# Facilitating Consumer Payment Innovation through Changes in Clearing and Settlement
## Commentary

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I do not have any slides, but I do have some comments and I thank Bruce for the interesting paper. It is definitely very relevant to what we do. Before I launch into those, let me tell you a little bit about what we do and why I am here.

I am the general manager of the Payments business for CashEdge, which is now a division of Fiserv. Fiserv, as you know, is the global financial technology leader. At the CashEdge division, we operate the largest bank-centric digital person-to-person payments network, which is known as Popmoney. We call it a P2P network. This was formed by the merger of two networks—CashEdge's Popmoney network and Fiserv's ZashPay network.

Right now, CashEdge has been part of Fiserv for about six months and we have spent most of that time integrating the two networks. The combined network will be relaunched in June of this year. Essentially what Popmoney allows is consumers and small businesses to make payments to other consumers and businesses from within their online or mobile banking services. Payments can be made by entering recipients' ACH information, as well as by entering a recipient's email address or a recipient's mobile phone number.

We refer to each one of those as a token. We are currently adding to the number of tokens that consumers can transact on. In our own internal pilots, we are piloting debit cards to be able to send money directly to a debit card and Facebook ID to be able to send money to someone's Facebook ID. Those are not yet on the market.

I will not get into the whole logistics of how Popmoney works, but there are two important considerations to point out. One is that the recipient of a Popmoney payment does not need to be known to Popmoney or be signed up or part of the network already. By receiving that payment, the person becomes part of the network.

Second, the funds in Popmoney flow directly from the sender's account to the recipient's account. There is actually a clearing account in the middle, but the user experience—the sender-recipient account—is from my bank account to your bank account.

Unlike some other schemes, there is no notion of a Popmoney account that anyone who belongs to the service has. The only service you interact with is your own bank account. In some ways, the service I would describe using some of the terminology that Bruce introduced as both a universal service, because it can really touch any bank account, and end-to-end. It is from one consumer through to another consumer. And I use "consumer" in the same broad sense that Bruce used the term.

Today, in its current instance, the service relies on an ACH backbone and payments settle either overnight or in two to three days, based on risk and pricing considerations. I will talk more where we are moving the service, but as it exists now it is an ACH backbone and it is still in its formative stages.

The number of total payments that have been made are in the single-digit millions. It is available today—or will be starting in June—to customers of about 1,400 to 1,500 financial institutions, a number which is growing quickly. It reaches about 40 million online and mobile banking customers in the United States. To date, the 2 million transactions have touched—have been sent and received—from about 5,000 to 6,000 financial institutions in all 50 states. So it is growing very quickly. We expect within two years it will be available to over 80 percent of the banked population.

I am not going to talk a lot about the usage we see, but we are seeing some very interesting usage data. The most common use case is people using it to pay their rent. We also see a lot of shared expenses, like roommates sharing bills, and the interfamily payments, like children and parents paying each other.

The average size of a payment is in the mid-$300 range. I bring this up because, often in the total discussion of P2P payments and certainly the bank advertizing reflects this, the typical use case discussed is someone goes out to dinner and forgets their wallet. Then, it is more like a cash substitute. The use cases we actually see and the dollar value indicate that Popmoney is being used more as a check substitute than as a cash substitute at this point.

With all that background, naturally I found Bruce's paper to be very relevant and interesting. So I want to react to a couple of different items. As I was thinking about this, I feel like Bruce and we are approaching a similar problem in different ways. We have a very much bottom-up perspective, which is trying to solve a problem with the tools we have available and had not really considered the policy solution. So I will talk about that in a minute.

A couple of things I am going to react to: First, I want to explore the assertion in Bruce's paper—the notion of what he referred to in the talk as "the future after the check." In the paper, Bruce says that "a strategic challenge is to combine the immediacy and finality of payment with the versatility and universality of the check."

Then I want to break that down into two pieces, because there are two important statements in there. The first is on the need for a digital replacement of the check. The second is the degree to which instant funds transfer, or IFT, is a necessary component of digital check replacement. Then, I will share what we at Fiserv are doing in working toward IFT in the absence of any changes we foresee in current clearing and settlement models in the market. Finally, I will share a very brief perspective on what the role of the federal government might be in helping overcome the challenge.

I will start with the easiest, which is the question of whether or not we need a digital alternative for the check and whether or not IFT is a necessary component of that alternative. From a consumer's point of view, there is a lot about checks that do in fact seem to be out of sync with our expectations in the digital age. They are slow. They require you to carry around this booklet of paper with you to make payments—and you better make sure you do not lose it. You need to somehow deliver the payment physically to the recipient of the payment, either through the mail—of course, that is a joke in our society, "the check's in the mail"—or otherwise deliver it.

On the deposit side, once you receive the check you are still not done with it. You typically need to go to visit an ATM or branch. Checks are prone to fraud. And, of course, the settlement of checks is not final, as anyone who has ever had a check bounce on them knows.

We look at the check system and we think, "There is a lot of low-hanging fruit here." There are a number of different ways you can improve on the check system and not all of them necessarily mean the digital replacement needs to have immediate settlement in order to be successful and adopted by consumers.

We think about Popmoney, even in its current ACH form, as being a replacement for checks. It improves upon many aspects of checks. It is easier to use. It is easier to deliver. As a recipient, it is automatically deposited into your bank account. It is less prone to fraud. And, even though it settles through ACH, it actually settles faster than checks. Like I said, the use cases and the dollar values seem to imply that it is being viewed as a check replacement in the market.

Now let me talk about "immediate." We have always found that "immediate" is a very loaded term in payments and in consumer payments in particular. We have done some primary consumer research on this and we continue to do it. Generally speaking, if you ask a consumer how soon they would like their payment, the answer is always "immediate." But, if you start to peel the onion and ask the next set of questions, you realize most use cases—but not all—do not actually require immediate settlement and people can accomplish what they are trying to with settlement that is somehow delayed. Obviously, in all cases, sooner is better than later.

This becomes all the more true when you start to ask consumers about relative price-timing trade-offs. You want immediate, but what if immediate was $5 and next day was 50 cents? Oh well, in that case, maybe for some payments I would still want immediate but, for the majority of my needs, 50 cents next day is better than $5 immediate.

We believe, while immediate settlement is desirable, there is still a great deal of value to be provided through digital check replacement, which is what we think of as P2P payments. Even if the settlement is not immediate, it really just has to be better than the alternative, which, right now, is checks.

Let me pause there, because we do think immediate is better and, in particular, we think that immediate payments are better because they would open up more use cases and generally provide a better user experience. Right now, for example, maybe one of the reasons why we are seeing checklike use cases being promoted through Popmoney is because the experience of exchange and settlement is checklike.

We feel that, by having a cashlike alternative, we will be able to open up more use cases and it will become more useful to consumers, not only for cash exchange, but if you think about it cash is how consumers exchange money with immediate settlement. It also opens up some potential venues in commerce. Despite having said that, I do not think immediate is a necessary ingredient for a digital payments system. I want to be really clear, increasing speed of settlement and clearing is our number one product priority. The way we approach this is a little bit different than some of the things that have been discussed earlier today.

In the near term, we are working on accomplishing immediate and near-immediate transactions by moving transaction volume from the ACH network to the credit, debit and ATM networks. The problem is these networks are not universal. They are fast, but they are not universal. They have all sorts of complexities and interoperability issues between networks. We very much view our job as an intermediary, in effect technology providers. We piece the networks together, we make the technology work, and we help manage the risks. If you think about each network, each one has its own rules, its own fees, its own system with limits, and they are not necessarily that affordable for a consumer to transact over. So there are a lot of issues with it. Ultimately, and I will not talk so much about this, but everything we do is a debit transfer system and it is not a credit transfer system.

We view our role as being the equivalent of payments sausage makers. We take complex payments systems and we make them simple for consumers. We are already moving, like I said, toward faster P2P payments. As of April, we are already internally moving some portion of our payments over EFT networks and we have just started doing real-time payments internally. We are demoing that for our clients next month, and we expect to be in the market with real-time payments by the end of the year.

But—and it is a big but—it will not be universal at first. In a sense, not all payments that we execute to and from all accounts will be moved in real time. It will be a gradual transition from a 100 percent ACH-based to a model in which more and more payments are executed in real time or near real time.

We have always, in fact, viewed the speed of payments through this incremental approach. It is not our intention that we necessarily have a big bang or sudden change in the model of payment processing and settlement, because of some regulatory action or change in settlement and clearing.

The paper goes on—and this is a transition from the last point—to outline the role potentially of the Federal Reserve Board in defining a national IFT system. I want to be careful with what I say here. It is obviously something that is interesting to us and I want to be clear this is not really my area of expertise and I do not want to be singled out as the private-sector guy who came up here in this roomful of regulators and public-sector people to offer a different opinion, although I suspect that may in fact be the case. We are very committed toward moving to real-time payments. As I said, it is our No. 1 product priority and it is what I spend most of my time working on.

In our search for solutions—it is not new for us, we have been working on this for years—we never really considered a solution coming out of a regulator or a similar industry body. This is what is particularly interesting about this discussion for me. This is a problem we have been trying to solve for a long time and we have never considered a solution with this, because frankly we work in a world where we are constrained by market realities. Our role is finding innovative ways to bring innovative payments products to market. We typically do not view government involvement as a lever that we have to play with. Not because we do not like it, but because we have very explicit market goals and our timelines are very tight.

I talked before about our need to introduce real-time payments into the market this year. In this particular case, I would say the Fiserv experience provides some evidence the private sector is actually moving toward solving the problem that Bruce has laid out. But it is being solved in a very incremental way. It is not a systemwide solution, but we are working on an answer to Bruce's assertion that strategic challenges to combine immediacy and finality of payment with versatility and universality of the check.

When I think about what we are doing now—and by "we" at this point, I will take a whole industry perspective, because Fiserv is not the only provider in this game—the industry is moving toward immediacy and finality, combined with versatility and universality of the check. That is the challenge we are stepping up to meet. We see steady progress being made. And, given we see progress being made by the private sector, we might question the necessity of a regulator solution. It is certainly something we would be open to, but I think it is something we who are out in the forefront of this innovation would want to view cautiously and make sure that it were well-implemented, because obviously in the world I come from, with every regulatory change there is clearly some sort of potential downside you have to mitigate. Thanks.