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Via email: Kenneth.Montgomery@bos.frb.org

December 9, 2021

Mr. Kenneth C. Montgomery
Interim President & CEO, First Vice President
Federal Reserve Bank of Boston
600 Atlantic Avenue
Boston, MA 02210-2204

Dear Mr. Montgomery,

On behalf of the Independent Community Bankers of America (“ICBA”)¹ and its members, I am writing to express our continued staunch support for the FedNowSM Service (“FedNow”) and request consideration of a variety of recommended actions to encourage community bank participation to ensure a successful launch of FedNow.

ICBA applauds the development of FedNow as a crucial milestone for payments transformation, allowing the Federal Reserve to further advance its mission of providing the nation with a modern, safe, and effective financial system. By bringing FedNow to market, the Federal Reserve: 1) provides financial institutions an infrastructure option for clearing and settling faster payments; 2) ensures access and choice for all financial institutions; 3) provides a settlement option that is not affiliated with or owned by the nation’s largest banks; 4) serves as a backbone to ensure settlement continuity in the event of disruption in the private sector; and 5) encourages competition and innovation. The implementation and ubiquitous adoption of instant payment systems will strengthen the U.S. economy by providing a platform for continued innovation and economic growth, and will facilitate America’s global competitiveness. ICBA believes that instant payments will help ensure that businesses and consumers can access payments products and services that meet the needs of the 21st century economy.

¹ *The Independent Community Bankers of America® creates and promotes an environment where community banks flourish. ICBA is dedicated exclusively to representing the interests of the community banking industry and its membership through effective advocacy, best-in-class education, and high-quality products and services. With nearly 50,000 locations nationwide, community banks constitute roughly 99 percent of all banks, employ nearly 700,000 Americans and are the only physical banking presence in one in three U.S. counties. Holding nearly \$5.9 trillion in assets, over \$4.9 trillion in deposits, and more than \$3.5 trillion in loans to consumers, small businesses and the agricultural community, community banks channel local deposits into the Main Streets and neighborhoods they serve, spurring job creation, fostering innovation and fueling their customers’ dreams in communities throughout America. For more information, visit ICBA’s website at www.icba.org*

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ICBA and the nation's community banks have a long history of support for the Federal Reserve's role in instant payments, as demonstrated in communications with policymakers, op-eds, advertisements, and hundreds of ICBA and community banker comment letters encouraging the Federal Reserve to develop a real-time gross settlement system. ICBA appreciates the spirit of partnership and ongoing engagement with the Federal Reserve in delivering important educational information about the progress of development of the system to our membership. ICBA and ICBA Bancard recently hosted a webinar featuring Connie Theien that highlighted the new FedNow Explorer tool and the FedNow Readiness Guide. Several ICBA members are participating in the FedNow pilot, providing the essential community bank perspective as decisions are made, ensuring the needs of community banks are considered as the service is developed. FedNow Community announcements are routinely shared with the ICBA membership through our daily newsletter, *ICBA NewsWatch Today*.

While ICBA acknowledges the complexity and enormity of effort to create and successfully launch a new payment rail, we also recognize the pressure to expeditiously complete FedNow development in the current environment where a private sector real-time network is live and expanding its reach. Although some community banks are already participating in the private sector real-time network, many community banks are eagerly awaiting the FedNow Service to offer instant payments.

Other factors contributing to urgency in bringing FedNow to market include evolving consumer expectations, accelerating digital payments transformation, alternative solutions and novel payments instruments promising low-cost faster transaction processing speeds, and growing policymaker attention on pressing societal issues, such as expanding access of financial services to underserved markets. ICBA believes bringing FedNow to market expeditiously will promote innovative solutions to help address these issues.

The urgency for speed to market is coupled with recognition that the success of establishing a new payment system is highly dependent on swiftly achieving a "network effect." As noted by the Harvard Business School, there is a correlation between the number of users of a platform and the value created for the users.² Rapidly scaling the FedNow Service through early adoption by banks and their customers will exponentially create value for all FedNow participants.

² T. Stobierski, "What are network effects?" *Harvard Business School*, November 12, 2020, <https://online.hbs.edu/blog/post/what-are-network-effects> (accessed December 2, 2021)

Conversely, the absence of a substantial number of system participants increases the risk of incomplete or failed transactions being introduced into the FedNow Service if the transaction receivers' banks have not signed up for the service. This could lead to customer dissatisfaction and a lack of confidence in the service's ability to deliver on its brand promises, impeding adoption progress.

Ubiquitous adoption among financial institutions should be a primary measure of success for achieving payments modernization in the United States. America's community banks can play a vital role in contributing to the attainment of the FedNow network effect, enhancing the value of participation to all stakeholders. Creating a sizable FedNow user base will require the extensive reach and active promotion of instant payments that community banks are uniquely qualified to provide. Achieving growth quickly also offers the attractive prospect of faster cost recovery of the Federal Reserve's investments in FedNow as required by the Monetary Control Act of 1980.³

ICBA recognizes that community banks will derive an array of benefits from the successful launch and rapid adoption of the FedNow Service. As essential players in the FedNow value chain, community banks can serve as market enablers, offering advantages to end-users such as enhanced financial viability through improved cash flow. A vibrant instant payments network holds promise for banks to deliver a high-value service which creates opportunities to attract and retain customers and their deposits. FedNow offers a channel for community banks to compete and win by further cementing relationships with their customers: 30 percent of consumers consider access to instant payments a key factor when selecting their financial institution, and 24 percent of consumers say they would switch financial institutions for access to instant payments.⁴

ICBA recognizes that 2022 will be a pivotal year as the industry prepares for the launch of FedNow. It is imperative that community banks are well-positioned to remain at the forefront of payments as instant payments open the door to new opportunities in a rapidly evolving landscape. To that end, ICBA respectfully requests consideration of the following recommendations in four key areas which are informed by input from ICBA members and designed to accomplish the ultimate goal of success of the FedNow Service. The following recommendations include greater information to catalyze heightened interest and provide actionable insights, a FedNow pricing model which acknowledges the critical role of community banks in the payments ecosystem, a focus on key elements of product design, and policy positions which preserve the safety and integrity of the payments ecosystem:

³ "Federal Reserve's Competition with Other Providers Benefits Customers, but Additional Reviews Could Increase Assurance of Cost Accuracy," United States Government Accountability Office Report to the Chairman, Committee on Financial Services, House of Representatives, August 2016, <https://www.gao.gov/assets/gao-16-614.pdf> (accessed December 2, 2021)

⁴ "New Data: Real-Time Payments Become A Make-Or-Break Reality For Financial Institutions," Pymnts.com, November 11, 2020, <https://www.pymnts.com/news/faster-payments/2020/real-time-payments-become-a-make-or-break-reality-for-fis/> (accessed December 3, 2021)

- **An accelerated flow of essential information,**
- **A fair and equitable pricing model allowing community banks to remain competitive,**
- **Prioritization of high-demand future service enhancements, and**
- **Continuance of the stated policy of restricting FedNow access to fully chartered and regulated financial institutions.**

An Accelerated Flow of Essential Information

Community banks are eagerly awaiting information regarding specific aspects of the FedNow Service. ICBA encourages the FedNow team to accelerate the release of critical information so that community banks have the data they need to include instant payments in their strategic plans, prioritize resources and achieve operational readiness. The continued absence of this information creates a barrier to progress needed to achieve an early network effect. ICBA asks for attention to these priority areas, and stands ready to partner with the Federal Reserve to disseminate information to our membership.

- **Greater specificity of the 2023 launch date.** Ambiguity about the target launch date fosters a perception that this is an event “in the future” that does not require immediate attention. A more specific timeframe will help create a sense of urgency and serve as a call to action.
- **Regular updates on core processor and technology partner readiness.** Core processors play a critical role in supporting a community bank’s technology goals and ability to deliver innovative products and services to its customers. While many community banks will wait for their core processor to be ready to connect to FedNow, some will opt for a best-of-breed gateway or other technology enabler. ICBA is pleased to note the number of core processors and technology providers participating in the FedNow pilot, and we urge the Federal Reserve to provide a steady stream of status updates on these entities’ readiness so community banks can gauge their timelines for integration to the service.
- **Information regarding onboarding processes, testing windows, operating procedure requirements and rules and compliance requirements for participants.** Expectation-setting is a key element of preparation. Community banks must have a clear line-of-sight into explicit timeframes and required tasks in order to work with their technology provider, allocate resources and inform their customer base of FedNow availability timelines. Community banks need visibility into the Federal Reserve’s ability to scale onboarding queues for planning purposes. Banks are required to follow a time-intensive review and approval process for introduction of any new product; detailed information about the compliance requirements are a gating factor for decision-making.

- **Informative research on opportunities for community banks and their customers.** Federal Reserve research can play a valuable role in helping community banks envision opportunities to meet market demand and monetize instant payments. Examples of topics include forecasts for expected changes in the payments mix, top use cases for instant payments, case studies, and reports exploring customer willingness to pay for the efficiencies of a credit-push, irrevocable instant transaction. The recent Federal Reserve study, “MARKET READINESS BRIEF: Businesses look to the future with faster payments” is an excellent example of this type of helpful information.

A Fair and Equitable Pricing Model Allowing Community Banks to Remain Competitive

Community banks are increasingly concerned about the long-term implications of changes in the payment landscape, such as the emergence of alternative payment options such as cryptocurrency and stablecoins, account-to-account transfers and disintermediation by “BigTech” companies and “Big Box” merchants. This existential peril results from potentially diminished levels of non-interest income generated by card-based transactions. Because America’s community banks rely on this revenue stream to fund capital accounts which support lending, these threats have implications for the thousands of communities across our country that depend on their local bank for credit and other financial services. A recent example is the outsized role community banks played in implementing the Small Business Administration’s Paycheck Protection Program where community banks generated over 60 percent of the loans to struggling small businesses due to the pandemic. For these reasons, it is imperative that the Federal Reserve implement creative approaches to pricing plans for existing and new payments services so that community banks continue to “lead from the front” and flourish.

It was announced in a recent FedNow Community webinar that information about the pricing model will be released publicly in early 2022. We stress that information regarding pricing models and the financial requirements for FedNow participation cannot come too soon. ICBA urges the Federal Reserve to implement a fair, equitable pricing model that recognizes the investment required to add instant payments capabilities, ensuring that even the smallest community banks have a level playing field for competing with the largest institutions.

As the Monetary Control Act requires the Federal Reserve to give due regard to competitive factors⁵ we anticipate that the FedNow pricing model will establish parity with the pricing instituted by the current private-sector competitor, The Clearing House for its RTP[®] Network. The RTP Network pricing model includes a ten-cent incentive for banks whose customers respond to a Request for Payment (“RfP”) by initiating a transaction: “Upon each successful RTP Credit Transfer sent in response to an RfP message, the Participant initiating the RfP will

⁵ *Ibid.*

owe the Incentive Fee to the Participant that initiated the RTP Credit Transfer.”⁶ ICBA urges the Federal Reserve to establish a pricing model that similarly compensates community banks for their role in processing instant payments, as well as examine other opportunities in the transaction flow where compensation would be appropriate. ICBA also encourages the Federal Reserve to routinely review and update pricing to ensure that community bank participants remain competitive in offering payments services to their customers.

Banks joining the FedNow network will incur costs when they begin service from their technology provider, such as integration or set-up fees, transaction fees and ongoing monthly fees. This is in addition to the yet-unknown fees from the Federal Reserve to establish service. It will take time for banks to build a customer base for the new service and derive direct financial and other indirect benefits to offset and recoup bank investments in FedNow. ICBA advises the Federal Reserve to consider short-term monetary incentives such as fee reductions for early adopters to help offset early investments.

There is also market precedent for offering financial incentives to important segments of the industry that the Federal Reserve should consider: The Clearing House⁷ and Early Warning⁸ recently partnered with core processors to offer Minority Depository Institutions (“MDIs”) rebates for banks signing up for RTP and Zelle[®] services.

Prioritization of High-Demand Future Service Enhancements

ICBA commends the Federal Reserve for deploying a phased implementation which balances speed to market with the initial availability of core functionality. ICBA believes this approach will enable community banks to gain competitive market parity with banks who are already using the private-sector real-time payments network. The announced core functionality will serve as an excellent initial foundation for the service; and provides flexibility for expanded functionality in the future. ICBA requests additional communications providing greater visibility into future FedNow roadmap milestones. The prioritization of the feature functionality suggested below will encourage swift adoption, foster innovation, mitigate risk and bolster transaction security.

- **Fraud mitigation capabilities and participant requirements.** Effective fraud prevention tools are essential for cultivating confidence and trust in instant payments. ICBA appreciates

⁶ The Clearing House RTP Participant Fee Schedule, https://www.theclearinghouse.org/-/media/new/tch/documents/payment-systems/rtp_pricing_01-01-2021.pdf (accessed December 3, 2021)

⁷ “Jack Henry and The Clearing House to Bring Real-Time Payments to Minority Communities,” Jack Henry press release, May 4, 2021, <https://ir.jackhenry.com/news-releases/news-release-details/jack-henry-and-clearing-house-bring-real-time-payments-minority> (accessed December 3, 2021)

⁸ “Zelle[®] and Fiserv Launch Program to Bring Real-Time P2P Payments to Minority Depository Institutions,” Zelle press release, October 21, 2021, <https://www.zellepay.com/press-releases/zelle-and-fiserv-launch-program-bring-real-time-p2p-payments-minority-depository> (accessed December 3, 2021)

the news shared in the December 2, 2021, FedNow Community webinar that there will be systemwide fraud mitigation tools; however, detailed information was not provided. ICBA notes that one of the most frequent questions regarding FedNow that we hear from our members is about the planned fraud monitoring and risk mitigation tools. The absence of insight into the planned systemwide tools and reporting may have a chilling effect on adoption, as some bankers may wait until well after launch to evaluate the level of fraud occurrence and to assess their risk tolerance. As the first line of defense for transactions entering the FedNow system, bankers will expect a thorough understanding of their bank-level requirements, so they can work with their technology partners to ensure compliance. In addition to providing velocity threshold management and robust anomaly detection resources, ICBA recommends routine assessments of the needs of FedNow participants, and ongoing investments in fraud prevention and risk mitigation capabilities to keep pace with an ever-changing threat environment.

- **Directory service.** ICBA encourages the Federal Reserve to build its own directory, allowing banks to query the directory as part of the FedNow Service. A directory service would enable use of an alias-based identifier in lieu of the receiver’s full bank account information, strengthening the security and privacy of the accountholder’s information. An alias-based directory is essential for high-demand use cases, such as person-to-person transactions (“P2P”) and should be prioritized among future service capabilities.
- **Application Programming Interfaces.** Developing application programming interfaces (“APIs”) should be a priority for the next release as it will expand access to FedNow and enhance the service as a springboard for innovation.
- **White-label marketing and communications toolkits.** Community banks can serve as an efficient channel for reaching millions of consumers and small business, raising awareness of the value of instant payments. Many community banks do not have dedicated internal resources to create branded marketing materials. The Federal Reserve could fill this gap and jumpstart promotional efforts by offering FedNow participants a comprehensive marketing and communications toolkit which provides resources such as white-label electronic versions of collateral that can be branded by each bank and checklists for crafting and executing marketing campaigns.

Continuance of the Stated Policy of Restricting FedNow Access to Fully Chartered and Regulated Financial Institutions

The payments system derives its strength from consistent application of high regulatory and supervisory standards across every endpoint. ICBA strongly supports the Federal Reserve Board’s decision to limit direct access to the FedNow Service to financial institutions eligible to

hold accounts at the Reserve Banks under applicable federal statutes and Federal Reserve rules, policies, and procedures. This policy is consistent with established Federal Reserve processes for other payments systems, including ACH, checks and wire transfers. This critical safeguard ensures that payments are secure, while avoiding serious unintended consequences. Granting direct access to non-banks, particularly companies that harvest, aggregate, and resell customer data, could harm America's payments systems by introducing systemic risks.

ICBA anticipates the introduction of FedNow as a notable achievement towards payments modernization which will allow community banks to remain competitive in serving their customers and communities. We appreciate the thoughtful consideration of these recommendations and look forward to continued collaboration with the Federal Reserve to achieve the vision and promise of FedNow as a platform for payments innovation. Please do not hesitate to contact me at Deborah.Phillips@icba.org or 202-697-1266 with any questions regarding our comments.

Sincerely,

/s/

Deborah Matthews Phillips
Senior Vice President, Payments and Technology Policy