in real time once, for one-time use. The second one is, in some faster payments networks now, we are seeing the regulation coming in to check for beneficiary name, confirmation of pay to be matching the actual name of the payment recipient with the name of the account.

And then, I think as President George said, there is quite a bit of work that still needs to be done in this space, but I think the crucial part is to make sure we give the control to the consumer and make them understand and educate them that they should authorize the payment, and once payments are sent, they are final.

Mr. SCOTT. Thank you very much.

And thank you, Mr. Chairman, for that extra time. Thank you.

Chairman LYNCH. The gentleman yields back.

The gentleman from Ohio, Mr. Davidson, is now recognized for 5 minutes.

Mr. DAVIDSON. Thank you, Mr. Chairman.

Witnesses, thank you for being here and for talking about an incredibly important feature of America's economy.

Ms. George, initially, the Federal Reserve had signaled to the market that the Fed wasn't going to take this payment system over as they have in a number of other things. So, there was all this investment in R&D in the space, and then the Fed decided that they wanted a do-over and they were going to take it over. What do you say to them about all the billions of dollars they invested in the space only to have you guys capitalize on it with somewhat less investment?

Ms. GEORGE. The Federal Reserve has a history of working alongside the private sector. Every payment system we have today, the Fed is involved, alongside a private sector operator. Since the start of our work in this area, we have supported the private sector solution, first by providing an account, a special account at the Fed, where they would be able to set up their particular real-time solution. The next step in that process is for the Board of Governors to determine whether a single private sector operator is able to achieve the public policy goals of having broad access in the United States of an efficient payment system and—

Mr. DAVIDSON. Why would we want a single operator? Why wouldn't we want multiple operators to be able to use whatever you want to use as a system?

Ms. GEORGE. Multiple operators, I think, are desirable, and the competition that comes from having the Fed move into an operator role is one of the objectives.

Mr. DAVIDSON. When you can come in and take over a market, is that partially because you serve as regulator, the dominant—I mean, you pay out the interest rate on excess reserves (IOER) and all kinds of other things. So, if you choose to be in a space, does anyone have a vote? You guys just decide. It is not really optional, is it?

Ms. GEORGE. Under the authorities of Congress, we are required to be very transparent—

Mr. DAVIDSON. Of course, Congress could tell you that you are not going to do it. That could potentially happen. But short of that, the market isn't going to tell you that you can't do it, right?

Ms. GEORGE. Actually, in working with the market through our Faster Payments Task Force, we were looking for the private sector to step up and respond. This is a business of considerable scale and network effects.

Mr. DAVIDSON. Of course. Why it is a big deal, why the Fed takes it over and continues to serve as regulator. One of the criteria that the Fed has to meet is to recover their cost in the long run.

During your testimony yesterday at the Senate Banking Committee hearing, you stated that the Fed has historically done this, and you expect it to continue to be the case under the FedNow proposal. By "historically done this," I assume that you mean such as Fedwire and the Fed's automated clearing services, correct?

Ms. GEORGE. Yes, sir.

Mr. DAVIDSON. And these fees associated with these services, are they based on volume, or do you have effectively high volume discounts where you pay a lower price if you deliver a lot of volume and a higher price if you have less volume?

Ms. GEORGE. We publish our pricing schedules each year so that customers can see, and those prices are set to allow us to recover fully our costs.

Mr. DAVIDSON. But they are based—there is a different schedule based on your volume, correct?

Ms. GEORGE. Those are priced—there are fee structures per item charges, there may be volumes, discounts involved in—

Mr. DAVIDSON. Right. But fundamentally, JPMorgan Chase is paying lower per transaction than, say, Osgood Bank in Osgood, Ohio?

Ms. GEORGE. Actually, our smallest banks are benefiting from the volumes that come through the Federal Reserve—

Mr. DAVIDSON. Because they couldn't set it up on their own; I got it. So, why does the Fed charge the—I guess, in the assumption that you make that the FedNow takeover of the private capital invested here, do you assume that you pay for that based off being able to do volume discounts?

Ms. GEORGE. We have not set our pricing yet, but as soon as—

Mr. DAVIDSON. Well, you haven't set the pricing, but you had to model it, right? You are saying it is going to break even. Is that just, you are hoping it is going to break even, or you are confident that you can charge whatever you want because the market doesn't really have a vote in it?

Ms. GEORGE. No, sir. Our pricing requires us to recover our costs, which means we have to compete with the private sector to do so. Sso in a FedNow Service, we will be required to demonstrate what those costs will be, and as soon as the system is designed, before it is launched, the Board of Governors will go out with public comment showing that—

Mr. DAVIDSON. In the dialogue, I would like to associate myself with Mr. Quarles' public remarks in your hearing, which is skeptical. You are crowding out private investment. In the meantime, frankly, the fact that you can't launch this anytime soon, is killing the market. And when you talk about people being able to pay right now, Uber is paying their drivers up to 5 times a day in the current payment system. This, to me, seems like a step back, and it is crowding out, in a monopolistic way, private capital that has already been invested.

I wish I had more time to get to Mr. Williams, and hopefully you will come back to Cincinnati. I would love to see you there, come back home from L.A., and it's just great to see a local company doing well. So, thanks for that.

I yield back.

Chairman LYNCH. The gentleman yields back.

The Chair now recognizes the gentleman from Florida, Mr. Lawson, for 5 minutes.

Mr. LAWSON. Thank you, Mr. Chairman. And witnesses, welcome to the task force.

I am trying to understand the consumer aspect of this. There are many issues that are important in the payment space, but I would like to focus in on the consumer aspect. Can you all speak to what challenges you have seen in the payment space with regards to access to immediate funds by those who are underbanked, those in an emergency situation?

Howard University said that they were doing a 6-week course on how to use FinTechs. What happens if there is no money? How does this affect the consumer when they are trying to go through, when things are recorded in their account at a later date? What do you do? What do they do? Anyone can respond to that.

Ms. GEORGE. I will start by saying the Federal Reserve has looked carefully at the issues affecting the underbanked and unbanked in this country and through some of our community development work have raised these issues.

In the case of real-time payments, we see that having the ability to manage your money more directly is a benefit that will benefit the country. Economically, it certainly benefits individuals in being able to have the flexibility to control their finances. So, we see it as a positive move forward for those individuals who most need this kind of finance flexibility.

Mr. LAWSON. Go ahead, Mr. Sinha.

Mr. SINHA. Congressman, I think one of the big things that we see with slower payment systems and when things are delayed is people who are underbanked, they have the biggest impact on access to funds and they end up going to more expensive options, like check cashing or having to go into overdraft, which are very high-cost services. I think having real-time payments where you know when your payroll is going to hit your account and then you can set up that, if your pay hits on Friday morning, you know it is going to come Friday afternoon, you pay your bills, and you know it is going to get shipped so that it will be there and hit the utility bill so the electricity is not being turned off on the weekend.

I think that is imperative. It is very, very important to remove that doubt of whether my money will make it from one place to the other. So, I think that is a very big advantage for real-time payments.

Mr. LAWSON. Mr. Steen?

Mr. STEEN. I would use a couple of examples. In our case, we are a small bank. We are working with several different FinTechs trying to deliver payments faster. We are still dealing with the current infrastructure.

In the example of the Uber drivers able to get their payment 5 times a day, they actually pay for each one of those, and the employer is actually providing them availability of funds they don't yet have and so, hopefully, with immediate settlement, they can bring that cost down for those Uber drivers. That would be one example.

Mr. LAWSON. Mr. Williams?

Mr. WILLIAMS. One example, Congressman, is a company called SoLo Funds, of which I am a co-founder. The premise of it was to actually provide cash in real time to individuals in need. In building that product, we had to work around and through so many different infrastructure challenges. But what I want to say is, what we have allowed is individuals to actually lend to other individuals in real time, and the individuals actually received the benefit, providing the capital, while the person in need gets the capital immediately. That is called SoLo Funds, but that is how we are addressing that issue.

Mr. LAWSON. Okay. Ms. Benson?

Ms. BENSON. I would like to address two parts of this and say that in emerging economies in Asia and Africa, there is overwhelming evidence that the availability of real-time mobile payments is bringing people into the formal financial ecosystem. They are opening bank accounts and other forms of transaction accounts and are able to participate in digital commerce and things like that as a result. So, that is a good thing.

I would also say that, although I think these faster payments are immune to certain types of fraud that exist, say, in our card payment systems, there are other kinds of fraud that will rear their heads. And, again, I would like just to emphasize how important it is that we take a collective view on managing these frauds and not have every little system and company doing it separately.

Mr. LAWSON. Okay. My time has run out.

Mr. Chairman, I yield back.

Chairman LYNCH. The gentleman yields back.

The Chair now recognizes the gentleman from Wisconsin, Mr. Steil, for 5 minutes.

Mr. STEIL. Thank you very much. I appreciate that.

President George, we have had a lot of conversation today about the pricing. I know you discussed that yesterday, particularly with Senator Toomey asking you about some of that. So, I want to part that conversation a little bit because I think we have heard kind of the broad picture of how you are looking at it.

I want to dive in, if I can, Mr. Steen, and get the perspective of local banks, your bank in particular, or other community banks, what the impact of that pricing would be if the Fed deviated away from a flat fee structure.

Mr. STEEN. Well, currently, we are not in a flat fee structure and so, for example, our bank was very early in check imaging and as soon as we started implementing that, our costs of check clearing went down 60 percent.

Mr. STEIL. When you implemented what?

Mr. STEEN. Check imaging.

Mr. STEIL. Okay.

Mr. STEEN. For the Check 21 Act, we were very early. And so our check for Check 21 or check clearing went down 60 percent. Our ACH transaction is—it is true. Others probably get it less than we do, but it is a quarter of a cent, and I can manage that. So, I think they bring my costs down as much as they can, and we see through with technology advances. I am good with the pricing structure that I am living with.

Mr. STEIL. And where you are good is, do you see that also with your colleagues across community banks, comfort with the Fed's pricing structure? Do you see in that a bit of a dialogue? Can you provide flavor to that?

Mr. STEEN. Well, many of my peers deal indirectly with the Fed through banker's banks and corporate credit unions, but everybody is working off the same base pricing. And so, I don't hear a lot of criticism or complaining about the pricing structure of payments in the rails that we work with, that being Check 21 and ACH.

Wire, they brought the price of a wire down, since we can connect directly to FedLine Advantage. But internally—it would be just for security purposes—in our small bank, we have three people involved in every wire. So, there are some internal costs, but the cost that the Fed is charging me for wire is the least of my concerns.

Mr. STEIL. Thank you. I appreciate your insight.

I want to shift gears a little bit, but go back to you, President George. We have discussed a lot of the international comparisons in the real-time networking area; I assume you spent some time looking at these. Are there examples of government-run systems operating parallel to the private sector that you have seen internationally? And, if so, are they interoperable?

Ms. GEORGE. As Ms. Benson noted earlier, many of these countries operate with a single provider. It has long been the case in the U.S. that for competition and safety and accessibility, we have had dual operators to achieve the outcomes we want for the public. The European Central Bank (ECB) is a system that is dealing with multiple providers, and we have looked closely at how they have developed their real-time payment system and talked about interoperability.

Mr. STEIL. Thank you very much. I appreciate you all being here today.

I yield back.

Chairman LYNCH. The gentleman yields back.

The Chair now recognizes the gentlewoman from Iowa, Mrs. Axne, for 5 minutes.

Mrs. AXNE. Thank you, Mr. Chairman. And thank you to the witnesses for being here.

Mr. Steen, it's always good to see you. Thank you so much for being here from Iowa today.

I would like to start by asking you, what do you think are some examples of how Iowans back home could benefit from a real-time payment system?

Mr. STEEN. Well, I think the people, our customers, many of whom are making what they believe are real-time payments—I addressed that a little earlier—but I think that the idea of being able to pay somebody in real time, particularly in a late payment or a late-immediate payment circumstance is really key, and that happens all the time. People forget things. And we have seen from experience the value of same-day ACH and missed payroll files. It was a nightmare if you missed a payroll file prior to the same-day ACH. Today, we may not get it as early in the day as they are used to, but we can get them paid, and it is huge advance in payments.

Mrs. AXNE. Absolutely. Thank you. We want to make sure that we pay people as expeditiously as possible.

What you just mentioned, those situations are why I was happy to cosponsor Representative Pressley's Payments Modernization Act, H.R. 3951, and I want to thank her for her leadership on this issue. An updated version of the bill, which we are considering today, would require the Fed to complete that system within 3 years and would require banks to make deposits available more quickly.

I did hear some feedback that the limited hours for the National Settlement Service and the Fedwire could cause some problems with doing this.

Ms. George, I know the Fed is considering extending those hours. Is that something that could be done faster than the currently proposed 4-year timeline for FedNow?

Ms. GEORGE. Our commitment to explore this issue will be handled separately from the timeframe that we have designated to build a FedNow Service. The issue about extending our funds transfer system is one that will require the Board to do some analysis, because this is a system whose operational characteristics will require us to engage with the industry to understand what the implications are. But the Federal Register notice that we issued last month does indicate in there that the Board will explore extending those hours.

Mrs. AXNE. Thank you.

I have spoken to Representative Pressley, and we have agreed that expanding NSS and Fedwire hours will also be included in the bill. So, thank you for your work on that.

I want to change topics here a little bit. As I understand it, there is some question of if FedNow is going to be interoperable with The Clearing House's system or others. We have been talking about that throughout the day. Considering that the system hasn't even been built yet, claims that these systems can't fully work together, to me, seems very premature.

My husband and I own and run a digital design firm. We deal with The Clearing House. We deal with wire payments internationally. We are very familiar with setting up payment systems for our customers. This is not something that I have never used. I am familiar with this to some degree.

And I certainly recognize the challenge of getting different systems to work. We deal with that all the time. But solutions, quite honestly, can almost be found almost all the time. And so, I really think that shouldn't be anything that should be considered to be an obstacle in this.

Mr. Steen, we know that Iowa has far more small banks than most other States per capita, and that those community banks, in many cases, are the only banks in our rural communities. Can you explain for us how important it is for smaller banks like yours that those systems be operable? You touched a little bit on it earlier, but especially, I would like to hear about the terms of reduced cost in connecting to all of these systems.

Mr. STEEN. Well, the connecting systems is always the friction, but I would tell you that it is essential if we are going to have a legitimate real-time payment system in the United States that extends beyond our borders, that we simply have to be interoperable with each other.

It is challenging because our friends at The Clearing House have said that theirs is not interoperable and it is going to be very difficult for them. But one of the key desired outcomes of the 2015 study was collaboration. We went through that 4-year task force, and it turns out that there was an interoperable system being built.

Mrs. AXNE. Do you think if we are not able to make this interoperable, it is really going to limit your ability to provide good services for your customers moving forward?

Mr. STEEN. That would be very difficult, but I am operating under the belief that the market will force interoperability.

Mrs. AXNE. All right. Thank you so much.

I yield back.

Chairman LYNCH. The gentlewoman yields back.

The Chair now recognizes the gentleman from Virginia, Mr. Riggleman, for 5 minutes.

Mr. RIGGLEMAN. Thank you, Mr. Chairman, for calling this hearing today and for allowing me to participate. I appreciate it.

And I thank all of you for being here today.

While I am appreciative that you allowed me to join this hearing with this esteemed panel, I just heard some things, and I have one little gripe. I could not help but notice we do not have a representative from The Clearing House Association here today, the only institution that has successfully developed a real-time payment system in the U.S., and I wanted to ask them some questions. Since they are unable to answer questions and provide input today, I would like unanimous consent to submit into the record a statement from them.

Chairman LYNCH. Without objection, it is so ordered.

Mr. RIGGLEMAN. Thank you.

Mr. Chairman, I also saw the legislation that was noticed with this hearing as Congresswoman Pressley's Payments Modernization Act. I also am going to introduce legislation on this issue, H.R. 3928, the Federal Reserve Accountability and Justification Act. So, my questions will focus on these pieces of legislation as well as some other topics.

I do wish we had more people here. My background was interoperability with massive datasets, data sources, and also governance. So, I am excited to have some questions here today.

President George, if Congress passed the Payments Modernization Act and the President signed it into law, how would the Federal Reserve accomplish real-time settlement today as that legislation requires?

Ms. GEORGE. We are proceeding today under the authorities that we have under the Federal Reserve Act to begin to design a system that will deliver real-time payments as another provider here in the United States.

Mr. RIGGLEMAN. Thank you.

And given that the Board recently announced its FedNow system would not be operational until 2023 at the earliest, I could take that as an indicator that the Payments Modernization Act could be a complete disaster for the United States payment system based on the amount of time and cost.

Ms. Benson, based on what we learned from yesterday's Senate Banking Committee hearing, as well as the information in the Board's August proposal, not only has the Fed not determined how their system will be interoperable with the private sector, but apparently, there isn't even an agreed-upon definition of "interoperability."

When Chair Powell was testifying before this committee in July, I asked him about interoperability, and he admitted it was a complex and currently unsolved issue. Your testimony addresses this topic and said that interoperability is not a technical issue but one of governance. Given that the Fed has not yet defined interoperability, what steps should they take to address this?

Ms. BENSON. That is a good question. I think that it is a matter of working with The Clearing House. And I would also like to acknowledge what Mr. Hill said earlier, that there are other networks like Visa and Mastercard who have real-time payment systems in place today. And how we get to the place of having a governance umbrella over these systems, I don't know exactly what the path to that is, but I think we did do that with the ACH, and with the right will, we should be able to accomplish it.

Mr. RIGGLEMAN. What I was interested about when you talked about governance, as you know, sometimes governance determines the exact data element needs based on what the releasability of that data is or who can see that data or even how you target or track the data elements in that specific data. That is why I was so interested in it.

But if it is about just governance, which I hope it is, and, President George, if the issue of interoperability is simply a governance issue, why did the Fed not address it prior to the August notice?

Ms. GEORGE. As part of our work with the Faster Payments Task Force, that group did conclude that governance would be important, and put together a Faster Payments Council. It is just coming together, and we are watching that carefully to see whether that will be an effective way to go about the governance process here.

Mr. RIGGLEMAN. And the reason I am asking this, and I think some people might be curious about it, is that governance also determines cost. When I was looking at TCH and looking at what they talked about cost, they were talking about close to a billion dollars. I know that governance and the complexity of that governance could actually affect the cost based on data, specifically in the sharing and interoperability of that data. So, that is why I am asking some of these questions.

And, Mr. Steen, my district is very rural, and the financial institutions that serve many of your constituents are small banks and credit unions. I agree with your sentiment and your testimony that institutions such as yours provides a very critical service to the economy and payments are a vital component to that.

When I talk with my bankers, their number one concern on this topic is not who offers the faster payment service, but that they are getting a fair deal. My legislation would simply codify the Fed's own policy statement into a formal rulemaking so that Congress and small banks are given absolutely clarity regarding cost recovery which is related to pricing.

The TCH has committed to a flat fee structure, whereas the Fed has not, and the Fed has also announced that cost recovery will likely take longer than 10 years. As you support the Fed's decision, would you also support transparency, especially on pricing and cost recovery, and are you prepared to wait what could be 5 to 10 years for the FedNow system to become operational?

Mr. STEEN. In my role in the Faster Payments Task Force from the beginning, the steering committee, et cetera, I have been pounding the table as much as I can for the Fed to move faster. So, we all agree on that.

I think that the pricing is transparent. I think they give us a pricing list. We get to make our decisions. But it is never fast enough, and I remind them I am old and I want to see this happen. So, we have to keep moving. But I am very confident that they can move this forward on a timeline, and governance evolves. I don't know that we will know exactly every rule we need when we start, and I would just suggest that we need to launch this. We have an industry that can work together when we have to, and we will do that.

Mr. RIGGLEMAN. Sir, I thank you kindly.

And I thank you all kindly.

And I yield back the balance of my time.

Chairman LYNCH. The gentleman yields back.

I thank the gentleman from Virginia for his remarks. And I did hear yesterday that the Minority wanted to ask The Clearing House to come on in. If I had known in advance—the Minority did have an opportunity to pick them as their witness. I think they would be a wonderful witness. I think you also chose wisely, though, in Ms. Benson, in having her as the Minority witness. But I would certainly leave it wide open to having The Clearing House in at a later time.

Mr. RIGGLEMAN. Ms. Benson is very capable and intelligent. And thank you, sir. I wasn't blaming you, I promise.

Chairman LYNCH. Okay. Thank you.

The Chair now recognizes the gentlelady from Massachusetts, Ms. Pressley, for 5 minutes.

Ms. PRESSLEY. Thank you, Chairman Lynch. I appreciate the opportunity to be able to participate in this hearing, especially given the issue.

Working families should not have to wait days at a time just to access their own hard-earned money. As I said to Chairman Powell a few months ago, when you are living paycheck to paycheck and rent is due the first of the month, there can be no room for error.

After the Federal Reserve's August announcement, this is no longer a question of if, but when and how fast—how this faster payment system will develop. Unfortunately, the longer it takes to build this system, the more families and small businesses will suffer. That is why I was proud to introduce the Payments Modernization Act in partnership with Representative Chuy Garcia and Senators Warren and Van Hollen.

This is the only legislation that holds the Fed accountable for developing a faster payment system that prioritizes consumer protection, fraud prevention, and equal access in a more reasonable timeframe. My bill requires the Fed to build this system in 3 years, allowing the U.S. to remain competitive and to not fall further behind in the global payment space.

There is still more work necessary to ensure a smooth payments modernization process. That is why my bill requires a GAO study on the U.S. payment system and what regulatory and legislative changes are necessary in order to promote consumer protection, reduce fraud, and to promote stronger cybersecurity practices.

Now, there are some who believe that this pressing need can somehow be met by the private sector alone. However, the existence of both ACH and The Clearing House's private settlement service suggests otherwise.

I want to ask each of you a simple yes-or-no question. Can The Clearing House alone reach all of the nation's almost 11,000 financial institutions? We can just start with President George and go all the way down the line.

Ms. GEORGE. The Board's analysis concluded that they would have significant challenges in doing so.

Ms. PRESSLEY. Yes or no?

Mr. SINHA. No.

Mr. STEEN. No.

Mr. WILLIAMS. No.

Ms. BENSON. Not in the timeframe you are indicating, no.

Ms. PRESSLEY. It is clear that the current system is insufficient. Small and local banks and small businesses alike do stand to benefit from this proposal.

Mr. Steen, how does your bank plan to use real-time payments, and how will this benefit your customers, particularly small businesses and low-income people?

Mr. STEEN. We are currently working with some partners, otherwise known as FinTechs, targeting underbanked, underserved customers. We structured a virtual branch. We are creating bank accounts for these folks. There is a debit card associated with it, and we believe that we can bring these folks into the system. And we are working with a group, targeting Latino churches and Latino church associations.

But even in our core customer base, which is a rural community and we know most of our customers, virtually all of our customers, we know they have needs, and many of them live paycheck to paycheck. And we have improved things with online banking. They can see their account much more readily. We know from our own experience that overdraft volume is going down significantly year over year. We think that is a good thing. We are not trying to make money on overdraft fees. Our overdraft fees are relatively low. We don't charge on continual fees. We cap overdraft fees. We do everything we can because we know how much of an impact that makes.

Ms. PRESSLEY. Thank you, Mr. Steen.

And, Mr. Williams, how will the added transparency and quicker access to funds protect working people from otherwise predatory products such as payday loans or punitive measures like overdraft fees?

Mr. WILLIAMS. I think when there is a need for capital and it is a gap between what a family or someone needs today versus next week, there also needs to be safe resources for that capital. But I think that is one part of it. I think the other part of it is that if there is transparency and when funds will be readily available, families and this group of Americans will have a better chance at planning properly. What is causing the biggest concern is the emergency. It is the things that were unplanned.

Ms. PRESSLEY. Thank you, Mr. Williams.

Mr. Chairman, I ask for unanimous consent to submit into the record a letter of support for our legislation from the Main Street Alliance, a leading voice for small businesses.

And I just want to thank Representatives Axne and Tlaib, and Chairman Meeks, for their support of this effort, and I urge the remainder of my colleagues to do the same.

Thank you, and I yield back.

Chairman LYNCH. The gentlelady yields back.

And without objection, the letter will be made a part of the record.

Without any further Members, I would like to thank our witnesses for their testimony today.

And without objection, letters from the following organizations will be submitted for the record: Consumer Reports; the American Bankers Association; Americans for Financial Reform; Financial Innovation Now; the Food Marketing Institute; NACHA, which is the

National Automated Clearing House Association; the National Association of Federal Credit Unions; and the Retail Industry Leaders Association.

The Chair notes that some Members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 5 legislative days for Members to submit written questions to these witnesses and to place their responses in the record. Also, without objection, Members will have 5 legislative days to submit extraneous materials to the Chair for inclusion in the record.

This hearing is now adjourned. Thank you.

[Whereupon, at 3:29 p.m., the hearing was adjourned.]

A P P E N D I X

September 26, 2019

U.S. Committee on Financial Services - Task Force on Financial Technology
Hearing On "The Future of Real-Time Payments"

To: Members of the Task Force

From: Carol Coye Benson, Glenbrook Partners

Good afternoon. We are in the midst of a once in a generation shift in how payments systems work. The United States is joining countries around the world in bringing to its people a new class of payments systems. These systems work just like you think they should – you tell your bank you want to make a payment, and the payment is immediately credited to the receiver's account.

My firm, Glenbrook Partners, is working with the payments industry, both here and around the world, on the introduction of these new systems. Some countries are introducing these systems to improve efficiency and user experience. Others are primarily concerned with financial inclusion – ensuring that unbanked and underbanked people can use financial products. The same real-time payments systems support both goals.

Our objective, I believe, is to ensure that these systems are accessible, affordable, and secure. These are universal goals for such systems. But a real-time payment system must also be ubiquitous – that is to say, it must allow someone to pay anyone and to be paid by anyone, regardless of where their funds are being held – a credit union, community bank, large national bank or other licensed financial services provider. This ubiquity is key to the vision put forth by the Faster Payments Task Force.

Most countries are meeting this goal by having a single national platform, which all banks access. With the announcement of FedNow, it is clear that the United States is choosing a different model, with two or more providers of such real-time payments systems. This mirrors our ACH system, which has two Operators.

To achieve the goal of ubiquity, however, these systems must connect: in the terminology of our industry, they must interoperate – as our ACH does. That means that I can send you money even if my bank and your bank are using different systems. The only alternative is to have each financial institution implement every system – a daunting concept.

Let me be clear that there is no real technical challenge to interoperability. Rather, it is a question of governance. The various systems should live underneath a common rule set, as is the case with our ACH. A common governance structure would also ensure that the industry works together – rather than in separate and fractious groups - on issues such as transaction security, payments addressing, and the ability to eventually connect to other countries.

Payments "addressing" is important. Today, when you use a debit card, or write a check, you are giving your account details to someone who uses that information to "pull" funds from your account. We all know how that can go wrong. Faster payments systems, in contrast, can be designed so that an alias – a payments address (such as your mobile phone number, or "Carol123") is used to "push" money into your account. This address can **never** be used to "pull" money out of your account: it is a huge security benefit. The directory of these aliases, in my opinion, needs to be a central utility – not a separate directory for each payment service. Australia has moved in this direction with the establishment of what they call "PayID".

The industry's establishment of the U.S. Faster Payments Council is a good move in the direction of industry cooperation. But the imperative is interoperability: cooperation without that will be of little utility.

Last week, Glenbrook Partners launched an online survey with the Faster Payments Council to gain further insight on how to move faster payments forward in the U.S. A summary of these results will be made available in November.

Other countries are already ahead of us on this faster payments journey. We have a large economy and a sophisticated payments infrastructure. Let us strive to have the path forward be one of cooperation – and connection - among these systems.

For release on delivery
2:00 p.m. EDT
September 26, 2019

Statement by

Esther George

President, Federal Reserve Bank of Kansas City

on behalf of

The Federal Reserve System

before the

Task Force on Financial Technology

of the

Committee on Financial Services

U.S. House of Representatives

September 26, 2019

Chair Lynch, Ranking Member Hill and members of the Task Force on Financial Technology, thank you for this opportunity.

Chair Powell has asked me to speak to you today in my role as the Federal Reserve Bank leader responsible for the Federal Reserve's payments improvement initiative since its beginning and as chair of the Financial Services Policy Committee (FSPC). The FSPC oversees the provision of payment services to depository institutions and the United States Treasury by the 12 Federal Reserve Banks. I am pleased to offer my statement for the record as well as an in depth statement on the role of the Federal Reserve in faster payments and the recently announced proposal by the Federal Reserve to support faster payments.

Over the past decade, cell phones and other online capabilities have made it more convenient to send and receive payments. Although these mobile apps appear to provide for an immediate transaction, the underlying infrastructure is not designed to immediately move money between banks, creating notable delays between the initiation of a retail payment and its receipt.

To support the demand for real-time payments in the United States and to address this gap, last month, the Federal Reserve's Board of Governors (Board) announced that the Federal Reserve Banks would develop a new service called the FedNow Service.

Since its founding more than a century ago, the Federal Reserve has provided payment and settlement services as part of its core function of promoting an accessible, safe and efficient payment system for the nation. Today, the Federal Reserve is continuing this important operational role and preparing to support the modernization of our nation's payment system with capabilities that allow payments to move quickly through a safe and efficient foundation, on top of which innovation and competition can flourish.

This decision was made only after three established criteria were met.

The first of these criteria is that it is a service that other providers alone cannot be expected to provide with reasonable effectiveness, scope and equity.

Of notable importance related to this criterion is the Federal Reserve's ability to connect to more than 10,000 financial institutions. Through these connections, the Federal Reserve's existing payment services allow banks of every size to serve the needs of thousands of communities across the United States with competitive, fair and transparent access. Providing this degree of comprehensive nationwide reach is something that we believe will present significant challenges to other providers in the current market landscape. Coming from a region of the country with a significant number of small community banks serving rural areas of the central United States, I can tell you the Board's decision to provide this new service has been well received.

The second criterion is that there will be a clear public benefit, including promoting the integrity of the payments system and reducing payments system risk.

The Federal Reserve must continue to play an important role in promoting the safety of the U.S. payment system by providing liquidity and operational continuity in response to financial turmoil, terrorist attacks, natural disasters and other crises. The FedNow Service will allow the Federal Reserve to retain its ability to provide stability and support to the banking system, as well as promote the development and implementation of industry-wide fraud-mitigation standards. Development of the service will also enhance safety of the U.S. payment system by promoting resiliency through redundancy.

The final criterion is that the Federal Reserve be able to fully recover its cost over the long run. The U.S. payments infrastructure today includes alternative payment choices and providers. Today, the Federal Reserve and The Clearing House operate competing and interoperable services, which bring important benefits for resiliency and competition. In all of our services, we have been able to meet the requirements of the Monetary Control Act for cost recovery that ensures competitive fairness while fulfilling our public policy goals. In this regard, even as we develop the FedNow Service, the Federal Reserve will continue to explore ways to support the market's existing private-sector real-time payment service including through expanded Fedwire Funds Service and National Settlement Service hours as described in the recent Federal Register notice.

As was explained in a 2016 GAO study, the Federal Reserve's role as an operator has long been judged as effective in promoting accessibility, safety, and efficiency for the nation's payment system and its customers.[1, 2] Last summer, the U.S. Treasury recommended that "the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities."[3] We are engaging now with stakeholders for their input on features of the FedNow Service through the Federal Register notice issued last month.

Finally, I found it gratifying after the Federal Reserve started the conversation about faster payments in the U.S. and led four years of stakeholder engagement that culminated in the overwhelming majority of 400 comments from industry, consumer, and small business expressing support for the Federal Reserve's role as a faster payments provider.

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[1] "Federal Reserve's Competition with Other Providers Benefits Customers, but Additional Reviews Could Increase Assurance of Cost Accuracy." U.S. Government Accountability Office. August 30, 2016. https://www.gao.gov/products/GAO-16-614.
[2] "The Federal Reserve in the Payments Mechanism." Federal Reserve System. January 1998. https://www.federalreserve.gov/boarddocs/press/general/1998/19980105/19980105.pdf
[3] U.S. Treasury, "A Financial System That Creates Economic Opportunity: Nonbank Financials, Fintech, and Innovation," (July 2018) at 156. Available at https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi.pdf.

I am confident that by working with all payment system stakeholders, we can achieve our public policy objectives for broadly accessible, safe and efficient faster payments.

Thank you. I am happy to respond to your questions.

Faster Payments and the U.S. Payment System

The U.S. payment system faces a critical juncture in its evolution. Services to conduct faster payments, which are available via smart phones apps or on our computers, have begun to emerge along with the growth of digital commerce. Faster payments allow individuals and businesses to send and receive payments within seconds, any time of day, on any day of the year, such that the receiver can use the funds almost instantly. The round-the-clock, real-time nature of faster payments offers convenience that is not available with many traditional ways of making payments. In addition, faster payments can yield real economic benefits for individuals and businesses by providing them with more flexibility to manage their money and allowing them to make time-sensitive payments whenever needed.

Yet with many of the faster payment services available today, the underlying infrastructure is not designed to immediately move money between banks, creating notable delays between the initiation of a retail payment and its receipt. These shortcomings limit the degree to which the potential benefits of faster payment services may be widely enjoyed across our economy in a safe manner. Further expansion of the interbank infrastructure is needed to serve as the foundation for the development of faster payment services that are safe, efficient, and broadly accessible to the American public.

Last month, the Federal Reserve's Board of Governors (Board) announced that the Federal Reserve Banks (Reserve Banks) would develop a new service called the FedNow℠ Service to support widespread adoption of faster payments in the United States. The FedNow Service will provide the necessary infrastructure, alongside similar services provided by the private sector, to connect banks across the country, allowing them to offer innovative faster payment services to their customers.

Since its founding, the Federal Reserve has played a key operational role in the nation's payment system by providing interbank payment infrastructure that is available to banks across the country, regardless of size or location. This critical role, given by Congress, stems from the Federal Reserve's unique ability, as the nation's central bank, to provide interbank settlement without introducing liquidity or credit risks. In today's payment infrastructure, whether in check processing, automated clearinghouse (ACH) services, or funds transfers, you will see a Federal Reserve service operating in healthy competition with and in support of similar services provided by the private sector, all for the benefit of the American public.

The importance of this role has been recognized broadly, with an independent review by the U.S. Government Accountability Office concluding that the Federal Reserve's provision of payment services has benefited the U.S. payment system and its users.[1] It is important to point out, however, that Congress did not grant plenary regulatory or supervisory authority over the U.S. payment system to the Federal Reserve, and the Federal Reserve does not have regulatory authority over the pricing set by a private-sector system or to require a private-sector system to extend the service to banks of all sizes. In some other countries, central banks have been assigned the responsibility for regulating payment systems. In the United States, this is not the case. Thus, the Federal Reserve has historically helped to promote the accessibility, safety, and efficiency of the nation's payment system and advance innovations through its operational role as provider of payment and settlement services.

[1] See U.S. Government Accountability Office, GAO-16-614, "Federal Reserve's Competition with Other Providers Benefits Customers, but Additional Reviews Could Increase Assurance of Cost Accuracy" (2016). Available at https://www.gao.gov/products/GAO-16-614.

Path to Present

Leading up to the recent FedNow Service decision and announcement in August, the Federal Reserve took several actions to facilitate the advancement of faster payments in the United States. In 2013, the Federal Reserve began a collaborative initiative with industry stakeholders to foster improvements to the nation's payment system. As part of this initiative, the Federal Reserve convened in 2015 the Faster Payments Task Force (FPTF), comprising a wide range of industry stakeholders, to identify and evaluate alternative approaches for implementing safe and ubiquitous faster payment capabilities in the United States.

The FPTF published in 2017 a set of consensus recommendations focused on actions to support improvements to the nation's payment system.[2] Among the FPTF's recommendations were requests for the Federal Reserve (1) to develop a 24x7x365 settlement service to support faster payments and (2) to explore and assess the need for other Federal Reserve operational role(s) in faster payments. Subsequently, the U.S. Department of the Treasury recommended that "the Federal Reserve move quickly to facilitate a faster retail payments system, such as through the development of a real-time settlement service, that would also allow for more efficient and ubiquitous access to innovative payment capabilities."[3]

[2] These recommendations were intended to help achieve the FPTF's vision of ubiquitous faster payment capabilities in the United States that would allow any end user (that is, an individual or business) to safely, efficiently, and seamlessly send a faster payment to any other end user, no matter which banks or payment services they use. See Faster Payments Task Force, "Final Report Part Two: A Call to Action," (July 2017). Available at https://fedpaymentsimprovement.org/wp-content/uploads/faster-payments-task-force-final-report-part-two.pdf.

[3] The U.S. Department of the Treasury also noted that "[i]n particular, smaller financial institutions, like community banks and credit unions, should also have the ability to access the most-innovative technologies and payment services. While Treasury believes that a payment system led by the private sector has the potential to be at the forefront of innovation and allow for the most advanced payment system in the world, back-end Federal Reserve payment services must also be appropriately enhanced to enable innovations." U.S. Treasury, "A Financial System That Creates Economic Opportunity: Nonbank Financials, Fintech, and Innovation," (July 2018) at 156. Available at https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi.pdf.

The Federal Reserve also has directly supported the development of private-sector real-time gross settlement (RTGS) services for faster payments. The Board approved in 2017 final guidelines for evaluating requests for joint accounts at the Reserve Banks intended to facilitate settlement between and among banks participating in private-sector payment systems for faster payments.[4] The impetus for allowing broader use of joint accounts was to support these private-sector arrangements.

In November 2018, the Board published a Federal Register notice (2018 Notice) requesting comment on two potential actions that could be taken by the Federal Reserve consistent with the FPTF recommendations: (1) a service for 24x7x365 real-time interbank settlement of faster payments; and (2) a liquidity management tool that would enable transfers between accounts held at Reserve Banks on a 24x7x365 basis to support services for real-time interbank settlement of faster payments.

The Board explained that a Federal Reserve RTGS service for faster payments, alongside private-sector RTGS services, would provide the infrastructure needed to achieve ubiquitous, safe, and efficient faster payments in the United States. Other parties, such as banks, payment processors, and providers of payment services, could utilize this platform as a basis for innovation to meet the specific needs of the businesses and households they serve. The Board further explained that a liquidity management tool, in turn, could help alleviate liquidity management issues for banks engaged in RTGS-based faster payments, notably those utilizing settlement services offered by the private sector. In particular, such a tool would enable

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[4] Board of Governors of the Federal Reserve System, "Guidelines for Evaluating Joint Account Requests," (Issued 2017). Available at https://www.federalreserve.gov/paymentsystems/joint_requests.htm. In 2016, Federal Reserve staff received a request from a private-sector service provider to open a new joint account for that organization's proposed faster payment system. The use of a joint account at a Reserve Bank to support settlement mitigates certain risks by reproducing, as closely as possible, the risk-free nature of settlement in central bank money.

movement of funds between accounts at the Reserve Banks during hours when traditional payment and settlement services are currently not open to allow liquidity to be moved, when needed, to an account or accounts used to support real-time settlement of faster payments. The 2018 Notice proposed that the tool could be provided by expanding operating hours of current Federal Reserve services or through a new service.

In the 2018 Notice, the Board requested comment on the appropriateness of real-time gross settlement as the strategic foundation for faster payments in the United States and the public benefits, implications, and challenges of the Federal Reserve taking either, both, or neither of the potential actions.

Consideration of Comments and Policy Assessment

The Board received over 400 comment letters representing over 800 entities in response to the 2018 Notice. Comments were submitted by a wide variety of stakeholders in the U.S. payment system, including community banks, individuals, consumer organizations, merchants, service providers, private-sector operators, fintech companies, trade organizations, and other interested parties.[5] Consistent with the diversity of the payment industry, commenters represented a broad range of viewpoints.

Almost all commenters addressed the question of whether the Federal Reserve should develop a real-time interbank settlement service for faster payments. The vast majority of these commenters, representing nearly every stakeholder segment, supported the Federal Reserve

[5] Overall, banks were the largest group of respondents, with community banks (small and midsize banks) comprising approximately 60 percent of the total comments—the largest specific segment—and representing institutions from 34 states.

taking this action. In contrast, large banks, some trade organizations, and private-sector operators were generally not supportive of the Federal Reserve developing such a service.[6]

In reaching its decision to offer the FedNow Service, the Board was informed by these public comments and the history of the U.S. payment system, in which the Federal Reserve has played a role since its inception. In addition, any decision by the Board to offer a new payment service is subject to the factors set out in longstanding Federal Reserve policy, and the pricing of Reserve Bank services is subject to the requirements of the Monetary Control Act of 1980.[7] Specifically, in considering new services, the Board assesses three criteria: whether the service is one that other providers alone cannot be expected to provide with reasonable effectiveness, scope, and equity; whether the service will yield a clear public benefit; and whether the Federal Reserve will achieve full cost recovery over the long run.[8]

Other Providers Criterion

Through this assessment, the Board has concluded that other providers alone cannot be expected to provide an RTGS infrastructure for faster payments with reasonable effectiveness, scope, and equity. So far, only one private-sector RTGS service for faster payments has been established in the United States. Due to coordination challenges and the high fixed costs necessary to develop a new payment and settlement service, this service is expected to remain the sole private-sector RTGS service for faster payments in the United States. The ability of a

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[6] Approximately half of the commenters discussed the liquidity management tool, with almost all supporting the Federal Reserve offering such a tool.

[7] In 1984, the Board established criteria for the consideration of new or enhanced Federal Reserve payment services in its policy The Federal Reserve in the Payment System. Board of Governors of the Federal Reserve System, "The Federal Reserve in the Payments System," (Issued 1984; revised 1990). Available at https://www.federalreserve.gov/paymentsystems/pfs_frpaysys.htm.

[8] In addition, the Board performs a competitive impact analysis when considering an operational or legal change to a Reserve Bank service or price that would have a direct and material adverse effect on the ability of other providers of services to compete with the Reserve Banks.

sole private-sector provider to extend access to a few thousand banks, let alone the more than 10,000 diverse banks necessary to achieve true nationwide scope, would be costly and time-consuming given that the existing service has limited relationships with and connections to these institutions.

In addition, the Board concluded that the private-sector operator alone cannot be expected to provide the service with reasonable effectiveness, as viewed through the lenses of safety and efficiency. From a safety perspective, a sole provider may serve as a single point of failure in the market for RTGS-based faster payments. From an efficiency perspective, a market with only a single operator may cause challenges related to competition, innovation, and market fragmentation. According to established economic theory and experience from other markets, a single service provider not facing competition can yield undesirable outcomes, such as higher prices or lower service quality. Such undesirable outcomes could limit adoption of faster payments by end users, which could in turn curtail efficiency benefits to the broader economy.

Public Benefits Criterion

The Board also determined that the FedNow Service will yield a clear public benefit. Since its inception, an underlying public policy rationale for the Federal Reserve's involvement in the payment system has been to provide services in a safe and efficient manner to banks nationwide. Because of this long-standing policy commitment, the Federal Reserve has historically extended access to banks of all sizes, including smaller banks in rural and remote areas of the country. The Federal Reserve's relationships with and connections to thousands of banks across the country provide a solid foundation for the FedNow Service to facilitate those banks gaining access to an RTGS infrastructure for faster payments, which would benefit small and midsize banks and the communities they serve.

In a payment system with multiple operators, banks would have a choice whether to join a single service or multiple services. An RTGS infrastructure could, therefore, achieve nationwide reach in two main ways, either through interoperability via direct exchange of payments between operators, such as in the U.S. ACH system, or through at least one service connecting to virtually all banks, such as in the funds transfer system.

The FedNow Service would promote payment system safety in multiple ways. As noted by commenters, the Federal Reserve has historically played an important role in promoting the safety of the U.S. payment system by providing liquidity and operational continuity in response to financial turmoil, terrorist attacks, natural disasters, and other crises. As the prominence of faster payments in the United States grows, the development of the FedNow Service would allow the Federal Reserve to retain its ability to provide stability and support to the banking system and the broader economy in times of crisis. In addition, as the operator of the service, the Federal Reserve would be in a position to promote the development and implementation of industry-wide fraud-mitigation standards, which commenters highlighted are especially important for real-time payments. The development of the service could also enhance the safety of the U.S. payment system by promoting resiliency through redundancy.

Finally, the FedNow Service could provide efficiency benefits by serving as a platform for innovation and the development of end-user services by the private sector. In addition, an RTGS infrastructure with nationwide reach would make the development of new faster payment services based on real-time settlement more attractive, increasing innovation and competition in the market for end-user faster payment services. Such competition could yield efficiency benefits by leading to lower prices and higher service quality.

Cost Recovery Criterion

The Board expects that the FedNow Service will achieve full recovery of costs over the long run. The MCA requirement to require cost recovery "over the long run" is not associated with a specific timeframe. Beginning in 1995, the Board adopted a convention of evaluating long-run cost recovery for existing services using a rolling 10-year period. At that time, Federal Reserve services were in mature states, characterized by widespread adoption by banks of all sizes throughout the country, with relatively stable volumes and costs. At other times, notably as the ACH service was evolving, the Board considered long run over an extended time period in order to encourage the adoption of electronic payments for the benefit of the economy.[9]

Given the time frame necessary to create a broad network of banks connecting to the service, the Board determined that a longer time frame for cost recovery is consistent with the intent of the MCA to encourage the adoption of new services that have the potential to bring widespread economic benefits to the country.

Expanded Hours for Existing Services

The second proposed action in the 2018 Notice entailed the exploration of the expansion of operating hours for the Fedwire Funds Service, which is our existing funds transfer service, and National Settlement Service (NSS) hours, which is our service that supports private-sector net settlement arrangements, potentially up to 24x7x365, to facilitate liquidity management, notably for users of private-sector RTGS services.

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[9] ACH began as a Federal Reserve service in the 1970s, prior to the passage of the MCA. In 1981, when the pricing principles were first applied to ACH, the Board recognized that the ACH service was still evolving and allowed fees to be set based on mature volume costs rather than current costs for a number of years and only at the end of that time began marking 10-year cost recovery. The Board concluded that doing so would result in a more efficient payment mechanism and was consistent with the MCA. See 46 FR 1343 (January 6, 1981).

As described in the 2018 Notice, RTGS-based faster payment services require banks to have sufficient liquidity positioned in a specified account to perform interbank settlement at any time, on any day. Without sufficient liquidity so available to conduct settlement, a faster payment cannot be completed in an RTGS-based service where, by design, interbank settlement occurs before final funds can be made available to the receiver. At present, the Federal Reserve does not provide a service that would provide a means to position additional liquidity in the specified account outside standard business hours. In light of these considerations, in its 2018 Notice the Board proposed developing a liquidity management tool that could help address these needs by facilitating transfers to and from other accounts held by participants at Federal Reserve Banks.

In response to the 2018 Notice, several large banks and other commenters indicated that the proposed tool could help with managing liquidity in the recently established private-sector RTGS service for faster payments. The private-sector RTGS service is supported by funds in a joint account at a Reserve Bank, and the proposed liquidity management tool would enable movement of funds between a joint account and banks' reserve accounts during hours when existing services are not currently open. Commenters suggested that the Federal Reserve should provide this tool through expansion of operating hours for the Fedwire Funds Service.

Commenters also noted that expanded Fedwire Funds Service hours, and relatedly, NSS hours, could provide benefits for a variety of payment activities beyond those related to faster payments. Payment activity supported by expanded hours could include additional settlement windows for the ACH service and wholesale payment activity in global markets. Because of the systemic importance of the Fedwire Funds Service, in particular, additional risk, operational, and policy analysis is required for this action, and the draft notice indicates the Federal Reserve's intention to engage actively with the industry to conduct this analysis.

The FedNow Service

As explained in the August announcement, the FedNow Service would conduct real-time, payment-by-payment, settlement of interbank obligations through debits and credits to banks' balances in accounts at the Reserve Banks. Real-time settlement in accounts at the Reserve Banks means that settlement occurs without liquidity or credit risks, which enhances the safety of these payments. The FedNow Service would incorporate clearing functionality, allowing banks, in the process of settling each payment, to exchange information needed to make debits and credits to the accounts of their customers. The service's functionality would support banks' (or their agents') provision of end-to-end faster payments to their customers.

Ultimately, the FedNow Service will provide, alongside similar private-sector services, core infrastructure to promote ubiquitous, safe, and efficient faster payments in the United States. In fact, for all payment systems in our country, no single private-sector provider has ever achieved nationwide reach on its own. With the FedNow Service, banks will now have a choice in providers or could choose to use both a Federal Reserve and private-sector service for back-up purposes, as some do today for check, ACH, and wire services.

The Federal Reserve recognizes that time-to-market is an important consideration expressed by many commenters in response to the 2018 Notice. Our objective is to implement the service as soon as practicably possible. However, the achievement of true nationwide reach over the long term, as opposed to initial availability of a service, is the most important measure of success for faster payments.

At the same time as the Board published its decision regarding the new service, the Board requested public comment on how the FedNow Service might be designed to most effectively support the full set of payment system stakeholders and the functioning of the broader U.S. payment system. In the same notice, the Board also announced its intention to explore the expansion of Fedwire Funds Service and NSS hours, up to 24x7x365, to facilitate liquidity management in private-sector real-time gross settlement services for faster payments and to support a wide range of payment activities, beyond those related to faster payments.

The Board's important decision to approve a new payment service comes over 40 years after the last service, ACH, was approved for implementation back in the 1970s. The decision to establish ACH came at a pivotal moment when the industry was overwhelmed by the volume of paper checks, and the new technology at that time allowed for what is essentially an electronic version of paper checks. Remarkable new technology enables the Federal Reserve to support the financial sector in offering an ever-growing array of options 24x7x365 in a safe and efficient manner. Providing such payment services is very much consistent with our historical role in the payment system, one that has helped banks to meet the needs of business and households in a growing economy for over a century.

Testimony of Harsh Sinha
Chief Technology Officer
TransferWise

Before the House Committee on Financial Services
Task Force on Financial Technology
"The Future of Real-Time Payments"

September 26, 2019

Chairman Lynch, Ranking Member Hill, and Members of the Task Force, thank you for the invitation to testify today. My name is Harsh Sinha and I am the Chief Technology Officer at TransferWise, a global technology company with a mission to build the best way to move money around the world.

I have spent the last four years scaling the technology and product team at TransferWise. Before that, I worked in Silicon Valley for more than a decade leading and developing various ecommerce and payments products for companies including PayPal and eBay.

TransferWise was founded in 2011 and now has more than six million customers paying $5 billion every month, saving themselves $1 billion per year compared to average bank fees. TransferWise is one of the fastest growing financial technology startups in the world and offers an international money transfer service, a multi-currency stored value product that can be linked to a debit card, and an application program interface (API) that can be integrated directly into larger enterprises and banks.

Our company is attempting to solve the problem of cross-border payments. It's really hard to move money between different currencies and countries. The correspondent bank infrastructure is expensive, slow, inconvenient, and lacks transparency. That's why we've created our own cross-border payments network to move money around the world. Rather than relying on the traditional SWIFT messaging infrastructure and correspondent banking relationships, TransferWise instead utilizes local clearing and local payment rails to send money from our own accounts on both sides of the transaction. If you're sending dollars to pounds, you pay dollars into our bank account in the United States (US), and we pay out to your recipient from our account in the United Kingdom (UK). As much as possible, money does not cross borders.

The technology that powers our product relies on a technical and regulatory understanding of local payment systems around the world. We connect directly to local payment systems, as in the UK where we became the first non-bank payment service provider to gain direct access to the Faster Payments Scheme, and indirectly through our bank partners, as in the US, resulting in more than 1600 currency routes and the ability to send money to bank accounts in 71 countries.

During my career so far, I have been fortunate to work on a variety of technology products both in the US and across the world. We have seen immense technological innovation in most industries in the last two decades - with a large percentage of that innovation originating from the US. But unfortunately, I can't share the same sentiment about our payments infrastructure. The current financial plumbing that powers most payments for Americans is slow, expensive and does not meet the security standards one would expect in 2019.

Existing Payments Systems in the US

In the US, both the private sector and Federal Reserve play a vital role in processing and settling payments, whether through check clearing, ACH, or funds transfer services. The automated clearing house (ACH) network relies on both the Federal Reserve and The Clearing House (TCH) as operators. And, same-day electronic funds transfer systems are maintained by Fedwire and the private-sector Clearing House Interbank Payments System (CHIPS).

In recent years, there has been some progress increasing the speed of payments in the US. Card networks have developed Visa Direct and Mastercard Send. Zelle by clearXchange and the TCH Real-Time Payments (RTP) system have been adopted by large banks. While these are positive developments, the market and customer's access to real-time payment rails are still very fragmented.

Faster Payments

In 2019, moving money should be like sending an email - instant. It's simply the digital movement of data.

Consumers and businesses benefit from faster, lower cost, and more convenient payments. Faster payments supports financial inclusion, helps consumers avoid hefty fees from overdraft and check cashing, and unlocks working capital for small businesses who otherwise have to wait days for money to appear in their accounts. The benefits to consumers, businesses and the economy are clear. That's why governments around the world are moving on from complicated and costly old systems and instead launching faster payments schemes to increase payment efficiency for their citizens.

The UK launched its Faster Payments Scheme (FPS) in 2008, India launched Immediate Payment Service (IMPS) in 2010, Europe launched Single European Payments Area Instant Credit Transfer (SCT Inst) in 2017, and Australia rolled out its New Payments Platform (NPP) in 2018. Many other nations - including Hong Kong, Singapore, Belgium, the Democratic Republic of the Congo, Malaysia, Portugal, Slovenia, Spain, France, Hungary, Netherlands, Canada, Columbia, and Peru - have either recently launched, will soon launch, or are exploring launching a faster payments scheme. We support the Federal Reserve's recent move to prioritize faster payments systems development and launch by 2023/24.

Today, more than 20% of TransferWise payments are instant - i.e. we are able to move funds across countries connecting to different local payment systems in less than 20 seconds. Unfortunately, that's rarely the case in the US for even domestic transfers. Consumers typically send payments through the slower ACH payment rails, which can take 1-3 days for the recipient to receive payment. Sending via wire is an option, but that could be significantly more costly. Banks can charge anywhere between $25 - $40 on average for the sender and usually also charge recipients some receiving fees. When TransferWise sends payments from the US to a country with a faster payments system, it can take a day or more, and the delay is usually on the US side.

The Federal Reserve should invest in creating a real-time payments system

We strongly agree that the Federal Reserve should create a real-time payments system (FedNow). To be specific, we believe it should be a real-time gross settlement system based on ISO 20022 standards (used by other faster payment systems) and the Federal Reserve should support a liquidity tool (like extended FedWire hours). The Federal Reserve is uniquely positioned, by nature of being a central bank, to guarantee ubiquity for financial institutions and inclusiveness for consumers. It can play a very important role in hastening the progress of real-time payments in the US.

Why should the Federal Reserve build this system?

1. Ubiquity and reach: The Federal Reserve already connects to over 10,000 financial institutions through their current set of FedLine offerings. Given currently established system connectivity and established processes, it will be easier for these institutions to access FedNow.
2. Pricing: FedNow should inherently have a lower cost structure longer-term given the price recovery approach taken by the Federal Reserve.
3. Competition: Having multiple systems promotes market competition and forces other systems to compete on price and service level agreements - eventually delivering better value to customers and giving customers a choice.
4. Longer-term strategy: Real-time payment systems are here to stay as evidenced by what we are already seeing globally. It is not hard to foresee in 10 years a large percentage of payments being routed over real-time payment systems. With that future in mind and the economic and financial benefit such a system provides, it would be prudent to not have a single system run by a single provider that powers most US payments.

Finally, if we ever want to close out and move off older 1970s technology and processes, it's imperative the newer real-time payment systems are fully adopted. If we don't, we may see ourselves in 2040 still running a fragmented infrastructure with expensive-to-maintain technology and processes that weren't built from the ground up to survive 70 years of technical innovation. But the adoption will be driven by ease of integration and the cost of running such services - both can be heavily impacted by the Federal Reserve based on the points above.

Hence, there is a clear public interest in the Federal Reserve building a fair and ubiquitous network accessible to every financial institution and payments provider that operates at low margins over time. In order to ensure that the public benefits from a faster payments system, TransferWise strongly supports the Federal Reserve playing a key leadership role, as central banks have done successfully in other jurisdictions. As we've seen around the world, consumers will benefit from improved speed, cost, convenience, and transparency.

Payments Access

In order to facilitate competition, and ensure the benefits of faster payments are passed on to consumers, the US should prioritize the accessibility and inclusion of non-banks in a faster payment system.

In the US, to access the domestic payments infrastructure, non-bank financial institutions like TransferWise must partner with a bank to settle payment transactions on behalf of our customers. It results in added costs, complexity, and partner dependence.

Payment systems in many jurisdictions, including our neighbors in Mexico and Canada, are in the process of modernizing and evolving their membership. TransferWise has been part of several important initiatives in this regard. In fact, in 2017, TransferWise became the first non-bank member of the UK's Faster Payments Scheme and the first non-bank to maintain a central bank account for settlement at the Bank of England. The UK regulator (Financial Conduct Authority) actively engaged on this initiative with TransferWise and took a risk-based approach to opening up the scheme to non-bank members.

As trends in society and commerce evolve as a result of technological advances, many consumers now rely on new entrants and less traditional financial institutions to service their needs. Opening direct participation in the payments system to non-banks will help ensure competition flourishes, fosters innovation, and that financial institutions are incentivized to pass along the benefits of speed and lower costs to consumers.

Additionally, diversification will reduce systemic risks that arise from a handful of banks hosting all of the indirect non-bank participants. With the current set up, a small number of banks can build a business function being the bank and access provider to payment systems for non-banks. This concentration of new businesses across a handful of banks creates potentially higher risk than if non-banks were accessing the faster payments system directly.

We support risk-based, open and fair access to the domestic payments infrastructure.

Fraud and Account Security Considerations

The benefits of faster payments to consumers are clear, but policymakers are also rightly asking questions about consumer protection and the risk of fraud. Even with a multi-day delay, there is still fraud. We see the current ACH system having higher fraud rates than most instant payment systems around the world.

We believe the security measures and regulations around customer protection and payment initiation should be much stronger than the current regime. Options like multi-factor authentication (having the customer acknowledge payment initiation via a separate device or biometrics and sending instant notifications for transactions to a mobile device) are quickly becoming the global standard. Any payment system built today should have these features built-in and the payment system should set the implementation guidelines.

Most US online banking applications today do not require multi-factor authentication and just require online ID and password. We have seen over time that passwords are not a secure form of authentication given people tend to reuse them. Even with TCH's current RTP implementation, customer facing fraud detection and account protection efforts are being pushed to sending participants without a standard requirement by the payment system. This is already leading to fragmented implementation of account protection measures across banks implementing RTP with a minimum of multi-factor authentication implementation. Unless we improve security measures at the payment initiation step by having the customer prove who they are to a sufficient degree, we believe the levels of fraud and security issues that we see today will continue.

By building their own system and requiring a standard approach to account security, the Federal Reserve can drastically reduce fraud in the system and help Americans keep their hard earned money. We have seen regulators in Europe require Secure Customer Authentication via the recent second Payment Services Directive (PSD2) legislation, which the industry agrees helps make accounts and customer funds more secure and also standardizes the flows for customers, making them less confusing.

Along with this, there are also discussions around financial institutions implementing confirmation of the payee rules (beneficiary name check) to cut the risk of money being sent to wrong accounts. But it is my opinion that requiring stronger multi-factor customer authentication on account access and payment initiation will have the biggest impact to fraud and improve account security across the system.

International Payments

As policymakers consider issues related to payments, cross-border payments also deserve attention. The US is the largest originator of cross-border payments worldwide.

Transparency

Every year, it's estimated that people and small-to-medium businesses transfer $10 trillion internationally[1] and lose $200 billion in bank fees. Because much of these fees are hidden in inflated exchange rates, it can be extremely difficult to compare costs. For example, the average global remittance cost is 7%[2] and

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[1] https://www.mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Global%20payments%20Expansive%20growth%20targeted%20opportunities/Global-payments-map-2018.ashx

[2] https://remittanceprices.worldbank.org/en

the lack of transparency in pricing is a major reason for the high fees. In fact, the World Bank agrees[3] that *"the single most important factor leading to high remittance prices is a lack of transparency in the market"*.

We were pleased that the European Union recently enacted regulations[4] to make sure people and businesses see the full cost of what they're really being charged. That means no more fees hidden in inflated exchange rates. Additionally, the UK Financial Conduct Authority is driving a working group to deliver new transparency requirements for consumers and businesses. And, the Australian Competition and Consumers Commission recently concluded that action is necessary to counter the high cost and lack of transparency in international payments. There is also an effort from Finance Canada to bring more transparency to the costs of payments. We hope the ongoing discussions in the UK[5], Australia[6], and Canada[7] lead to policy changes that ensure consumers and small businesses better understand the costs of international payments. That would ultimately offer choice, foster competition, and apply downward pressure to costs. We believe the US, the largest originator of cross-border payments worldwide, should also take action.

Implementing international standards

From a technical implementation perspective, given the US is lagging behind other major markets on faster payments systems, we can use this timing to our advantage and learn from other countries' implementations to not only improve domestic payment speed and costs, but also align with international standards. The current ISO 20022 standard being adopted for the US faster payments implementation is also the same standard being used for the development of new faster payment systems globally. By standardizing message formats and information sharing between the major faster payments systems across the world, the US has the opportunity to leap frog from having limited real-time payments in its domestic market to having all payments - domestic and international - being instant, gaining all the benefits of transactions with speed and lower costs in the global economy. Imagine a world where you could truly send payments instantly from your bank account in the US to an account in the UK or receive funds from Australia instantly into your US account. This would be a boon especially for businesses.

Conclusion

In conclusion, we believe there should be more than one real-time payments system in the US and the Federal Reserve is best positioned to deliver this and unlock the benefits for consumers, businesses and the economy at large.

Thank you for the opportunity to testify today on payments. I commend the Task Force for holding a hearing on this important topic and look forward to sharing our experiences with regulators and payment systems around the world. I look forward to answering your questions.

[3] https://remittanceprices.worldbank.org/en/about-remittance-prices-worldwide
[4] https://europa.eu/rapid/press-release_IP-18-6856_en.htm
[5] https://www.fca.org.uk/publication/policy/ps19-03.pdf
[6] https://www.accc.gov.au/system/files/Foreign%20currency%20conversion%20services%20inquiry%20-%20final%20report_0.PDF
[7] https://www.statcan.gc.ca/eng/survey/household/5258

INDEPENDENT COMMUNITY BANKERS *of* AMERICA

Testimony of

Robert A. Steen

Chairman and Chief Executive Officer

Bridge Community Bank

Mount Vernon, Iowa

On behalf of the

Independent Community Bankers of America

Before the

United States House of Representatives

Committee on Financial Services

Task Force on Financial Technology

Hearing on

"The Future of Real-Time Payments"

September 26, 2019

Washington, D.C.

Chairman Lynch, Ranking Member Hill, and members of the Task Force, I am Bob Steen, Chairman and CEO of Bridge Community Bank in Mount Vernon, Iowa.

I testify today on behalf of the Independent Community Bankers of America and community banks nationwide, with more than 52,000 locations. I have played an active role in ICBA over the years including serving on the Bank Operations and Payments Committee. Thank you for the opportunity to testify at today's hearing titled "The Future of Real-Time Payments." I believe that it is imperative that the U.S. develop a robust real-time payments system to meet consumer demand and stay competitive with the rest of the world. This system must create access for all institutions, regardless of size or charter type, and must be situated in a competitive environment with end user choice.

How we achieve this goal is critical. A real-time payments system is too important to be entrusted to a private monopoly. The two dozen largest banks simply cannot own and operate the US payments system. ICBA strongly supports the Federal Reserve's decision to build FedNow, a real-time payments system that will give direct access to all financial institutions and their customers. I am pleased to provide the perspective of thousands of community banks such as ours that strive to remain independent and competitive by offering state-of-the-art payment products to our customers.

What Faster Payments Mean to My Bank and Community Banks

Bridge Community Bank is a $96 million asset community bank founded in 1903 and owned by our 20 employees. We have three full-service locations serving rural communities in growth markets in and around Cedar Rapids and Iowa City. Bridge Community Bank meets the needs of our communities through small business, agricultural, and consumer banking. The rural communities we serve are beyond the appetite of most of the largest national banks because we do not have the population density to suit their transaction-based business model. What works for Bridge Community Bank is a personal relationship model in which we serve the totality of a family's business and personal banking needs, both deposits and lending – often two to three generations, and sometimes four and even five. The transaction account is the key to the broader customer relationship and at the heart of community banking. We have long recognized that payments innovation is critical to the long-term prosperity and independence of Bridge Community Bank and the community banking industry.

In recent years, we have seen numerous non-banks move into the payments arena. The players include Square, PayPal, also doing business as Venmo, and many others. We are losing our place as an industry, and we must be part of the solution. Many of these non-bank providers are willing and able to absorb long-term and extraordinary losses for the single purpose of growing market share. Their losses do not translate to our gains. My industry cannot and should not do what they do. Still, if we lose the payments side of the customer relationship, our franchise will have no value. This is why I have invested so much of my time and energy over the years into payments innovation. We have incubated multiple payments projects in our bank. Of note, the ExcheQ mobile application, on which we partnered with a community bank in the development and testing, allows any account holder to pay any other person as easily as sending a text or email. Using the ubiquitous ACH same day settlement system, ExcheQ is able to send money to anyone in the U.S. that has an account at any financial institution without a payment application on the receiver's mobile device. This type of innovation is critical to keeping our bank and other community banks relevant to both our customers and our community, especially but not exclusively for the younger generation. FedNow, a neutral, real-time settlement network, will be critical to our ability to continue to innovate on behalf of our customers. Once FedNow is fully operational and ubiquitous, our customers will be able to send money in real-time using ExcheQ without being dependent on our core banking system. That, by itself, is magic.

U.S. Rapidly Being Marginalized in the Payments Services that Underlie our Economy

It is an unfortunate reality that the U.S. lags much of the rest of the world in faster payments. Globally, 40 real-time payments systems are live. Europe, Mexico, and Australia have already implemented real-time systems. For example, one of our own bank payment solutions can achieve a real-time transaction for our customers utilizing a Mexican prefunded account connecting through the Central Bank of Mexico SPEI network. These systems are realizing significant growth. In China, for example, there are now more than 25 million faster payments made every day, more than double the daily average from just a year ago.

America's economic vitality depends on a modern, continually innovating, and globally competitive payments system. As more and more transactions move online, delays in settlement will extend cross-party risk and ultimately hobble the evolution of American commerce. Transactions have become instantaneous, but the underlying payments that support them continue to lag. A dynamic economy needs to be supported by a modern payments system. I believe that FedNow will promote U.S. competitiveness in payments and is a natural extension of the Federal Reserve's historical role in ensuring access and secure payments for all financial institutions.

Customers Need a Payment System That Matches Their Expectations

Customers expect an electronic payment, especially a payment initiated on a mobile device, to arrive as soon as it is sent. However, most payments today take one-to-three days to clear and settle, delaying customer access to funds. A customer might need a paycheck or other incoming payment to clear before making a mortgage or car payment and avoid late penalties. These delays come at a real cost. A single delay can result in unnecessary returns, late charges, credit history impact, and even affect the consumer spending that sustains our economy. Funds availability delays make it more difficult for a small business to manage money between and among accounts to meet payroll, service debts, pay a supplier, or other immediate and critical expenses.

Real-time payments will facilitate commerce by ensuring immediate access to funds, without holds or delays. As our economy evolves, immediate access to funds will become increasingly important. The emergence of task-based employers such as Uber and Lyft and other "sharing economy" peer-to-peer arrangements must be supported by a real-time payments system that allows for the true instantaneous exchange of funds. Payments innovation must keep pace with broader technological innovation.

As Federal Reserve Governor Brainard has noted, the unmet demand for real-time payments is fueling the development of solutions that bypass banks and even sovereign currencies. Dislodging banks and sovereign currencies from their historic role in the exchange of payments will likely have a profound, unintentional impact on the global economy.

The Clearing House Solution Fails Critical Tests

In November 2017, the largest banks, through The Clearing House, launched a real-time payments network. The Clearing House effort has failed on the critical parameters of creating access for all financial institutions and ubiquity. A system that lacks these is of little true value to American consumers and businesses. It is my understanding that only 15 financial institutions—out of nearly 11,000 nationwide—are actively engaged on the network. The Clearing House system will not have the reach, on its own, to be the effective real-time payments solution our economy needs. In fact, a private sector payments provider has never achieved nationwide reach on its own in checks, ACH, cards, or wire transfers. Unlike the Federal Reserve, The Clearing House has neither the mission nor the capability to achieve this critical goal. It cannot be the only option.

Most critically, The Clearing House system is a private system owned by the largest banks. As a matter of principle, ICBA is against any monopoly or other concentration of economic power. This is one of our core and foundational values. Monopolies harm consumers and ultimately escalate costs, erode service quality, and limit choice. What's more, monopolies create financial and systemic risk. Real-time payments are too important to our economic prosperity to leave in the hands of two dozen of the largest banks, especially an organization that does not have a proven track record of reaching smaller financial institutions in clearing checks, ACH, and wire transfers.

Two years ago, The Clearing House obtained approval from the U.S. Justice Department to build a private real-time payments network based on a pledge that they would offer the same entry and transactional pricing to all financial institutions. The Clearing House asked for Justice's assurance that the agency would not bring an anti-trust lawsuit against their payments network. Recently, the Clearing House added a caveat to its pledge not to offer volume discounts – that it must not have a competitor. That sounds a lot like: "Trust us. We won't behave like a monopoly as long as we *can be* a monopoly." While the caveat has since disappeared from their website, this posture should only strengthen our collective demand to ensure access and create competition and choice.

In addition to questions of monopoly power and its abuse, there's the question of systemic risk. If the U.S. is limited to a single real-time payments system, we will be vulnerable to a critical disruption of the system which would have serious and lasting economic repercussions. It makes no sense for us to acquiesce to that level of risk. Having more than one settlement provider creates a critical safety net for the U.S. payment system. The Federal Reserve has a long and proven record of managing resilient systems in times of crisis.

The Federal Reserve Must Be Involved in Faster Payments

Bridge Community Bank and ICBA strongly support the recent announcement by the Federal Reserve to build and operate a real-time payments settlement system. In this role the Federal Reserve can guarantee competition, provide choice for consumers, businesses, and banks, create true universal access and payment ubiquity, and keep pace with the rest of the world. This system should ultimately interoperate with other systems such as The Clearing House system, much as it has with ACH and paper checks.

Competition

The remedy for monopoly is competition. Competition is the defining feature of our economic system and the foundation of our national prosperity. It creates choice for consumers as well as businesses and promotes innovation in the development of new products to meet consumer preferences and needs. Competition promotes efficiency and helps contain costs.

What is broadly true in our economic system is also true in payments. The Federal Reserve's development and operation of a real-time gross settlement system would guarantee needed competition. This point bears repeating: FedNow will not displace The Clearing House system. It will create an alternative to operate alongside any private sector system, ensuring equitable access to banks and communities of all sizes nationwide. This is the Federal Reserve's historic role in check clearing, ACH, and wire services. It's is their duty to play the same role in faster payments.

FedNow is true to the historic legacy of the Federal Reserve. One of the initial responsibilities of the Federal Reserve was to serve as a clearinghouse of checks, ensuring that a customer's good check is honored, regardless of whether their bank is a Wall Street bank or located on Main Street in Mount Vernon, Iowa. The Federal Reserve, leveraging its regional bank structure, demanded reasonable availability of funds thereby limiting intentional float and delays at the expense of the public. During the past century, every eligible financial institution, regardless of size, has had equal access to the nation's payments and settlement systems at par through their local district Federal Reserve Bank if they have so desired.

Reach

Most importantly, the U.S. does not need another closed-loop real-time payment system in which some financial institutions participate, and others are excluded. All financial institutions, regardless of size or charter type, and all customers, whether they live in small or rural communities that are exclusively served by community banks, or in suburban or urban communities, must have access to a real-time payments network. To create an inclusive financial system, every single financial institution should have the opportunity to participate. I firmly believe that simply cannot happen without the Federal Reserve's role in real-time settlement.

The Fed is uniquely positioned to provide access to all 11,000 financial institutions because all of these institutions have access to a settlement account and a service connection with the Fed. The

Federal Reserve operates a check, ACH, and wire transfer service. The Clearing House simply cannot match this capability. In short, industry-wide ubiquity may never be achieved without the Fed developing and operating a real-time gross settlement system and interoperating with the private sector. If we want to maximize access to real-time payments for financial institutions and consumers nationwide, the Federal Reserve, as the U.S. central bank, must be involved.

Affordability

If history is any guide, the Fed will maintain affordable as well as universal access to faster payments. The Federal Reserve offers a fair and affordable pricing structure, even to the smallest of the small financial institutions like our bank. For example, as the first bank to forward an electronic check file to the Federal Reserve shortly after the effective date of the Check21 Act, our bank saw an immediate 60 percent savings for check services. Universal access, as critical as it is, has little value if not offered on affordable terms. That is exactly what the Fed has done over my long career.

Direct Access for Community Banks

The Fed is trusted among community banks. Each community bank has a relationship manager and the opportunity for direct access to the Fed. I know our representative's name and I know his cell number. He answers the phone. As a community bank, I know that I have direct and easy access to Federal Reserve support services even after our banking hours. I place a high value on this access. I would not have this access with the largest banks or their proxy which historically have served as a settlement provider for only a few of the nation's 11,000 financial institutions.

A Platform for Innovation

Ubiquitous access for all payments system end-users to faster, more efficient and more secure payments — irrespective of their financial institution's size or charter type — will also provide a foundation for a payments system that will lead to more innovation. Once ubiquity is achieved, new use cases will emerge that we have not thought of. Real-time payroll, immediate bill payment, person-to-person payments, and business-to-business payments that are actually real-time will become the norm.

A natural extension of the Federal Reserve's current role

The Federal Reserve's entry into real-time payments is part of a natural evolution from its involvement in check clearing, ACH payments, and wire transfers. By playing a settlement role in these services, the Fed has strengthened the payments system by providing safety, integrity, choice and equitable access to all financial institutions. The Federal Reserve will bring the same critical benefits to real-time payments.

A deterrent to further consolidation

As I stated at the outset, payments innovation, offering customers what they want when they want it, is critical to the prosperity, sustainability, and continued independence of community banks. A monopoly in the payments space and especially in real-time payments, operated by the largest banks, would surely marginalize our bank and our industry, weaken our customer relationships, and ultimately speed the pace of consolidation that is changing the American financial services landscape. The Federal Reserve's involvement, together with tiered regulation based on size and complexity, which has been enacted and is now directly benefiting community banks, will help to preserve and strengthen the community banking industry, which is so vital to the U.S. economy.

Conclusion

Thank you again for convening this hearing and raising the profile of a critical issue for the future of American commerce and consumer finance.

The demand for faster payments is already here, and it's only going to increase. By playing a settlement role in real-time payments as it already does for checks, ACH payments and wire transfers, the Fed will provide safety, integrity, choice and equitable access to all financial institutions. The Fed has not only the authority, but the duty, to build and operate our real-time settlement system.

Testimony of Rodney Williams
Co-Founder & Chief Commercial Officer
LISNR

Before the House Committee on Financial Services
Task Force on Financial Technology
"The Future of Real-Time Payments"

September 26, 2019

Chairman Lynch, Ranking Member Hill, and members of the Task Force, thank you for the opportunity to testify today. My name is Rodney Williams and I am the Co-Founder and Chief Commercial Officer at LISNR, an ultrasonic proximity company that enables a universal & secure proximity mobile payment method. I am pleased to participate in this panel hearing along with my esteemed colleagues.

As a financial technology founder, I've spent the past seven years creating technology around inefficiencies in how we pay with LISNR and in how we give access to funds for individuals in need of discretionary capital with SoLo Funds where I currently serve as an advisor. Both innovations were driven by the limitations of our current payment infrastructure and my experience growing up disenfranchised.

LISNR was founded in 2012 with a simple idea - a way to transmit data between two devices using software and the mobile devices' speaker and microphone. Since then, LISNR has advanced the security and flexibility of our transmission method to support proximity-based mobile payments and checkout experiences. Today, LISNR is actively working with the world's leading merchants and card networks on what will become a better way to pay.

Proximity Payments

LISNR's premise in payments has always been straight forward, anyone with a mobile phone should be able to pay in proximity securely & universally. Today, secure mobile payments in-store are driven by card networks & mobile device manufacturers' use of Near Field Communication (NFC). This control limits the use of NFC only to mobile device manufacturer services as all other 3rd party mobile applications are restricted from using NFC for proximity payment services. This significantly restricts what is considered a safe & secure way to pay as it is limited to the mobile device manufacturers branded applications. This has driven many of our top retailers towards QR codes or barcodes as a method to pay in their mobile applications incurring additional transaction costs and risk which ultimately hurts the value that these merchants can give to their end consumer. Our company is addressing this core problem as LISNR allows a secure & universal way to pay for any mobile device or merchant at a better cost structure than today's alternatives.

We provide software that is inserted into merchant mobile wallet applications. Within these applications, we enable the speaker and microphone as a method to wirelessly send and receive proximity non-cloud based information between the consumer and merchant's point of sale system. Merchants can leverage this method to transmit any series of proximity-based security and verification data points to initiate and complete a payment transaction at point of sale. A transaction can safely happen within a few inches or up to 10 feet across more payment and checkout experiences than ever before.

Today's consumers expect to pay wherever they are instantly. These experiences are expected to happen on every device and every retail environment. We see a world where ultrasonic proximity verification will live across all payment scenarios globally. As we think about a future real-time payment system, it must democratize the proximity payment method at the edge of the mobile device securely so that anyone with a phone can pay with whatever source their mobile wallet holds.

Our technology relies heavily on the financial regulatory infrastructure. An infrastructure that is due for innovation in real-time payments at proximity. We strongly agree that all payments should be instant and universal at proximity. We agree that the Federal Reserve should create a real-time payment system.

Financial Inclusion

I grew up in Baltimore, MD. As the offspring of hard-working Jamaican parents, I personally experienced the challenges of being underbanked and the costs associated with being poor as cash is expensive. As a kid, I can remember counting down to my parent's payday and the resulting trip to the 24-hour check cashing place just to then send a payment to keep our electricity from cutting off. In this simple scenario, we were being taken advantage of as the fees, delays in funds availability and manual tasks associated across this transaction were significant. My childhood was filled with many such memories as my parents tried to ensure proper cash flow to run the household. Walking to the ATM, money transfer services, paying bills by cash, taking on predatory cash advances for payday and standing in money order lines at the post office were far too normal experiences. Looking back, even where I grew up, there was a genuine desire for advancement and to play by the rules, except the rules were not written for them.

This situation highlights the silent cost of payments and its unfair transfer to the poor and certain segments of our population. There is a social cost that many pay for this form of 'invisible tax' in communities across the United States. It is time that we use data, networks and technology to eliminate the delays and reduce the costs. This is a global theme now. The global widespread use and access of real-time payment systems lends compelling evidence to our discussion and what's needed in the US. The US Federal Reserve must take the lead in building this vital social and commerce infrastructure with a heightened sense of urgency.

Conclusion

In conclusion, we believe that instant access to our funds is a right. We strongly agree that all payments should be instant and universal at proximity and the Federal Reserve is best positioned to deliver such a universal service.

Thank you again for this opportunity.

Statement for the Record

On behalf of the

American Bankers Association

before the

Task Force on Financial Technology

of the

United States House of Representatives

September 26, 2019

American Bankers Association®

Statement for the Record

On behalf of the

American Bankers Association

before the

Task Force on Financial Technology

United States House of Representatives

September 26, 2019

Chairman Lynch, Ranking Member Hill and Members of the task force, the American Bankers Association (ABA) is pleased to submit this statement for the record on the important topic of Facilitating Faster Payments in the United States. The ABA is the voice of the nation's $18 trillion banking industry, which is composed of small, mid-size, regional and large banks that together employ more than 2 million people, safeguard $13 trillion in deposits and extend more than $10 trillion in loans.

We appreciate the interest of the task force in examining this important and timely issue. ABA has been a strong advocate for real-time payments in the U.S. We believe every bank in the country and their customers will benefit from a seamless and ubiquitous system. As the committee is aware, on August 5th, the Federal Reserve (Fed) announced its intention to create a faster payments network. The proposed FedNow Services will be a real time gross settlement service. The Fed's decision will help speed the nation's transition to real-time payments, but it will take time to build as it is not expected to be active until 2023 or 2024.

The FedNow network will compete with The Clearing House's Real Time Payments network (RTP), which is now live and can reach over 50% of the deposit accounts in the U.S. The Clearing House has offered RTP since 2017. If launched skillfully, the Fed's new rail could ultimately enhance the adoption of faster payments by seamlessly integrating with other offerings in the marketplace. However, if FedNow does not prioritize certain characteristics such as interoperability with well-established solutions, a flat pricing model without volume discounts, and a strong oversight plan for core service providers, or if it freezes decision-making during a protracted development and launch period, it could slow the adoption of faster payments and cause confusion and fragmentation.

To move the United States toward an efficient, secure, ubiquitous real-time payment environment without undue delay, ABA believes that market participants should focus on six key issues and capabilities.

Interoperability

The Federal Reserve is proposing to enter a market where another operator already has access to more than 50% of deposit accounts and will continue to grow market share while FedNow is in development over the next 4-5 years. Both systems will be run on a cost recovery basis as non-profit utilities with the goal of achieving ubiquity – connecting to every financial institution in the U.S. Volume is critical so the competing systems must be able to interoperate. The ability to originate a real time payment on one platform and have it be received on another platform is essential to deliver a positive customer experience. Without interoperability, banks would be forced to choose between offering a payment network or networks that cannot reach all people, or operate multiple networks which cannot accept payments from one another. The first choice would result in a fragmented system that would not serve consumers and the second choice would be inefficient and expensive to operate.

Despite a broad-based request from industry during last year's comment period, the Federal Reserve Notice made no commitment to achieving interoperability with the already existing in-market solution RTP Network on the first day of operation. Further, the Federal Reserve opined that it would be acceptable if "nationwide reach" was attained through multiple networks that were not interoperable.

Interoperability should be the highest priority for FedNow as the Federal Reserve begins system development. FedNow must be interoperable with RTP on day one, otherwise banks would be forced to operate duplicative real-time payment systems in order to service all of their customers. FedNow and RTP should start working today to enable interoperability. Interoperability will make both networks more attractive to the marketplace.

Chartered Financial Institution Access

Banks, as licensees chartered by federal and state authorities and regularly examined for compliance with regulations, are the only participants permitted to access the existing Fed payment systems by statute. This is appropriate due to the importance of protecting consumer funds, data, and privacy. Banks are held to high standards in those areas and also maintain capital reserves to ensure and offer deposit insurance

The Federal Reserve and Congress should protect consumers, financial institutions, and the payment system itself by strengthening the current laws and policies in place to protect consumers and the payments system.

Liquidity Management Tool (LMT)

An LMT would help financial institutions manage fund balances in a "real-time" environment. The private sector TCH RTP solution requires that banks participating in the service prefund their account. There is the possibility that some payments will not be completed if the prefunded balance drops to zero due to there being an imbalance in funds being paid out without offsetting incoming payments. If this happens overnight or on a weekend when Fedwire is closed, then outgoing payments cannot be made by the bank affected. We live in a world that does not stop at night or on weekends and our payment systems should reflect that fact.

The Federal Reserve should implement a 24x7x365 LMT solution as soon as possible. In fact there is no need to link this with FedNow development. The LMT would be a great asset to in-market faster payment solutions and moving the central bank to continuous payments processing is essential for modernizing the U.S. payments system.

Equitable Pricing

The Federal Reserve employs volume discounts for some current payment products like FED ACH. This means prices are lower for banks that transact in bulk while smaller banks with lower transaction volumes pay higher per-unit costs. The FedNow notice provided very little insight into the future pricing structure other than to state that more information would be made available closer to the implementation date in 2023 or 2024.

The Federal Reserve should provide more information regarding the proposed pricing structure and commit to a flat per-transaction pricing scheme without volume discounts.

Core Service Provider Oversight

Community banks rely on technology infrastructure that supports everything from accepting deposits to originating loans, all of which tie into operating the core ledger that keeps track of customer accounts. Three companies control the delivery of core services to approximately 80-90% of community and mid-size banks. Often products like FedNow must be integrated into the core service provider systems to allow banks to offer the service to its customers. This integration process can take time and delay implementation timelines for large technology projects like FedNow. Some core service providers are still working on partnerships with P2P services Zelle and TCH RTP. Implementation of these payment solutions has been slower than projected.

The Federal Reserve must work closely with, and provide close oversight of, the core service providers to ensure that they have all of the specifications and technical requirements they need, when they need it, to ensure that all banks have fair access to faster payments solutions within a reasonable amount of time at a fair cost.

Implementation Timeline

The FedNow notice projects that the first live transaction will take place in 2023 or 2024. This long period of time before processing makes FedNow a less attractive product. Banks that want to offer faster payment solutions to their customers sooner will opt for private sector solutions before FedNow goes live. Or, customers that want to participate in faster payments will move accounts to financial institutions that offer them that access immediately. There is also the possibility that some banks will wait for FedNow, ensuring that their customers will not be able to participate in faster payments for 3-5 years. This potential fragmentation harms the entire marketplace.

The Federal Reserve should strive to get FedNow operational and interoperable on a faster timeline to maximize the number of possible endpoints in the shortest time possible to leverage the network effect and to avoid the possible negative consumer experiences at banks that don't offer timely faster payment solutions.

Conclusion

Thank you for conducting this hearing on faster payments. Congress has the ability to influence the shape of FedNow so it can reach and benefit everyone in the United States within a reasonable amount of time safely and securely. We look forward to working with Congress, the Board, and all of the participants in the payments marketplace to ensure that the payment system becomes faster and stays safe.

September 26, 2019

Dear Rep. Lynch,

Thank you for holding this important hearing on the future of real-time payments. The undersigned consumer, civil rights and community advocates write to express our support for the Federal Reserve Board (FRB)'s plan to develop a new real-time payment system to support faster payments in the United States. We emphasize the need to incorporate strong consumer protections into the new FedNow Service system.

Electronic payments seem instantaneous, but they are not. The primary electronic payment system today, the ACH system, was adopted decades ago, and payments can take one to three days to clear. The Clearing House, an organization owned by the largest banks, is building a new, real-time faster payment system. In light of this development, we applaud the Federal Reserve Board's plan to create its own faster payment system to provide competition and to ensure that the broader interests of consumers and the public at large are protected. The FRB's new system will allow financial institutions of all sizes to offer access to faster payments, making it possible for both consumers and businesses to benefit from the widespread availability of faster financial transactions.

Benefits of faster payments. More modern and faster, close to real-time payments hold a number of potential benefits for consumers. Families living paycheck to paycheck will be able to receive their wages more quickly and more easily pay bills when due without late fees. Faster payments based on good funds, without the delayed clearing time experience today for checks and ACH payments, will give consumers greater certainty about their balance, helping them manage their money and avoid overdraft fees. More ubiquitous, free or low-cost person-to-person payment options will make it easier to pay landlords, split rent, receive money from family members or a community organization for an emergency, or be paid electronically for household employment.

Mitigation of risks posed by faster payments and of a system controlled by the big banks. The FRB's FedNow Service has the potential to provide widespread access to the public with necessary safeguards to protect against fraud and misuse. A single dominant faster payment system controlled by the biggest banks may lack strong consumer protections, lead to monopoly pricing, or disadvantage smaller institutions. Moving money instantly brings real risks of fraud, errors, and weakened consumer protections. Institutions that are dependent on overdraft fee revenue may find a way to preserve those fees even in a system predicated on good funds. The benefits of faster payments will not be fully realized if faster payments are not ubiquitous, reaching all consumers and even the smallest financial institutions, and the new FRB system can make this possible.

Importance of FRB role in critical financial sector infrastructure. Normally, the private market can provide competition for financial services. But the development of a real-time, ubiquitous payment system is a complex, expensive undertaking that provides critical infrastructure on which all participants in the financial system will depend. Having this critical infrastructure solely in private hands could permit large-scale private monopolies to abuse customers and tilt the competitive playing field, which is of particular concern as tech companies like Facebook also look to enter the payment systems space. In addition, because the payments system is crucial to the day-to-day functioning of the financial system, any private entities controlling the payment system will automatically become "too big to fail". A FRB FedNow Service that is subject to transparent public control will ensure competition, making it more likely that faster payments will serve everyone equally, and will ensure that the payment system continues to operate in periods of financial stress when private entities may fail. The FRB's role as an operator of the current ACH electronic payment system has helped to keep that system very low cost and has the potential to do the same for faster payments with its new system. A competing faster payments network can also help avoid the risks of giving The Clearing House, the operator of the real time payments network, a monopoly position.

Importance of FRB role in ensuring consumer protections. Another important benefit of the FRB's development of its own faster payments system is that a neutral agency charged with protecting the public at large – and not solely an industry group – will shape the development of and rules governing that payment system. The FRB has a duty to seek notice and comment from all stakeholders in the development of rules and to objectively consider the costs and benefits to all, unbiased by the profit motive of an industry-led group. The voices and concerns of consumers are less likely to be disregarded.

Here are some of the critical consumer protection issues that the FRB must ensure are addressed in the development of their FedNow Service:

- No overdraft fees. Overdraft fees originated as a courtesy to cover a check that might bounce due to the delay between writing and clearing. Overdraft fees have no place in a faster payment system, yet some institutions are considering ways to preserve overdraft fee revenue. The rules governing faster payment systems must require good funds and prohibit overdraft fees and disguised high-cost loans.

- Faster payment must not mean faster fraud without recourse. Systems that make it faster and easier to pay anyone can be exploited by scammers. We have already seen rising fraud in Venmo, Zelle and other faster payment services. Yet the providers of these faster payment systems, who are allowing fraudsters to receive funds, are taking no responsibility for the fraud and telling consumers they are on their own, with no recourse. Systems should not prize speed over safety. All faster payments systems should have rules to prevent, detect, remedy and punish fraudulent uses, even if the consumer was fraudulently induced to send money to a scammer.

- Privacy and data security. Faster payment services often give providers access to sensitive financial data and private information. The FRB must play a role to ensure that data is held securely, that only data necessary for the transaction is collected, for the minimum time necessary, that the data is not used or shared in ways that violate consumer privacy, and that consumers can easily terminate access to their data.

- Ubiquity, inclusion and equal access for all. While the percentage of consumers who are unbanked has been dropping, many remain outside of the financial system. Faster payment systems may pose different issues for distinct communities, such as those with limited English proficiency, individuals with disabilities, and older consumers. The FRB must take the needs of all consumers into account to make sure that faster payment systems are accessible and work well for all.

We support the FRB's efforts to create and operate an independent faster payment system of its own and look forward to working with both the FRB and Congress to ensure that consumer protection concerns are fully incorporated into the rules and development of all faster payment systems.

Sincerely,

Americans for Financial Reform
Action Center on Race and the Economy
Allied Progress
Center for Responsible Lending
Consumer Action
Consumer Federation of America
Heartland Alliance
Main Street Alliance
NAACP
National Association of Consumer Advocates
National Center for Law and Economic Justice
National Consumer Law Center (on behalf of its low income clients)
National Housing Resource Center
New Jersey Citizen Action
Public Justice Center
U.S. PIRG
Virginia Citizens Consumer Council
Woodstock Institute

Consumer Reports®

United States House of Representatives
Committee on Financial Services Task Force on Financial Technology
2129 Rayburn House Office Building
Washington, D.C. 20515

September 24, 2019

Re: The Future of Real-Time Payments

Dear Chairman Lynch, Ranking Member Hill, and members of the Task Force:

Consumer Reports[1] thanks the Committee for calling a hearing on the future of real-time payments. As money moves faster there is great promise, but also risks. These risks can be mitigated in a number of ways, not the least of which is Congress updating the law to ensure that every way is safe to pay.

Consumer Reports has a long history of working to make every way safe to pay and to ensure that the payments system is safe. A few examples of CR's work in this area include working for strong consumer-centric policies when the check system was updated,[2] advocating for legal protections for prepaid cards[3] and for mobile payments,[4] and serving on the Secure Payments Task Force[5] and the Faster Payments Task Force[6] Steering Committees.

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[1] Consumer Reports is an expert, independent, non-profit organization whose mission is to work for a fair, just, and safe marketplace for all consumers and to empower consumers to protect themselves. Consumers Reports works for pro-consumer policies in the areas of financial services and marketplace practices, antitrust and competition policy, privacy and data security, food and product safety, telecommunications and technology, travel, and other consumer issues in Washington, DC, in the states, and in the marketplace. Consumer Reports is the world's largest independent product-testing organization, using its dozens of labs, auto test center, and survey research department to rate thousands of products and services annually. Founded in 1936, Consumer Reports has over 6 million members and publishes its magazine, website, and other publications.

[2] See for example CR's efforts to improve The Check Clearing for the 21st Century Act: https://advocacy.consumerreports.org/research/seven_policies_banks_could_adopt_to_improve_check_21_for_consumers/.

[3] https://advocacy.consumerreports.org/research/prepaid_cards_second-tier_bank_account_substitutes/

[4] https://advocacy.consumerreports.org/research/pay-at-your-risk-how-to-make-every-way-to-pay-safe-for-mobile-payments/

[5] https://securepaymentstaskforce.org/about-the-task-force/.

[6] https://fasterpaymentstaskforce.org/meet-the-task-force/the-contributors/.

Faster payments may prove both convenient and money saving for consumers. The Faster Payments Task Force identified use cases that could benefit most from faster payments, including person-to-person payments, such as paying a friend; some person-to-business payments, such as emergency bill payments; and some business-to-person payments, such as wage payments.[7] Paying a friend electronically in real-time saves a run to the ATM, and may help consumers avoid out-of-network ATM fees. Paying a bill the same day it is due and having the money immediately received and applied may reduce the incidence of late fees. Getting paid in real-time could reduce reliance on expensive credit. Some workers cannot wait days or weeks until payday, and instead take out high-cost, short-term loans to carry them until their wages arrive. Real-time wage access could reduce the need for such credit. Real-time payments will give consumers greater certainty about their balance, helping them manage their money and avoid NSF and overdraft fees. FDIC research shows that high or unpredictable fees drive consumers away from traditional checking accounts.[8] If faster payments are done right, that unpredictability should be eliminated, and may bring un- and underbanked consumers back to the formal financial system.

While faster payments have potential consumer benefits, money moving instantly brings real risks. Faster payments are instant and irrevocable, and are thus an inviting target for scammers. Money mistakes in this environment can lead to consumer losses. Service providers and regulators must do more to ensure consumer safety. When the United Kingdom launched its real-time payment system, fraud spiked.[9] Some have suggested that consumer education can combat the risk of fraud.[10] While alerting consumers to the risk of fraud is appropriate, it is no substitute for building systems that prevent, detect, remedy and punish fraud, and strong protections under law for consumers. While the risks are real, fear of fraud should not result in undue delays, and unless a payment is flagged for potential fraud or error, providers should guarantee prompt funds availability and prompt application of payments.

The current state of peer-to-peer (P2P) payments is instructive. Consumer Reports investigation of P2P services found that providers were not doing enough to ensure consumers who experienced problems, such as sending money to the wrong person or getting scammed, got

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[7] https://fasterpaymentstaskforce.org/payment-landscape/benefits-of-faster-payments/.

[8] Federal Deposit Insurance Corporation, 2017 FDIC National Survey of Unbanked and Underbanked Households at 4: "As in previous years, higher proportions of unbanked households that previously had an account cited "Bank account fees are too high" (29.9 percent) or "Bank account fees are unpredictable" (24.9 percent) in 2017, compared with unbanked households that never had an account (21.1 and 17.0 percent, respectively)." *Available at* https://www.fdic.gov/householdsurvey/2017/2017report.pdf.

[9] KPMG New Payments Platform, The industry approach to minimising real-time payments fraud, https://assets.kpmg/content/dam/kpmg/au/pdf/2018/kpmg-nppa-new-payments-platform-minimising-payments-fraud.pdf at 9.

[10] One of the three working groups established by the Faster Payments Council is "Education & Awareness" and works to "build an educational and awareness program to foster better understanding of faster payments and confidence among providers and users." https://fasterpaymentscouncil.org/.

appropriate help.[11] Victims of fraud should be entitled to error resolution rights even if they were tricked into authorizing a transfer of funds themselves, and service providers, as we have argued previously, have an obligation under the Electronic Funds Transfer Act to assist consumers who mistakenly send money to the wrong person.[12] The Consumer Financial Protection Bureau should clarify procedures to remove any uncertainty and enforce the rule if providers do not comply.

Overdraft should not be permitted for real-time payments. While the potential for faster payments fraud is cause for concern, there is a legal, commonplace practice that causes daily harm to consumers to the tune of $34 billion per year: overdrafts.[13] Banks charge overdraft fees to cover overdrawn transactions, meaning these services are effectively short-term loans with extremely high interest rates. Overdraft fees are particularly insidious because they are imposed most often on low income individuals who are already struggling financially. Overdraft fees are $35 on average.[14] Penalizing these consumers with a fee for each overdrawn transaction isn't just wrong - it can trap them in debt, possibly resulting in involuntary account closure and damaging their credit. If high-cost, short term instant credit extensions are allowed in the faster payments environment if could not only undercut consumer benefits, but also leave some worse off. Quite simply, overdrafts should be prohibited in the faster payments environment.

The Federal Reserve's FedNow plan will hasten the advent of ubiquitous faster payments. The move to same-day ACH and the launch of Clearinghouse's Real Time Payments system are important milestones in the effort to bring the ease and convenience of email to money. However, only the Federal Reserve, due to its unique status in the U.S. banking system, can lead all industry stakeholders forward as well as serve the public interest in a faster and safer way to move money. With its announced intention to build the FedNow faster payments system, the Federal Reserve will ensure safe, reliable, accessible faster payments to all. The benefits of faster payments will not be fully realized if faster payments are not

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[11] https://www.consumerreports.org/digital-payments/peer-to-peer-payments-are-generally-safe-but-consumers-must-be-aware-of-risks/. For an example of service provider practices, see this from Venmo's website:"*The moment you send a payment in Venmo, the funds are made available to the recipient. If you sent a payment to another user with a similar name, as a first step, send that user a charge request for the same amount of the payment so they can pay you back. You should include a note asking them to pay you back for the money you sent by mistake, and once they accept the request the payment will be added to your Venmo account. If you don't hear back from them or need help sending a charge request, contact our support team and we'll do our best to help. While we cannot guarantee we'll be able to help recover the money, if you reach out to us, we can provide any available options.*" https://help.venmo.com/hc/en-us/articles/209681208-I-paid-the-wrong-person-.

[12] https://www.regulations.gov/document?D=CFPB-2018-0012-0039

[13] https://www.marketwatch.com/story/overdraft-fees-havent-been-this-bad-since-the-great-recession-2018-03-27.

[14] https://www.bankrate.com/banking/checking/checking-account-survey/

ubiquitous, reaching all consumers and even the smallest financial institutions. Only the Federal Reserve can ensure such wide access.

Congress must act to make every way safe to pay. When Congress passed the Electronic Funds Transfer Act (EFTA) in 1978, it did so because it recognized the existing legal framework for payments was insufficient to address the then-new reality of electronic payments[15] and sought to secure consumer rights.[16] The EFTA ensures crucial payment protections for consumers, but it is not enough. As described in detail in the 2008 article "Before the Grand Rethinking: Five Things to Do Today with Payments Law and Ten Principles to Guide New Payments Products and New Payments Law,"[17] while many payment types look the same, protections vary widely and often there is little that consumers can do to ensure their safety.[18] To remedy this mess, the author, Gail Hillebrand (then-CR financial services policy leader), proposed that certain existing consumer protections be expanded to apply to all non-cash payments to create uniform protections.[19] One of these reforms is to extend the chargeback right - the right to reverse payment if goods are not delivered as agreed.[20] Congress should adopt this reform.

Congress should pass The Overdraft Protection Act of 2019. As mentioned above, overdraft fees, already harmful, could be disastrous for consumers in the faster payments environment. The Overdraft Protection Act of 2019 can help remedy existing problems and protect all consumers, no matter the payment speed. The bill extends critical protections to consumers, codifies the 2010 overdraft rules that require consumers to opt into overdraft programs, limits the number of overdraft fees that can be charged monthly and yearly, require overdraft fees to be reasonable and proportional, and prohibits banks from posting transactions in order to maximize overdraft fees.

Libra is not the solution to slow payments. In its Libra whitepaper, Facebook positions Libra as an "instant" and "low-cost" way to move money.[21] In testimony before Congress, the company frequently mentioned the need for speed and efficiency, effectively arguing that Libra is necessary and useful, in part, because the United States lacks a universal faster payments system.[22] However, the establishment of Libra is unlikely to solve any problems, and likely to cause more. Congress did much to call attention to issues with Libra in its July hearings, including concerns about competition and market concentration, monetary policy, compliance

[15] 15 U.S. Code § 1693(a)
[16] 15 U.S. Code § 1693(b)
[17] https://consumersunion.org/pdf/WhereisMyMoney08.pdf
[18] Gail Hillebrand, Before the Grand Rethinking: Five Things to Do Today with Payments Law and Ten Principles to Guide New Payments Products and New Payments Law, Chicago-Kent Law Review Symposium: Rethinking Pay-ments Law, 83 Chi.-Kent L. Rev. No 2, 769 (2008), *available at* https://www.law.berkeley.edu/wp-content/uploads/2019/07/Before-The-Grand-Rethinking.pdf.
[19] *Id.*
[20] *Id. at* 796-799.
[21] https://libra.org/en-US/wp-content/uploads/sites/23/2019/06/LibraWhitePaper_en_US.pdf
[22] https://financialservices.house.gov/uploadedfiles/hhrg-116-ba00-wstate-marcusd-20190717.pdf

with Know Your Customer and Anti-Money Laundering rules, and other critical issues. There is no mechanism to fix these issues. Even the most basic questions about consumer protections for Libra users remain unanswered, as the US lacks a strong legal framework to ensure consumer protections and marketplace integrity for cryptocurrency. Meanwhile, Facebook itself is an untrustworthy actor. Facebook has repeatedly abused consumer trust, and shown itself unable to meaningfully police itself. And it is useful to remember that many of the problems that Facebook proposes to resolve with its Libra currency can be solved through more traditional means, including through the establishment of a well-structured FedNow faster payments system.

Conclusion

Faster payments have potential consumer benefits, but also potential downsides. While we will look to providers - including the Federal Reserve - to be first line to mitigate the risks, Congress too has a role. Congress can make every way safe to pay by enacting common sense reforms. We applaud the Committee for holding this hearing on the future of faster payments. If we can be of assistance to you or Committee staff, please do not hesitate to contact us.

Sincerely,

Christina Tetreault

Christina Tetreault
Senior Policy Counsel

FINANCIAL INNOVATION NOW

Statement for the Record

Financial Innovation Now

House Committee on Financial Services
Task Force on Financial Technology
September 26th, 2019

Financial Innovation Now (FIN) strongly supports the Board of Governors of the Federal Reserve System decision to develop FedNow, a real-time interbank gross settlement system that will facilitate faster payments across the United States.

FIN is an alliance of technology leaders working together on policies that will help modernize the way consumers and businesses manage money and conduct commerce.[1] Digital technology plays an essential role in the democratization of finance. FIN member companies have, in connection with financial institutions, brought to market some of the most innovative and secure financial products available to consumers and small businesses today.

The Federal Reserve Board's decision to develop FedNow is a bold step into the future. Real-time payments can increase economic efficiency, grow small businesses, and help American consumers keep up with everyday needs. FIN has long argued that sending money should be as fast and easy as sending a text message. That future will not come for all Americans unless the Fed acts swiftly to ensure wide adoption of a real-time payments infrastructure that serves the economy and public interest.

Federal Reserve action is necessary because: 1) consumers and small businesses, particularly the underserved, need accessible and affordable options, and they have twenty-first century expectations for their money; 2) innovation will flourish through two or more networks, helping to mitigate the harm of proprietary standards and rules; 3) while America's payment infrastructure is long overdue for an upgrade, other countries are outpacing the United States in adopting real-time payments; and 4) ubiquity can only be achieved by the Federal Reserve, which is uniquely positioned to connect all financial institutions in the United States.

FIN commends the Board's resolve and leadership in building part of the foundation necessary for America's future payment innovation. We look forward to working with the Federal Reserve on a timely process that benefits all payment system users and stakeholders. FIN urges Congress to support the Federal Reserve's work towards these goals.

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[1] Our member companies include Amazon, Apple, Google, Intuit, PayPal, Square, and Stripe. For more information regarding FIN's policy priorities and principles, please visit https://financialinnovationnow.org

THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

September 25, 2019

Chairman Stephen Lynch House Committee on Financial Services, Task Force on Financial Technology 2109 Rayburn House Office Building Washington, DC 20515	Ranking Member French Hill House Committee on Financial Services, Task Force on Financial Technology 1533 Longworth House Office Building Washington, DC 20515

Dear Chairman Lynch and Ranking Member Hill,

Food Marketing Institute[1] (FMI) was pleased to see the House Financial Services Committee's Task Force on Financial Technology is holding a hearing, "The Future of Real-Time Payments." This is a very timely topic, and one that FMI has taken an active interest in over the past several years. We are very supportive of the Federal Reserve's recent announcement that it intends to move forward with implementing a real-time gross settlement (RTGS) system, FedNow. FMI is pleased to share our comments that we submitted as the Fed considered setting up a RTGS system last year, and we request they be submitted into the hearing record.

Thank you for your interest in faster payments here in the United States, and we look forward to working with the committee and the task force on this and other important issues to the food retail industry moving forward.

Sincerely,

Hannah vL Walker
Vice President, Political Affairs

Cc: members of the House Committee on Financial Services

[1] Food Marketing Institute proudly advocates on behalf of the food retail industry, which employs nearly 5 million workers and represents a combined annual sales volume of almost $800 billion. FMI member companies operate nearly 33,000 retail food stores and 12,000 pharmacies. FMI membership includes the entire spectrum of food retail venues; single owner grocery stores, large multi-store supermarket chains, pharmacies, online and mixed retail stores. Through programs in public affairs, food safety, research, education, health and wellness and industry relations, FMI offers resources and provides valuable benefits to almost 1,000 ---food retail and wholesale member companies and serves 85 international retail member companies. In addition, FMI has almost 500 associate member companies that provide products and services to the food retail industry. For more information, visit www.fmi.org and for information regarding the FMI Foundation, visit www.fmifoundation.org.

THE VOICE OF FOOD RETAIL
Feeding Families Enriching Lives

December 14, 2018

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

Re: Docket No. OP-1625; *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments*

Food Marketing Institute (FMI) is pleased to share its comments on the Federal Reserve Board's "Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments." As the trade association representing the U.S. grocery and wholesaler industry, FMI thanks the Board for its continued interest in improving our payments system and active engagement with all stakeholders throughout the payments chain.

As a point of reference, FMI proudly advocates on behalf of the food retail industry, which employs nearly 5 million workers and represents a combined annual sales volume of almost $800 billion. FMI member companies operate nearly 33,000 retail food stores and 12,000 pharmacies. FMI membership includes the entire spectrum of food retail venues; single owner grocery stores, large multi-store supermarket chains, pharmacies, online and mixed retail stores. FMI members report that 32% of transactions in their stores are processed using credit cards, coming in only second to the 36% of transactions that were debit cards.

In 2017, according to *The Nilson Report*, 54.37% of all electronic transactions were processed using credit cards. In dollar figures, U.S. retailers accepted $3.597 trillion in credit card payments, up 7.3% from the prior year. While the increased use of credit cards in our members' stores have helped create some efficiencies for both the customer and grocer, many challenges remain. In addition to the continued and unchecked increase in cost of accepting credit cards, retailers are often left waiting multiple days before settlement and receiving payment for goods sold. While the grocery industry survives on a less than 2% profit, on average, this delay in settlement ties up billions of dollars trapped in transit between banks rather than being in a retailer's account to provide liquidity and resources needed to conduct and grow their business. Even more concerning is the growing disadvantage that delayed settlement is imposing on U.S. retailers in the global market. Once again, U.S. retailers find themselves at a competitive disadvantage while other countries move to innovate and implement real-time settlements. With the growth in e-commerce, this competitive disadvantage will only expand if it is not addressed now.

With these pain points in mind, FMI was pleased to see the Board's consideration in developing a 24x7x365 settlement service in order to implement real-time interbank settlement services. FMI also supports the implementation of the Real Time Gross Settlement (RTGS) model here in the U.S. Additionally, FMI supports the Board implementing add-on services, such as directories allowing users to use aliases or other credentials beyond account numbers. Time is of the essence, and FMI encourages the Board to move swiftly in building and launching a RTGS system without delay.

Launching a domestic RTGS system will have a clear public benefit, with the customer having real-time credit balance information and U.S. retailers with immediate access to funds and greater liquidity. Additionally, when a customer is issued a refund, he or she will have real-time access to those funds as opposed to waiting multiple days as they do today. Furthermore, we believe it is appropriate for the Board to implement this system, as no single private player in the market will achieve the ubiquity, scale and breadth demanded by our economy.

While FMI sees this as an essential first step to help our members continue to compete on the quickly evolving global market, we also see this as a first, not last step. FMI encourages the Board to continue to study other models across other markets including enabling non-banks to initiate payments using a common interface or set of open APIs, enabling even more robust competition and innovation.

In its request for comment, the Board thoughtfully asked what other ideas it should consider to achieve the broader goal of faster, ubiquitous payments. In that vein, we must look at the entire payments marketplace. Unfortunately, the U.S. payments industry lacks true competition, innovation and transparency, leaving legacy players content with the "status quo" of an unjustifiably expensive and antiquated payments system. FMI supports the Board, in addition to this work on real time payments, investigating the market inhibitors that have a chilling effect on competition and innovation. Building RTGS is a market-based approach, and we would encourage the Board to also consider leveraging its regulatory authority by revisiting Regulation II and further reducing the fee standard established by the Board to properly reflect the true costs of processing on behalf of the issuing banks and in turn spurring growth in competition and innovation.

Payments in the U.S. systematically lag behind our global competitors. In addition to the above topic of real-time settlement, the U.S. remains the global leader in payment card fraud. FMI is encouraged by the Board's interest in a multi-pronged approach to innovation that will address many of these pain points. Thank you again for the opportunity to share our thoughts on behalf of the grocery industry, and we look forward to a continued dialogue moving forward.

Sincerely,

Hannah Walker

Hannah Walker
Senior Director, Technology & Nutrition Policy

the MAIN STREET alliance

September 23, 2019

The Honorable Elizabeth Warren
317 Hart Senate Office Building
United States Senate
Washington, DC 20510

The Honorable Chris Van Hollen
110 Hart Senate Office Building
United States Senate
Washington, DC 20510

The Honorable Ayanna Pressley
1108 Longworth House Office Building
United States House of Representatives
Washington, DC 20515

The Honorable Chuy Garcia
530 Cannon House Office Building
United States House of Representatives
Washington, DC 20515

Senators Warren and Van Hollen, and Representatives Pressley and Garcia:

We are writing to express Main Street Alliance's support for the Payment Modernization Act, a crucial step toward establishing a much needed real-time payment system for our country. Main Street Alliance is a national network of more than 30,000 small businesses around the country. Our members and the small business sector as a whole will benefit from an efficient modernized payment system that is accountable to the public.

While the country's largest businesses have the size and margins to weather payment delays, Main Street small business owners find themselves in the same position as the average household, disadvantaged by bank processing lag time that slows cash flow and increases the threat of missed payments and cascading debt. The gap between receiving a check and the timeframe it takes to clear can mean missing a payment to a supplier, acquiring products and resources, or even missing payroll. Like their customers, small businesses often turn to high-cost alternative lenders, such as merchant cash advances, when they experience a cash-flow crunch.

Small businesses also feel the pinch when families are short on cash because their paychecks and other deposits are slow to clear. (As of 2015, almost one-third of households receive income through check or money order.[1]) Every dollar that is held up in bank processing, lost to overdraft or checking fees, or spent on financing a payday loan is a dollar that cannot be spent in a

[1]https://www.pewtrusts.org/en/research-and-analysis/articles/2018/03/09/faster-payments-system-could-give-consumers-and-businesses-better-access-to-their-money

Letter from Main Street Alliance
September 23, 2019

Page Two

neighborhood store. Moreover, businesses that are invested in their neighborhoods do not want their customers to have to turn to payday and other predatory lenders to buy groceries and other basics.

According to the Brookings Institution, we can add about $3.5 billion to working families by cutting out just 10 percent of overdraft fees, payday loans, and check cashing fees.[2] That's money that can be circulated through local economies, creating vitality for communities and Main Street businesses, instead of padding the profits of payday lenders and large banks.

We support a real-time payment system that is efficient, effective, and accountable to the public. We believe the country needs an alternative to a private monopoly controlling real-time payments, particularly one dominated by the same Wall Street banks responsible for the financial crisis of 2008, which still reverberates for Main Street small businesses.

We are particularly concerned that a system dominated by these large banks, which are oriented toward big business customers, will shut out the smaller banks and credit unions that many small businesses rely on.[3] From the perspective of Main Street businesses, it is important to provide an alternative that offers greater accountability to the public and is better matched to the needs of the country's small businesses.

Sincerely,

Amanda Ballantyne
National Director, Main Street Alliance

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[2] https://www.brookings.edu/opinions/real-time-payments-can-help-combat-inequality/
[3] http://www.hbs.edu/faculty/Publication%20Files/17-042_30393d52-3c61-41cb-a78a-ebbe3e040e55.pdf

Nacha™

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Sept. 24, 2019

Via Electronic Submission

The Honorable Stephen Lynch
Chairman
Task Force on Financial Technology
2109 Rayburn House Office Building
Washington, DC 20515

The Honorable French Hill
Ranking Member
Task Force on Financial Technology
1533 Longworth House Office Building
Washington, DC 20515

Re: Task Force on Financial Technology Hearing, "The Future of Real-Time Payments"

Dear Chairman Lynch and Ranking Member Hill:

Nacha appreciates the Financial Technology Task Force's efforts to engage the payments industry in a dialogue about potential improvements to the U.S. payment system, particularly as it relates to faster payments. Nacha welcomes the opportunity to submit a Statement for the Record to the Task Force in preparation for the Hearing on The Future of Real-Time Payments.

The Modern ACH Network

Nacha is the steward of the modern ACH Network, an electronic payment system that universally connects all U.S. bank accounts and facilitates the movement of money and information. The ACH Network serves as a safe and reliable way for consumers, businesses and governments to make and receive payments. In 2018, there were 27 billion ACH payments, and more than $51 trillion in value moved across the ACH Network. The Federal Government is the largest user of the ACH Network, making use of its capabilities and efficiencies for 1) the Direct Deposit of salaries and retirement benefits; Social Security, veterans and other benefit payments; and tax refunds; 2) the collection of much of the Federal government's revenue through the remittance and collection of tax payments; and 3) the payment of government vendors and contractors.

In 2016, Nacha and the two ACH Network operators – the Federal Reserve and The Clearing House – introduced Same Day ACH for faster processing and funds availability for ACH payments. Since its inception, the ACH Network has moved more than 400 million Same Day ACH payments; and in July 2019 the number of Same Day ACH payments exceeded 1 million per day. Additional improvements to Same Day ACH are coming – a faster funds availability requirement went into effect this month (on Sept. 20, 2019); the dollar limit for Same Day ACH payments will increase in March 2020 to $100,000; and extended operating hours are scheduled to go live in March 2021, pending a final decision from the Federal Reserve Board of Governors.

Nacha Comments on Faster Payments

A. A Misconception about Paychecks and Real-Time Payments

Much of the commentary surrounding the Fed's decision to build FedNow involves paychecks. There has been concern expressed that workers still getting paid by paper check don't have quick access to their funds, which can impact those living payday-to-payday. While paper paychecks are inefficient and should be replaced, most workers do not get paid with a paper paycheck anymore.

Direct Deposit via the ACH Network is the way in which nearly 93 percent of Americans get paid, according to a 2018 American Payroll Association survey. It's faster, safer and more reliable than a paper check, and can reach every bank account. Most importantly, by using Direct Deposit, workers get the money in their accounts at the opening of business on payday, without having to wait for a paycheck to clear. For example, an employee with a payday on Friday, Aug. 30, 2019, using Direct Deposit had their funds available for withdrawal or to cover payments at the start of that day, before the Labor Day holiday weekend.

For employees without set paydays, the ACH Network now enables faster processing of Direct Deposits with Same Day ACH. In the example above, the employee can still get access to money in his or her account by 5 p.m. via a Same Day ACH Direct Deposit. Direct Deposits and other disbursements to consumers are the largest and fastest growing category of Same Day ACH payments, increasing by 142% over the past year.

B. A Model for Interoperability

To the degree that real-time payment system operators desire interoperability, there is a model that exists today for how it can be successfully accomplished, administered and managed. The same two entities that are or will become real-time system operators are the same two entities that operate the ACH Network – the Federal Reserve and The Clearing House – and interoperability is achieved in large part through the Nacha Operating Rules.

Interoperability is about more than technology. Participants in any system need to know their roles, rights and responsibilities. A system need to define basic standard operating practices including risk management, error and dispute resolution, and regulatory compliance (for electronic payment systems, this includes Regulation E and

OFAC sanctions policies). Even a system design feature as simple as the maximum allowable amount of a payment can impact whether interoperability is achievable.

Nacha works cooperatively with the Federal Reserve and The Clearing House, as the two operators of the modern ACH Network, and with ACH providers, processors, end-users and other stakeholders to manage and administer the Nacha Operating Rules. Comment and feedback is solicited from the industry and the public with respect to proposed rule changes. Through this model of dialogue, comment, and consensus-building, Nacha and all ACH stakeholders are able to advance the capabilities of the ACH Network for the benefit of the consumers, businesses and governments that use the system.

C. The Payments Industry Needs More from the Federal Reserve than FedNow

Payments industry organizations and participants such as Nacha and WesPay have been asking for changes in Federal Reserve-provided settlement services for many years. In 2013, in response to the "Payment System Improvement Public Consultation Paper, Nacha wrote, "to support a 21st century payment system, the Federal Reserve could expand the opening hours of the National Settlement Service to support daily settlement activity with longer opening hours, ideally on a near 24x7 schedule, even on weekends and holidays." In its January 2015 Strategies for Improving the U.S. Payment System Report, the Fed committed to improving interbank settlement services based on industry feedback. Yet as of this writing on Sept. 24, 2019, the only service improvement implemented by the Fed later on the current date has been 30 minutes of extended National Settlement Service ("NSS") operating hours, from 5:00 p.m. to 5:30 p.m. ET.

To illustrate the impact of this limitation, ACH Operators process ACH files 23¼ hours per banking day (from 3 a.m. to 2:15 a.m. ET on the next day), but can only conduct interbank settlement when NSS and other Fed systems are open and available. If the Fed made NSS and other systems available for longer periods of time, the ACH Operators could conduct interbank settlement during a greater portion of each banking day. Similarly, although the private-sector ACH Operator conducts some ACH file processing on weekends, it cannot conduct interbank settlement until the Fed opens the NSS on the next banking day following a weekend and/or holiday. Again, if the Fed opened NSS for weekend and holiday hours for the current day's date, interbank settlement in support of ACH file processing could be available during those weekend hours.

Furthermore, the Fed has not committed as of this writing to implementing the industry's request to extend the NSS operating hours for an additional one hour – to 6:30 p.m. ET - to support the extension of Same Day ACH availability, even though Nacha and others have been in dialogue with the Fed for several years specifically on this point. More than a year after Nacha's rule to extend Same Day ACH was approved (on Aug. 22, 2018), the Federal Reserve has not agreed to provide the necessary settlement service.

Even in its proposal of Aug. 5, 2019 to build and operate the FedNow service, the Fed has not stated how it would enable banks and credit unions to manage their liquidity and fund their settlement positions during the times when FedNow is open and Fedwire is closed. FedNow will operate on a 7-day accounting regime that includes weekends and holidays, but evidently other Federal Reserve systems and services will not. This seems important and significant enough to the viability and success of the FedNow enterprise that it should be addressed in parallel with the proposal for FedNow, rather than being deferred for future discussion.

Nacha appreciates the opportunity to provide a Statement for the Record. If you have any questions regarding our comments, please do not hesitate to contact Nacha.

Sincerely,

Jane E. Larimer

Jane E. Larimer
President & CEO

cc: The Honorable Maxine Waters, Chairwoman
cc: The Honorable Patrick McHenry, Ranking Member

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National Association of Federally-Insured Credit Unions

September 25, 2019

The Honorable Stephen Lynch Chairman Task Force on Financial Technology Committee on Financial Services U.S. House of Representatives Washington, DC 20515	The Honorable French Hill Ranking Member Task Force on Financial Technology Committee on Financial Services U.S. House of Representatives Washington, DC 20515

Re: Tomorrow's Hearing, "The Future of Real-Time Payments"

Dear Chairman Lynch and Ranking Member Hill:

I write to you today on behalf of the National Association of Federally-Insured Credit Unions (NAFCU) to share our perspective on the future of real-time payments in the credit union industry, and to express our support of the Federal Reserve's decision to develop a new, real-time gross settlement capability called the FedNow Service. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve over 118 million consumers with personal and small business financial service products.

Data collected by the Federal Reserve indicates that growth in both the value and volume of electronic payments has accelerated in recent years. At the same time, surveys of the largest depository institutions from 2016 to 2017 reveal that ATM withdrawals by number and check volume have declined. These trends are consistent with what has been a decades long shift towards digital payments—particularly remote and online payments—and have contributed to evolving consumer expectations regarding the speed and convenience of day-to-day transactions. Although real-time payments are not yet the norm for consumers, faster payments have become commonplace, particularly in the mobile and P2P space.

For credit unions, faster payments represent a distinct technology priority. Over half of the participants in NAFCU's 2018 Fed Survey reported that they were considering a faster payments settlement option for their members. In addition, over two-thirds noted that they would have greater interest in a faster payments settlement option if it was developed under the direction of the Federal Reserve. While a majority of NAFCU-surveyed credit unions indicate that they are planning to invest in faster payments options for their members, some are uncertain of member demand for real-time payments, particularly in a retail environment that is already highly accommodating of deferred settlement systems. However, the success of faster payments in other countries such as the United Kingdom (which adopted real-time payments over a decade ago) suggests that it may be inevitable that consumers will eventually come to expect real-time or near real-time capabilities in the future.

Any future, real-time payment system must be cost-effective, operationally effective, and scalable for credit unions of all sizes. To be operationally effective, a future real-time payments system must be able to reach all financial institutions and consumers—particularly those in Main Street America who depend on credit unions for affordable access to financial products and services. NAFCU believes that the development of the FedNow Service is critical to achieving such ubiquity. At the same time, we are supportive of the Federal Reserve's desire to make the FedNow Service interoperable with private sector networks to maximize the reach and accessibility of real-time payments. NAFCU has also supported incremental improvements to existing payments infrastructure to achieve faster settlement capabilities that do not require real-time speed.

It is also important that community institutions such as credit unions are able to secure fair access to real-time payments services; a goal that is currently shared by private sector operators, but best achieved with the participation of the Federal Reserve. As with its check and ACH services, the Federal Reserve maintains a policy of extending access to its payments services on fair and equitable terms to all institutions, including those in rural and remote areas.

As the Task Force considers ways that real-time payments may eventually shape consumers' financial habits, NAFCU notes that both industry and government stakeholders are already committed to ensuring that payments are not only faster, but also safer. NAFCU has served as a participant on the Federal Reserve's two payments improvement task forces, and credit unions have joined working groups that are actively exploring ways to improve the resilience and security of U.S. payments. The Task Force should recognize that these efforts would be greatly enhanced by a national data security standard or equivalent legislation, which would help establish shared responsibility for protecting the sensitive, payment-related information of American consumers. While the creation of the FedNow Service will certainly improve the resiliency of U.S. payment systems as a backup in the event of system outages or other failures, the greatest threat to consumer payments safety is the lack of meaningful security standards among merchants. Credit unions continue to bear the costs of payment-related fraud in connection with retail data breaches. The nature of irrevocable, real-time payments suggests that this burden may only grow heavier in the absence of appropriate security incentives for merchant end-users.

Lastly, we ask the Task Force to acknowledge that while the practical benefits of real-time payments are realizable, they should not be viewed as a panacea for underlying financial uncertainty. Faster payments can improve financial confidence by allowing individuals to make time-critical payments and avoid late fees with greater ease, but consumers must decide for themselves how best to manage their household liquidity. To improve understanding and adoption of faster payments, industry and government stakeholders should be given flexibility to develop consumer education and outreach strategies through collaborative and voluntary partnerships. With access to real-time payments still at a nascent stage, it is critical that stakeholders are empowered to determine best practices for access and disclosure based on experience rather than through the mandate of future legislation or regulatory intervention. Requiring a more prescriptive approach could chill adoption of faster payments and frustrate efforts to develop a modern and frictionless payment environment.

On behalf of our nation's credit unions and their more than 118 million members, we thank you for your attention to this important matter. Should you have any questions or require any additional information, please contact me at 703-842-2204 or bthaler@nafcu.org.

Sincerely,

Brad Thaler

Brad Thaler
Vice President of Legislative Affairs

Cc: Members of the Task Force on Financial Technology

RETAIL INDUSTRY LEADERS ASSOCIATION

99 M Street, SE
Suite 700
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www.rila.org

September 24, 2019

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

The Honorable Patrick McHenry
Ranking Member
Committee on Financial Services
U.S. House of Representatives
Washington, D.C. 20515

Dear Chairwoman Waters and Ranking Member McHenry:

The Retail Industry Leaders Association (RILA) supports the recent announcement by the Board of Governors of the Federal Reserve to establish a faster payment system in the United States and appreciates the House Financial Services Committee holding a hearing on *"The Future of Real-Time Payments."* RILA welcomes the opportunity to partner with the Committee as the FedNow infrastructure is developed. The engagement by the Federal Reserve will help achieve ubiquitous, safe, and efficient faster payments across the ecosystem and, more importantly, benefit all Americans.

RILA is the U.S. trade association for leading retailers. We convene decision-makers, advocate for the industry, and promote operational excellence and innovation. Our aim is to elevate a dynamic industry by transforming the environment in which retailers operate. RILA members include more than 200 retailers, product manufacturers, and service suppliers, which together account for more than $1.5 trillion in annual sales, millions of American jobs, and more than 100,000 stores, manufacturing facilities, and distribution centers domestically and abroad.

During the past few years, RILA has been a collaborative partner with the Federal Reserve by working with the Secure and Faster Payment Task Forces (SPTF and FPTF). These efforts brought industries from across the payment ecosystem together to discuss a wide range of policy issues, with the overall goal of updating and improving the nation's payment infrastructure. These efforts culminated in the decision to establish FedNow.

FedNow will not only have a positive impact on the merchant community, but it will also benefit the American consumer. As retailers, it is not uncommon to hear from our customers about the length of time it takes for debit transactions to be completed. This is especially true for Americans who are underbanked, living on fixed incomes, and facing budget constraints. Establishing a real time payment system in the United States would benefit all American consumers by providing more clarity and control over their finances.

Over the past several decades, RILA has seen competition and innovation in the payments ecosystem stifled by a small group of legacy players. This is one of the key reasons why RILA supports the Federal Reserve's involvement. The Federal Reserve's decision to move forward on FedNow would not only complement the current services they provide in the payments arena but also—and more importantly—ensure there is competition in the market that provides a choice for all industries.

Once again, RILA commends the Federal Reserve's decision to establish FedNow, which will ensure scale, reach, and competition are achieved for faster payments in the United States. There will undoubtedly be policy disagreements as the FedNow infrastructure is created, but there should be no dispute that the Federal Reserve has the clear authority to engage in this area.

RILA is prepared to work as a collaborative partner to achieve this ambitious undertaking with all Members of Congress, key stakeholders in the payment ecosystem, and the Federal Reserve. Failure to move forward on this critical initiative will leave our nation further behind in the payments arena, potentially harm economic growth, and—above all—limit the financial choices of the American public.

Sincerely,

Austen Jensen
Senior Vice President, Government Affairs

cc: Members of the House Committee on Financial Services

Statement by

Robert Hunter
Executive Managing Director and Deputy General Counsel
The Clearing House Payments Company

to the

House Financial Services Committee Task Force on Financial Technology

Hearing on the
"The Future of Real-Time Payments"

September 26, 2019

Chairman Lynch, Ranking Member Hill and distinguished members of the Committee, my name is Rob Hunter, and I serve as the Deputy General Counsel of The Clearing House Payments Company, based in our North Carolina facilities. I have worked at The Clearing House for more than ten years providing senior legal support to all of our payments services. This statement will be focused on the RTP network, which I was fortunate to be involved in developing. I am also the past Chairman of the Subcommittee on Electronic Payments of the Business Law Section of the American Bar Association and have been involved in a host of development activities related to payments throughout my career.

The RTP network is a new and exciting part of our national payment infrastructure. It was launched in 2017 by The Clearing House and is fully operational today. One of the most distinguishing features of the RTP network is that it operates in real time and all the time—there are no "bankers' hours" for the RTP network—it functions 24x7. But that is just one remarkable feature. The RTP network also delivers on the vision of faster, more efficient and more secure payments that will benefit every American consumer and business.

This innovation is consistent with The Clearing House's historical role in delivering to our country core payments infrastructure that is efficient, safe and reliable. Founded in 1853, for over a century and a half The Clearing House has served as the leading private-sector operator of payments infrastructure in the United States. On an average business day, The Clearing House clears and settles nearly $2 trillion over its wire, automated clearing house and check-clearing networks.

This statement focuses on five main issues: (a) the current state and evolution of the U.S. payment system and how the current system works, (b) the Federal Reserve Faster Payments Task Force's process, conclusions and recommendations, (c) the Federal Reserve's notice and request for comments on its actions to support interbank settlement of faster payments through the development of the FedNow system and expanded operating hours for the Fedwire Funds Service and National Settlement Service, (d) an in-depth overview of the RTP network and any similarities to or differences from the proposed FedNow service and (e) whether FedNow and a private-sector real-time payment system, such as the RTP network, could achieve interoperability, while ensuring efficient, safe and ubiquitous faster payments.

The remainder of this written statement will explore the issues outlined above, but first I would like to summarize the Clearing House's position. When the Federal Reserve competes with the private sector, the Federal Reserve must do so in a manner that minimizes the competitive advantages that a government system has, both inherently and as a direct by-product of the Federal Reserve's role as a supervisor, the supplier of liquidity to the financial system and the central bank. This is not the normal competitive question of impact on profitability because The Clearing House does not seek to operate at a profit. Rather, it is a question of The Clearing House's ability to provide the most effective and efficient real-time payment system to consumers and businesses, to the ultimate benefit of this country's overall economy.

Current State and Evolution of the Payment System

The payments landscape in the United States is complex and highly competitive, with tremendous innovation during the last decade spurred by banks, money services businesses and fintechs. This innovation has largely been focused on end user products. What has been lacking, however, until the launch of the RTP network, is modernization of what we often refer to as the payments rails. This lack of modernization has had important consequences. Consumers and businesses have been left to choose between payments options that were slower than desired and that offered conditional forms of payment, or new payment products that sit outside of the traditional banking system, often with less security and resiliency. Bank and non-bank financial institutions have been forced to accept settlement risk, increasing fraud risk and increased operational complexities due to limitations in the underlying payment rails. The RTP network, the first new payments rail in over 40 years, is designed to eliminate these suboptimal choices and risks, to accelerate the availability of payments and to serve as a platform for innovation for all.

Americans don't spend a lot of time thinking about our country's payments system, which is understandable because so much of it is hidden from view. But make no mistake—without this infrastructure our economy would cease to function. Our payments system enables consumers and businesses to make payments safely, securely and with certainty— – whether you are paying your wireless bill or splitting a restaurant tab with friends.

Although the U.S. payments system has and continues to work *very well* (meaning safely and efficiently), prior to the introduction of the RTP network, it had become (as noted above) very *outdated* when compared to the payments systems in other industrialized parts of the world. I suspect everyone in this room has been frustrated upon hearing that you have to wait a day or longer to gain access to funds you have received or when you don't actually know when a party to whom you have made a payment will actually receive those funds. These frustrations are due to the simple fact that our country's payments infrastructure was designed and built over 40 years ago—well before the dawn of the Internet and mobile phones.

Launched in November of 2017 and fully operational, the RTP network addresses the need to modernize the payments infrastructure in the United States and provides a safer, more secure and more efficient way to make payments that clear and settle immediately, consistent with the way American consumers and businesses operate today.

Federal Reserve Faster Payments Task Force

To its credit, the Federal Reserve recognized the need for faster payments in the United States and leveraged its convening power to urge the private sector to act. In 2013, the Federal Reserve proposed 5 objectives to improve the U.S. payment system that, according to the Federal Reserve, would ideally be achieved within 10 years, including "[a] ubiquitous, safe, faster electronic solution(s) for making a broad variety of business and personal payments supported by a flexible and cost-effective means for payment clearing and settlement groups to settle their positions rapidly and with finality" (*i.e.*, a real-time payments system).[i]

After receiving substantial stakeholder comment on the various objectives, including commentary expressly directed toward the development of a real-time payments system, the Federal Reserve published in 2015 its Strategies for Improving the US Payment System.[ii] In this paper, the Federal Reserve described various strategies for improving the payments system in the United States, including "[i]dentify[ing] effective approach(es) for implementing a safe, ubiquitous, faster payments capability in the United States," noting that "[p]ayment stakeholders will ultimately determine through their individual and collective actions the extent to which these strategies are achieved."[iii]

In late 2015 and early 2016 and to further the strategies outlined in its 2015 paper, the Federal Reserve established its Faster Payments Task Force ("FPTF"), which was charged with "evaluating options for achieving faster payments capabilities with the goal of identifying the approach(es) that would best achieve the desired outcomes."[iv] As part of this assessment process, the FPTF called on the private sector to submit proposals for "a full end-to-end payments solution" to achieve the identified strategies.[v] These proposals were to be judged against the "effectiveness criteria" developed by the FPTF to determine "how well solutions can achieve the desired outcomes associated with improving the U.S. Payments System."[vi]

Of the 16 different private-sector proposals that were submitted to the FPTF, The Clearing House's RTP network proposal received the very highest marks, achieving a rating of "very effective" (the highest possible rating) with respect to 31 of the 36 criteria and "effective" with respect to the remaining 5.[vii] A "very effective" rating meant that "the solution fully satisfies the[] criteria."[viii]

Importantly, the RTP network was given the highest rating possible with respect to its plan to achieve ubiquity, its approach to settlement and resiliency as well as the other categories noted below:

Attribute	Federal Reserve FPTF Rating ("Very Effective" is highest possible)
Accessibility (plan to achieve ubiquity)[ix]	Very Effective
Enables Competition	Very Effective
Implementation Timeline	Very Effective
Risk Management	Very Effective
Payment Finality	Very Effective
Settlement Approach	Very Effective
Fraud Information Sharing	Very Effective
Security Controls	Very Effective
Resiliency	Very Effective
Fast Settlement	Very Effective
Consumer Protections	Very Effective
Effective Governance	Very Effective

The Clearing House was well positioned to meet the need identified by the Federal Reserve for the development of a real-time payments solution and is proud of the ratings its solution received from the FPTF.

That The Clearing House would be well-positioned to deliver on the promise of faster payments for all should not come as a surprise. The Clearing House, which was created to provide the payment services required by the nation's economy, has been in existence for over 165 years and, while owned by a relatively small number of banks, it has always existed to serve depository institutions of all sizes, and continues to do so today. In fact, in The Clearing House's Automated Clearing House ("ACH") and check-clearing networks approximately 80% of our customers are banks and credit unions with $10 billion in total assets or less.

The Clearing House has been entrusted with operating an integral part of the financial system since 1853 because we serve our participants effectively and ethically. We do not engage in anti-competitive behavior because such behavior offends our culture and core values. Our focus on the needs of the industry as a whole has led The Clearing House to price our services on a "cost recovery basis"—in other words, services are priced at a level sufficient to maintain the ongoing safety and soundness of The Clearing House's systems and to make necessary investments in research and development. The Clearing House doesn't have shareholders seeking to maximize profits: it has never paid a dividend in its history, there is no expectation for any return on capital and there is no special pricing for owner banks. The Clearing House instead annually reassesses fees; this cost recovery model has enabled The Clearing House to continually lower prices over time. And, if that were not enough, we are subject to antitrust laws that provide real guardrails on the way we compete, and to multiple different legal protections that prohibit unfair or deceptive acts and practices.

The Clearing House maintains a critical and constant emphasis on the safety, security, reliability and efficiency of its payment systems and it has a remarkable 166-year history of resiliency, having maintained its operations without interruption through multiple world wars, financial crises and natural and man-made disasters, including 9/11 and the great recession.

The RTP Network

To meet the needs identified by the Federal Reserve and consistent with the criteria articulated by the FPTF, The Clearing House led an initiative to modernize the U.S. payments system by developing the RTP network. Today, the network represents the culmination of The Clearing House and the private sector's collective investment of more than $1 billion to design, build, launch and commercialize a real-time payments network in this country. Launched in 2017 and fully operational since that time, the RTP network is the first significant new payments infrastructure introduced in the United States in over 40 years. The RTP network was designed and built to offer real-time payments capabilities to every consumer and business in the country via any and all depository institutions nationwide that want to deliver this functionality to their customers—what the industry refers to as "ubiquity." This means that whether you bank with JPMorgan Chase, or the community Bank of Oak Ridge, North Carolina, where I live, any consumer or business can have the benefits of real-time payments through their depository institution. Today, the RTP network is already connected to over 50% of all U.S. transaction accounts, with the goal of achieving near-universal reach in the next several years.

In terms of the network's functionality, RTP delivers the real-time capabilities that Americans want and need, so that payment recipients receive final, good funds immediately and senders receive confirmation that the funds have been received. The benefits to consumers, small businesses and the nation's economy are transformational. For example:

- Employees who were previously paid by check can be paid through the RTP system and have immediate access to final good funds;
- Day laborers can be paid immediately at the end of their shift;
- Uber drivers can get money into their bank accounts to buy gas for the next day;
- Consumers can stop worrying about how long a payment may take to get to their power company, their mortgage lender or their water company;
- Small businesses, like contractors, can be paid immediately upon completion of a job;
- Restaurants can leverage the RTP network to make payments for "just-in-time" inventory instead of relying on credit; and

- Insurance companies can get disaster relief funds immediately into their policyholders' accounts.

While the immediacy of a payment is an important component of the RTP network, RTP offers so much more, including the rich data features of the system, which allow small businesses to easily transmit invoices and instantly receive payments—streamlining cash flow for businesses that are the backbone of our economy. In addition to the examples above, the appended Fact Sheet provides more details on the design of the RTP network.

In addition to the features of the RTP network that will provide all Americans with a range of new benefits relating to speed, convenience and safety of the payments they make and receive, there are also societal benefits that will accrue from real-time payments. Some analysts, for instance, believe that real-time payments are one of the most immediate ways to benefit Americans who today live paycheck-to-paycheck but tomorrow can receive immediate, final payment through the RTP system and therefore have earlier access to funds.

Let me briefly talk about achieving near-universal reach for the RTP network. The RTP network was designed and built so that the network has the capacity to reach every depository institution in the country, either directly or through third-party service providers, so that every American consumer and business can have the benefit of real-time payments. To achieve this, The Clearing House not only built out the technical capabilities to reach the country's 11,000 financial institutions, but also ensured that the pricing to participate on the network was the same for all banks and credit unions regardless of size. In sum, whether you are the country's largest commercial bank or the smallest, you pay the same, per-transaction fee, to bring these capabilities to your customers.

But the decision by a bank to join a faster payments network like the RTP network or, in 4 years, FedNow, is not simply a matter of having a pre-existing connection or paying the per-transaction fee.[x] Each bank joining a faster payments network needs the right connection, one that is highly resilient (persistent) and right sized for the nature of real-time payments, needs a back office with the capacity and technology to accomplish real-time accounting and availability and needs employee resources available for 24/7 payments support. This is a heavy lift for all banks and for most requires the assistance of third party service providers. The Clearing House has been working with all types of service providers to help ensure that true access to the RTP network is within reach.

The RTP network is also a fundamentally safer and more secure way to pay. RTP payments are limited to "credit push" only, which means that consumers are always in control of the money that moves from their accounts. Unlike "debit pull" systems, where a payee can pull money from an account, consumers and businesses using the RTP network must authenticate into their bank's platform and affirmatively send or "push" money to a recipient—no one can "pull" money out. This feature also lays the foundation for securing the message between the bank and its customer, responding to the need for greater fraud resistance and better cybersecurity.

Federal Reserve Notice and Request for Comment on Actions to Support Interbank Settlement of Faster Payments

Now, I will turn to the Fed's October 2018 notice request for comment on "Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments." Less than a year after the RTP network went live, the Federal Reserve issued a proposal that contemplated entering the market with its own competing real-time gross settlement (RTGS) system.[xi] (The RTP network is also a real-time gross settlement system.) In this proposal, the Federal Reserve cited, as a major justification for potential entry, a generalized concern that its real-time payment service would be needed to achieve the ubiquity that could not be achieved by the private sector.[xii] There was no analysis of The Clearing House's then-operational RTP network's efforts to achieve ubiquity or the FPTF findings related to the RTP network.

The 2018 proposal had two other important components. First, the Federal Reserve noted that accessibility would be greatly enhanced "if existing and potential future private-sector RTGS services were able to interoperate with a Reserve Bank service such that end-user customers of any bank could send faster payments to end-user customers of any other bank regardless of the faster-payments services used by the banks."[xiii] Second, the Federal Reserve suggested that it might modernize its own existing Fedwire and National Settlement Service (NSS) infrastructures, upon which the private sector relies to manage liquidity, by extending the hours of those services to meet the demands of a 24x7 economy. The comment process revealed near unanimity of support for extending Fedwire and NSS hours.[xiv]

While The Clearing House was disappointed in the Federal Reserve's action suggesting it might enter the market with its own solution, and concerned over the chilling impact that might have on The Clearing House's plans to bring the benefits of real-time payments to every American, The Clearing House was also encouraged by statements that the Federal Reserve might modernize its own existing Fedwire and NSS infrastructures. If the Federal Reserve took these enhancing actions, private-sector systems would find it easier to offer 24x7 payments services, which currently operate during times when the Federal Reserve is not open or operational to provide liquidity.

In August of 2019, the Federal Reserve issued a *Federal Register* notice stating that it *would* enter the market with its own competing RTGS system, FedNow. The Federal Reserve acknowledged that FedNow would not be ready to launch until 2023 or 2024 at the earliest and that nationwide reach would take more time to establish.[xv] In spite of near unanimity of support for extending Fedwire and NSS hours, the notice states only that the Federal Reserve will continue to "explore the expansion" of Fedwire and NSS hours.[xvi]

The announcement stated that the Federal Reserve's FedNow service will provide a "clear public benefit" based on accessibility, safety and efficiency. Notwithstanding the FPTF ratings for the RTP network, the announcement also concluded that the RTGS service is not one that other providers alone can provide with "reasonable scope, effectiveness and equity."[xvii] In reaching its decision, the Federal Reserve stated that the criteria "require[] a forward-looking evaluation of the probable or likely future state of the payment system over the long run, with or without Federal Reserve action" and that the Federal Reserve "focuses on expected, long-term outcomes and does not require a determination that each of the criteria is satisfied at present or will be with certainty in the future."[xviii]

The future state described by the Federal Reserve in its Federal Register notice was one in which The Clearing House would act in ways that are entirely inconsistent with its 166-year history (i.e., that we would abandon cost-recovery pricing and instead pursue a profit motive) and that in some cases would be anticompetitive despite The Clearing House being subject to antitrust laws. While unintended, the assumptions that the Federal Reserve made in support of its decision to enter the market have contributed to misinformation about The Clearing House and the RTP network and run the risk of impeding The Clearing House's ability to bring the benefits of real-time payments to every American.

The FedNow announcement further noted that the Federal Reserve believes it needs to enter the market with its own competing system because it lacks "plenary regulatory or supervisory authority" over payments systems and instead has "traditionally influenced retail payment markets through its role as an operator."[xix] Its authority over The Clearing House under the Bank Service Company Act[xx], however, is extremely broad, with The Clearing House being subject to regulation and examination to the same extent as if the services being provided were being performed by the depository institution that is subject to Federal Reserve supervision itself.[xxi] In addition, the Act gives the Federal Reserve broad authority to issue "such regulations and orders as may be necessary to enable [it] to administer and to carry out the purposes of this [Act]."[xxii] Nevertheless, the Federal Reserve concludes in the Federal Register notice that this authority is not sufficient to protect against potential future bad behavior by The Clearing

House although this conclusion is made without reference to antitrust and unfair and deceptive practices laws to which The Clearing House is subject.

Despite concerns that the Federal Reserve's announcement may hinder The Clearing House in achieving the full potential of the RTP network (see discussion below on the impact of two non-interoperable systems), The Clearing House is resolute in its goal of bringing real-time payments to the United States and believes strongly in the value and integrity of the RTP network, as fully confirmed by the strong ratings it received from the Federal Reserve's own Faster Payments Task Force. We are committed to working closely with every financial institution that is interested in pursuing participation in the RTP network so that each institution's customers can obtain the benefits of real-time payments.

Comparison of the RTP Network to FedNow

Below, I briefly compare the RTP network to the FedNow service; however, this comparison is not easy as one payment system exists and the other is an aspirational future system.

The information that we have about the design of FedNow is strictly based on the Federal Register notice, which does not provide many significant details and suggests that much of the design of the system is still in the planning stage. While President George is best positioned to speak to the design of FedNow, we believe that the proposed design will be similar to the RTP network in the following ways.

- Both the RTP network and FedNow are real-time gross settlement systems
- Both are credit push systems that operate 24x7
- The RTP network has a current value limit of $25,000 and the Federal Reserve has indicated FedNow will have a value limit of $25,000
- Both systems will leverage ISO 20022 message standards

Of course the biggest difference between the two systems is that the RTP network is operational and available in the market today while FedNow will not be available for at least 4 years. While much has been made about differences in settlement, the RTP network uses a settlement model that has been used for decades to settle payments over The Clearing House's wire payments system, known as CHIPS, a systemically important payment system designated as such under Dodd Frank and supervised and regulated by the Federal Reserve. RTP settlement is fully supported by a balance in an account at the Federal Reserve Bank of New York. Funding (or lack of funding) by any one RTP participant does not affect the ability of other participants to send or receive funds over the RTP network. Importantly, the RTP network is designed so that neither The Clearing House nor its participants experience credit risk. In contrast it appears that the FedNow service will provide unlimited credit (no real-time monitoring of credit positions) even on weekends and holidays when the Federal Reserve's discount window is closed.

The general design of FedNow raises several significant competitive issues for the private sector that may hamper the private sector's ability to bring the full benefits of real-time payments to consumers and businesses in this country. The good news is that the Federal Reserve could take steps to address these concerns.

First, the Federal Reserve, as the nation's central bank, has the ability to clear and settle payments directly through financial institutions' master accounts, which means the balances being held in accounts used for FedNow payments will count towards a financial institution's reserve requirements and bear interest. The Federal Reserve has the legal authority and operational capacity to accord the same treatment to financial institution positions in the RTP account that is held at the Federal Reserve Bank of New York and that is used to facilitate RTP settlement, but so far has been unwilling to do so.

Second, given the near unanimity of support in response to its October 2018 Request for Comment that the Federal Reserve should move forward with making Fedwire and NSS available on a 24x7 basis, the Federal Reserve should act quickly to implement expanded hours. Because the private sector is dependent on Fedwire or NSS to manage liquidity in private-sector systems, this is the single most important action the Federal Reserve could take to encourage private-sector competition in real-time payments. This is especially important from a competitive perspective given that the Federal Reserve appears to have announced that it will provide *unlimited* access to liquidity in the FedNow system even when the discount window is closed.

These two issues must be expeditiously addressed by the Federal Reserve in order to ensure that the private sector is not impeded in its ability to bring the benefits of real-time payments to American consumers and businesses.

Finally, while the Federal Reserve's analysis of its pricing flexibility under the Monetary Control Act (MCA) comports with our understanding of the MCA, the Federal Reserve's choices on pricing will obviously significantly impact competition with the private sector. For example, the Federal Reserve has indicated that it may be 15+ years before FedNow achieves cost recovery and that initial fees will be based on "mature volumes" with the Federal Reserve anticipating that FedNow will become the sole RTGS system with "nationwide reach" [xxiii] To ensure fair competition, The Clearing House would urge that the Federal Reserve reassess what is meant by "in the long run" to take into account the length of time that a private-sector entity would be able to wait to recover its operating costs, and calculate "mature volumes" in a manner that does not unrealistically assume volume moving away from the RTP network and to FedNow.

Interoperability

The Clearing House does not believe that interoperability between two RTGS systems is achievable. The Federal Reserve's original proposal in November of 2018 assumed that the Federal Reserve's RTGS system would be interoperable with private-sector systems. It appears from the Federal Reserve's notice, however, that the Federal Reserve has realized that interoperability is unlikely.

The result in the United States may be a completely bifurcated market, where, unless each bank in the country joins two systems (a highly expensive and inefficient proposition, particularly for smaller banks), the banks and their customers that are transmitting payments on one system will not be able to reach the banks and their customers that are on the other. In the place of ubiquity, we will have balkanization. In our view, that is a highly damaging result for the future of real-time payments in the United States.

When considering the issue of interoperability, it is important to understand the differences between real-time payments and other payment methods, such as the ACH system or wire systems like CHIPS and Fedwire. With regard to ACH, ACH is interoperable with respect to the exchange of payment messages (known as "clearing"), allowing a participant on one system to send a message to a participant on another system. It is not, however, interoperable with respect to settlement. Clearing interoperability is achievable in the ACH network because clearing and settlement in the ACH are distinct actions that happen at different times. With real-time clearing and settlement systems like the RTP network, clearing and settlement happen instantaneously—they cannot be split without significantly compromising the integrity and functionality of the system—and unlike the ACH network funds are immediately available to the recipient and are final and irrevocable.

In contrast to the ACH network, wire transfer systems are not interoperable, instead operating as distinct systems that offer similar services. But real-time payments cannot function like wire payments, which rely on a system of intermediary banks to be able to reach all endpoints. Unlike systems such as Fedwire and CHIPS (The Clearing House's wire system), an overarching design principle of real-time payment systems like the RTP network is to ensure that when a payer (the sender of a payment) instructs payment to a payee (the recipient of a payment), that payment will be completed instantaneously. To achieve this goal, payment systems like the RTP network must be designed so that payment processing will always be completed (meaning get to the recipient's bank) and will be completed within milliseconds. While The Clearing House has yet to see how the Federal Reserve will design FedNow to meet this important objective of real-time payments, the RTP network accomplishes this by supporting a very simple payment model. In an RTP payment there is a payer, the payer's bank, the payee and the payee's bank (no intermediary banks). This design eliminates the very real possibilities that exist today in wire transfer systems that a payment will be delayed or stopped at an intermediary bank. This also means that the RTP network can only be used to make a payment if the financial institutions holding the payer's and payee's accounts are both participants on the RTP network. This is in stark contrast to wire transfer systems like CHIPS which can be used to support payments sent by anyone to anyone regardless of whether such persons have accounts with CHIPS participants. This important distinction between wire and real-time systems like the RTP network means that CHIPS can compete with Fedwire for each and every dollar wire payment – either system could be used to help make such payments even though neither CHIPS nor Fedwire[xxiv] is ubiquitous. The RTP network (and the FedNow service) will not enjoy that same opportunity and instead will be strictly limited to the accounts held at banks that have signed up to use the service. It is The Clearing House's view that in that type of payments environment, given the commodity nature of payments, it will be very hard for two systems to both succeed.

Conclusion

The Clearing House is extremely proud of its record of providing essential payments infrastructure for the U.S. financial system for well over a century and a half. While we are proud of our long service to the nation, we are also excited about our country now having the most advanced payment system in the world. We are working hard to bring the benefits of the RTP network to all of the banks in this country so that your constituents, consumers and businesses across America, can all realize the benefits of faster, more efficient and more secure real-time payments.

The RTP Network

The Clearing House launched the RTP network in November 2017 to bring real-time payments to the U.S. Today the RTP network reaches over 50% of U.S. transaction accounts, with a path to achieving universal adoption over the coming years. The RTP network was built for financial institutions of all sizes and serves as a platform for innovation enabling the delivery of new products and services to their customers. Real-time payments over the RTP network provide consumers and businesses with the ability to conveniently send payments directly from their accounts 24/7 and to receive and access funds sent to them over the RTP network immediately.

RTP Facts & Frequently Asked Questions:

- **Ubiquity** – All federally insured U.S. depository institutions can participate on the RTP network.
- **Access to the RTP network** – Federally insured U.S. depository institutions have the option to directly connect to the RTP network or use an electronic connection provided by a third-party service provider such as a core processor, a hosted gateway, a bankers' bank or a corporate credit union.
- **Pricing** – The RTP network has a single price for all participants regardless of size, with no volume discounts, no volume commitments and no monthly minimums. Pricing for the RTP network is available on The Clearing House's website (www.theclearinghouse.org/)
- **24/7** – The RTP network operates 24/7, which allows financial institutions to send or receive payments at any time.
- **All Types of Payments** – The RTP network supports all types of payments (B2B, B2C, C2B, P2P, G2C). The RTP system may not be used to make a payment for a foreign account.
- **Flexible Messaging Functionality** – Rich, flexible messaging functionality (non-payment messages) is included to support communications between participants and value-added products. For example, the RTP system provides messaging capability enabling a request for payment of a bill or invoice directly via the RTP network.
- **Immediate Availability** – Recipients receive the payment within seconds of the sending financial institution initiating the transaction; the receiving financial institution is required to make funds available immediately, except where necessary for risk management or legal compliance purposes.
- **Payment Certainty** – Sending financial institutions are not permitted to revoke or recall a payment once it has been submitted to the RTP network. However, there is a process to facilitate communication between financial institutions around return of funds sent in error or if there is suspected fraud.
- **Transaction limits** – The RTP network is strictly a credit push system. The credit transfer limit is currently $25,000.
- **Prefunding** – RTP participants that intend to send payments over the RTP network are currently required to contribute funding to a special deposit account at the Federal Reserve Bank of New York (an account that may be used by all RTP participants regardless of the Federal Reserve district in which they are located). A participant may use a liquidity provider such as a bankers' bank or corporate credit union to provide its funding. An RTP participant that only receives payments over the RTP network does not have to contribute funding.
- **Rules Governing the RTP Network** – The RTP Participation and Operating Rules apply to all network messages and are available on The Clearing House's website (www.theclearinghouse.org)

[i] *Payment System Improvement—Public Consultation Paper* (Sept. 10, 2013), *available at* https://fedpaymentsimprovement.org/wp-content/uploads/2013/09/Payment_System_Improvement-Public_Consultation_Paper.pdf.
[ii] *Strategies for Improving the U.S. Payments System* (Jan. 26, 2015) *available at* https://fedpaymentsimprovement.org/wp-content/uploads/strategies-improving-us-payment-system.pdf.
[iii] *Id.* at 3.
[iv] *Id.* at 17.
[v] *In Pursuit of a Better Payment System*, Federal Reserve Banks (2016) at 5.
[vi] *Id.* at 4.
[vii] *Faster Payments QIAT Assessment* (Feb. 21, 2017).
[viii] *Faster Payments Effectiveness Criteria* (Jan. 26, 2016) ("FPTF Effectiveness Criteria") at 6.
[ix] "Accessibility" is defined in the FPTF Effectiveness Criteria as meaning that the solution would "enable any entity . . . to initiate and/or receive payments to/from any Entity" and that the solution had a "credible plan for achieving widespread adoption." FPTF Effectiveness Criteria at 6.
[x] The Federal Reserve makes a similar observation in its Federal Register notice where it notes that FedNow participants "would need to deploy and test enhanced or upgraded FedLine components" and "maintain adequate telecommunications services to support the expected end-to-end speed of payments." *Federal Reserve Actions to Support Interbank Settlement of Faster Payments*, 84 F.R. 39297, 39320 (Aug. 9, 2019).
[xi] *Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments, Request for Comments*, 83 F.R. 57351 (Nov. 15, 2018).
[xii] *Id.* at 57361.
[xiii] *Id.*
[xiv] 84 F.R. 39297, 39302 (approximately 225 of 230 commenters supported the Federal Reserve's liquidity management proposal).
[xv] *Id.*at 39301.
[xvi] *Id.* at 39316.
[xvii] *Id.* at 39306-39309 & 39310-39312.
[xviii] *Id.* at 39303.
[xix] *Id.* at 39300.
[xx] The Clearing House is also a designated financial market utility under Title VIII of Dodd-Frank, subjecting The Clearing House to the highest levels of supervision and regulation by the Federal Reserve. While The Clearing House's regulation and supervision under Title VIII relate specifically to its role as the operator of CHIPS, The Clearing House operates as a single entity in the operation of its payments systems.
[xxi] *See, e.g.*, 12 U.S.C. § 1867(c) ("[W]henever a depository institution that is regularly examined by an appropriate Federal banking agency, or any subsidiary or affiliate of such a depository institution that is subject to examination by that agency, causes to be performed for itself, by contract or otherwise, any services authorized under this chapter, whether on or off its premises . . . such performance shall be subject to regulation and examination by such agency to the same extent as if such services were being performed by the depository institution itself on its own premises . . . .").
[xxii] 12 U.S.C. § 1867(d) ("The Board and the appropriate Federal banking agencies are authorized to issue such regulations and orders as may be necessary to enable them to administer and to carry out the purposes of this chapter . . . .").
[xxiii] 84 F.R. 39297, 39313-39314 & 39320.

[xxiv] The CHIPS system has 44 financial institution participants. The Fedwire Funds Service has approximately 5,300 participants. (cite Fed PFMI https://frbservices.org/assets/financial-services/wires/funds-service-disclosure.pdf page 8 says over 5,300 and our public website https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/chips_participants_revised_05-15-2019.pdf) Yet both systems can facilitate payments involving all 11,000 US financial institutions.

Axne

Could the Federal Reserve use the technology they'll be building in FedNow to also accelerate processing of checks or other payments?

The Fed has two primary purposes in their Payments Systems Improvement initiative. The first is to add a real-time credit push payments settlement rail, which has resulted in the FedNow Service. The focus of FedNow is a credit push, where the customer pushes the funds to the recipient. This is a departure from check and cards systems which use a debit pull payments flow, where the sender authorizes the recipient to take the funds from his/her account. Therefore it would be extremely difficult to clear checks using FedNow, as the funds flow in the opposite direction.

The second goal of the Fed's Payment System Improvement initiative is to improve the overall efficiency of all payments systems. There has been progress over the years to allow all payment rails to improve another. Paper checks have seen much improvement in clearing speed. First, many businesses, merchants and billers started digitizing checks to gain efficiencies and lower costs by back office check conversion of checks (BOC) or account receivable conversion (ARC) at the point of sale. Another major leap forward in processing speed occurred as a result of check imaging and Check 21. The Fed saw this an opportunity to streamline its check processing operations to the Fed, which has reduced float by making every check a local transaction. Same-day ACH is another example of improving payments efficiency notwithstanding the several year delay as a result of large bank push back to protect other profitable payments such as wire transfer income.

The Fed's reassessment of NSS (net settlement services) and Fedwire times to a 24x7x365 could eventually lead to greater efficiency benefits for check, ACH, and wire transfer. But since check and ACH debit work on a debit pull and there is risk of an overdraft and getting to real-time in those systems would, again, be extremely difficult.

Still, the focus now should be that of launching FedNow and the benefits and use case opportunities will follow. If we build FedNow thinking in terms of the existing payment solutions, we will almost certainly be looking through a narrow and outdated lens. At this point, experience and history matters, but we need to concentrate on what is possible in a real time credit-push payments and settlement, something that has never happened in the US aside from the exchange of US currency from one hand to
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Rep. French Hill
Fintech Task Force
Question for the Record
Real Time Payments Hearing 9/26/2019

October 1, 2019

To all witnesses:

What actions need to happen, surrounding the following processes, before real-time payments can become a reality?

- Overall governance
- Authentication
- Regulation E
- Privacy

Responses below from Carol Coye Benson, Partner, Glenbrook Partners
10 November 2019

1. Overall governance. Each payment scheme needs rules, and a governance structure for making and approving those rules. Today, the real-time networks (TCH RTP, Zelle, Visa, Mastercard) each have their own rules. FedNow will also need this. There are two important considerations:
    a. Should a single rule set substitute for the scheme-specific rule sets? This is, in effect, what is the case with the U.S. ACH system. One set of rules (NACHA rules) governs both the ACH platforms of the Fed and of TCH. There are great benefits to this approach in reducing end-customer confusion and achieving ubiquity of reach of each service. If instead the U.S opts for separate rule sets to continue, achieving interoperability is more challenging, but not impossible.

b. Within FedNow, what measures should be used to ensure that governance (control over rules) accepts a suitable amount of input or control from the banks that will use the system? More control increases the odds that the banks will like and use the service, arguably less control means the Fed can move more quickly in implementing the system.

2. Authentication – any scheme may write rules requiring that it's participants meet certain standards for authentication: this is what the card network schemes do, for example, with signature or PIN rules. In some countries, this is done by law and regulation rather than by scheme rules – either way works, but consistency across payment schemes increases consumer comfort and understanding. Best practices in authentication call for 2-factors for certain high-risk or highly important transactions/scenarios: setting up a payment account, for example, or executing a high value transfer to a new counterparty. Single factor authentication may be acceptable in other scenarios. Biometric authentication has obvious advantages for longer term fraud control, by enabling providers and/or regulators to recognize repeat offenders.
3. I am not an expert in Regulation E, but I would state what to me is obvious: any new electronic payment system must afford consumers protection against unauthorized debits to their accounts.
4. Privacy – again I am not an expert on this topic, so will offer no comments.

Responses to Questions for the Record from Rep. French Hill
House Financial Services FinTech Task Force:
Hearing: The Future of Real-Time Payments
9/26/19

Harsh Sinha
Chief Technology Officer
TransferWise

Questions

What actions need to happen, surrounding the following processes, before real-time payments can become a reality?

- Overall governance
- Authentication
- Regulation E
- Privacy

Answers

Governance: In order for faster payments to become reality, it is imperative that the Federal Reserve continue to consult with a diverse group of stakeholders and prioritize inclusiveness and fairness as it strives for consensus. Faster payments hold the potential to drive financial inclusion and access for many Americans, and it is important that all voices are part of the conversation.

Authentication: As I highlighted during the hearing, the United States can learn from other countries to improve security and authentication in faster payments. For example, many consumers still rely only on passwords to sign into their banking accounts. Two-factor authentication can significantly cut fraud. That's why the European Union recently implemented their *Secure Customer Authentication* regulations, which requires multi-factor authentication from consumers for online payments. Additionally, *Confirmation of the Payee* is a recent initiative in the United Kingdom that seeks to cut the risk of money being sent to wrong accounts by requiring the recipient information to match what was intended. Both are recent initiatives and the U.S. can learn from the pros and cons raised during the implementation process.

Reg E: The Electronic Fund Transfer Act and Regulation E help protect consumers against liability from unauthorized transactions. The biggest impact in reducing unauthorized transactions is to require financial service providers to have a consistent and standardized two-factor authentication implementation for all money movement operations. As highlighted above, *Secure Customer Authentication* and *Confirmation of the Payee* are two initiatives that could help reduce fraud and offer a good baseline to learn from as the U.S. implements real time payments.

We too are concerned with consumer risks - that's why we're working with the UK's Payment Services Regulator on a solution to ensure consumers are appropriately remediated by the financial services industry, even in the rare cases of authorized push payment fraud where no party is at fault. We've also dedicated significant resources to reducing fraud by using machine learning to scan payments in real-time and detect high-risk payments. That allows us to freeze and investigate any suspect transactions.

Privacy: Financial institutions, especially those participating in the payments system and transmitting payment details on behalf of customers, have a responsibility to protect that customer data. At TransferWise, we take data security very seriously and do everything we can to protect consumers from outside threats. We support smart data privacy laws, though do worry about the compliance burden of 50 different laws in 50 different states. For that reason, and to provide consistency to consumers, we support a national privacy law. Having a single national privacy law giving consumers the right to know where and how their data is stored and used will empower the consumer to stop doing business with companies which use their personal data in ways they don't agree with and give power back to the consumer. The US can look at the European General Data Protection Regulation (GDPR) as a framework to apply a consistent national privacy law rather than having individual requirements across 50 states.

Rep. French Hill
Fintech Task Force
Question for the Record
Real Time Payments Hearing 9/26/2019

October 1, 2019

To all witnesses:

What actions need to happen, surrounding the following processes, before real-time payments can become a reality?

- Overall governance
- Authentication
- Regulation E
- Privacy

Overall governance

FedNow and RTP will work like the other existing payment rails, i.e., they will have their own rules. Where additional governance may be needed is on how these two systems interoperate. While both systems have committed to use the ISO 20022 standard, they will need to agree how this standard will be leveraged between these two systems. The Faster Payments Council can help provide subject matter expertise to help TCH and the Fed establish and maintain the rules and standards. But the initial rules for interoperability need to be agreed upon by the Fed and TCH and other private sector networks.

Due to the credit push nature of FedNow and RTP, there will be little consumer info out in the clear to be target for at hacker. However, account takeovers, and counterfeit merchants will be threats. The very small minority of payments that include disputes, returns, other exceptions and fraud are always the friction that cause the real costs, and processor and end user pain points. The expectation is that FedNow and RTP are credit push so the primary responsibility for instruction of the payment is that of the sender. Moreover, the expectation is that this is a good funds model and the payment is final. A lot of things have to work every time and we all know stuff happens. So we need rules and standards so when the dots do not connect, we still have a map to reroute.

Authentication

This may be the biggest challenge. The obvious solution is that of digitizing and tokenizing personal biometric attributes. But we have already observed public resistance and various circumstances where digital identity has been used for both fraud and foreign government overreach and other abuse. We should not give up on that technology but in the meantime will use the basics like unique cell numbers, email, url attributes and others. Authentication was hard with paper checks from the start, continued through ACH, wire transfers and plastic. We may never get this exactly right as long as individuals are too trusting, too careless, or until the bad guys give up. But we will get it right almost all the time and deal with those that cause the friction – obligated to give the end user the benefit of the doubt.

Regulation E

We do need to recognize that Reg E is long overdue for adjusting to faster payments. A 60-day dispute period (even 90 days after the actual disputed transaction) is not reasonable in a real time payment environment. Additionally, a real-time credit push transaction is made in good funds, and is intended to be irrevocable. Clarification should be made on the finality of a customer to customer transaction made with good funds Aside from that, we will generally follow the general concepts of payment laws evolved from paper checks, ACH and plastic and continue to adapt to real time settlement.

Privacy

Everyone on the legitimate side of the discussion understands the risk to their own individual privacy. Personal data should not be sold under any circumstances. Personal data should not be shared with the exception that sharing is for the specific benefit of the individual and only then with every possible effort given to protect that data at all levels. Unfortunately, given the willingness of many to share information on social media, for points, for a candy bar and ongoing breaches of very large entities, there is not much left to hide.