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National Association of Federally-Insured Credit Unions

September 24, 2019

The Honorable Michael Crapo
Chairman
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member
Committee on Banking, Housing
& Urban Affairs
United States Senate
Washington, DC 20510

Re: Tomorrow's Hearing, "Facilitating Faster Payments in the U.S."

Dear Chairman Crapo and Ranking Member Brown:

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 Committee 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 Committee 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 Committee 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@nafcuh.org.

Sincerely,



Brad Thaler
Vice President of Legislative Affairs

Cc: Members of the Senate Banking Committee