



Testimony of

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On behalf of the

**Independent Community Bankers of America**

Before the

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Committee on Financial Services

Task Force on Financial Technology

Hearing on

“The Future of Real-Time Payments”

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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 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.