
The Changing Payments Landscape

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Kansas City, Missouri
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Topics

- Overview of Payments Research
 - The Changing Payments Landscape
 - Check
 - Debit and Credit
 - Stored Value
 - ACH
 - Payments on the “Verge”?
 - Closing Remarks
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Payments Research at a System Level

- All Reserve Banks and the Board of Governors have research departments
 - But, not all research departments have payments system research groups
 - Those that do:
 - Board of Governors (general)
 - Boston (consumer preferences)
 - New York (wholesale)
 - Philadelphia (payment cards)
 - Atlanta (risk management)
 - Chicago (emerging payments)
 - Kansas City (retail policy issues)
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The Changing Payments Landscape

- The 2007 Payments Study is the latest in a series of three
 - Study methodologies were consistent across the three survey periods (2001, 2004, 2007) to ensure comparability
 - There were three components of the survey process
 - Depository Institution (DI) Payments Study
 - Electronic Payments Study
 - Check Sample Study
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The Changing Payments Landscape

- The DI Payments Study
 - Sent to 2,700 DIs
 - largest DIs sampled at a higher rate in an effort to count as many transactions as possible and estimate as few as possible
 - Response rate of 53 percent (1,437 DIs)
 - The study provides information such as the
 - number and value of check payments
 - number and value of ATM cash withdrawals
 - percentage of ACH payments that are not cleared through an ACH operator
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The Changing Payments Landscape

- Electronic Payments Study
 - Participants included 65 of the largest 73 payment networks and card issuers surveyed
 - Response rate of 89 percent
 - Collectively, these 65 participants accounted for an estimated 99.8 percent of the payment transactions and 99.9 percent of the dollar value of electronic payments originated in the United States during 2006
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The Changing Payments Landscape

- Check Sample Study

- Voluntary participation by nine large banks that use the Viewpointe check image archive
 - The sampled is estimated to represent approximately 40 percent of all “prime pass” items in the United States
 - Study looked at who is paying whom and for what reasons (payer, payee, purpose)
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The Changing Payments Landscape

■ Annual Number of Noncash Payments

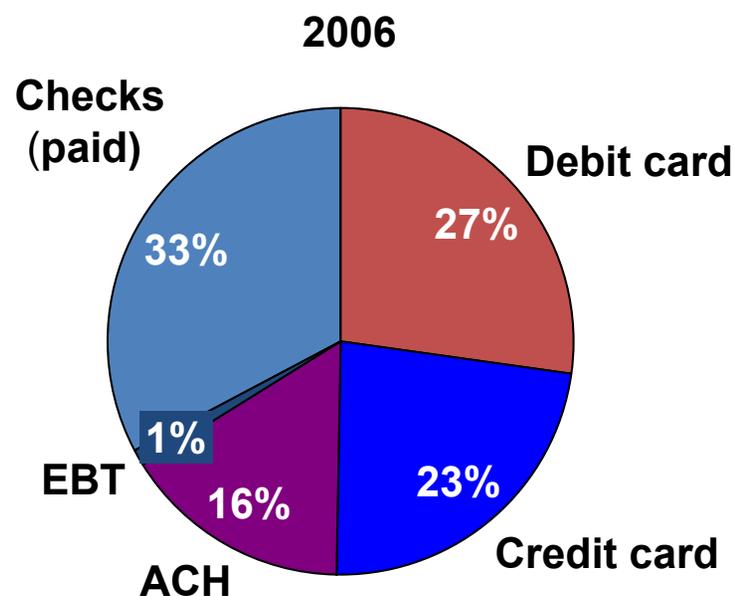
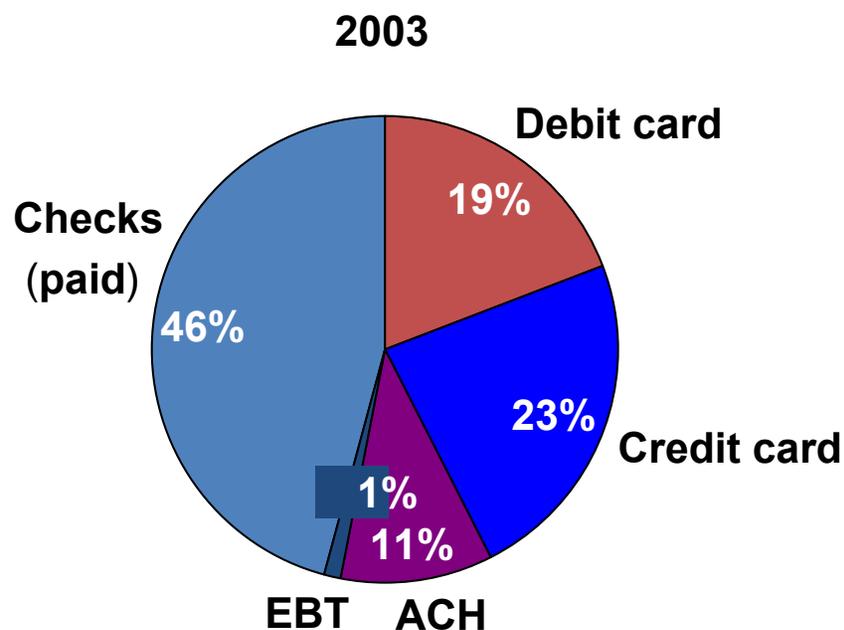
	2000	2003	CAGR*	2003	2006	CAGR*
Total (billions)	72.5	81.4	3.9%	81.4	93.3	4.6%
Checks (paid)	41.9	37.3	-3.8%	37.3	30.6	-6.4%
Debit card	8.3	15.6	23.4%	15.6	25.3	17.5%
<i>Signature</i>	5.3	10.3	24.8%	10.3	16.0	15.8%
<i>PIN</i>	3.0	5.3	20.9%	5.3	9.4	20.6%
Credit Card	15.6	19.0	6.8%	19.0	21.7	4.6%
ACH	6.2	8.8	12.4%	8.8	14.6	18.6%
EBT	0.5	0.8	17.0%	0.8	1.1	10.0%

* CAGR is the compound annual growth rate.

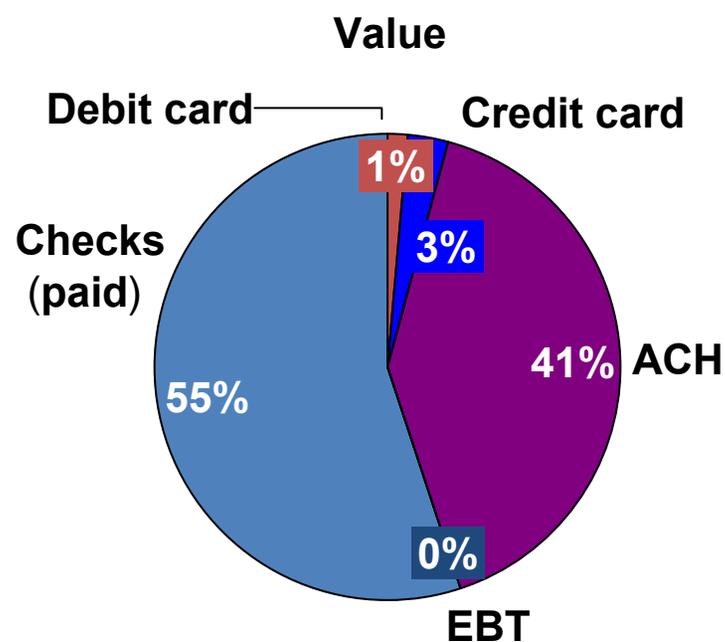
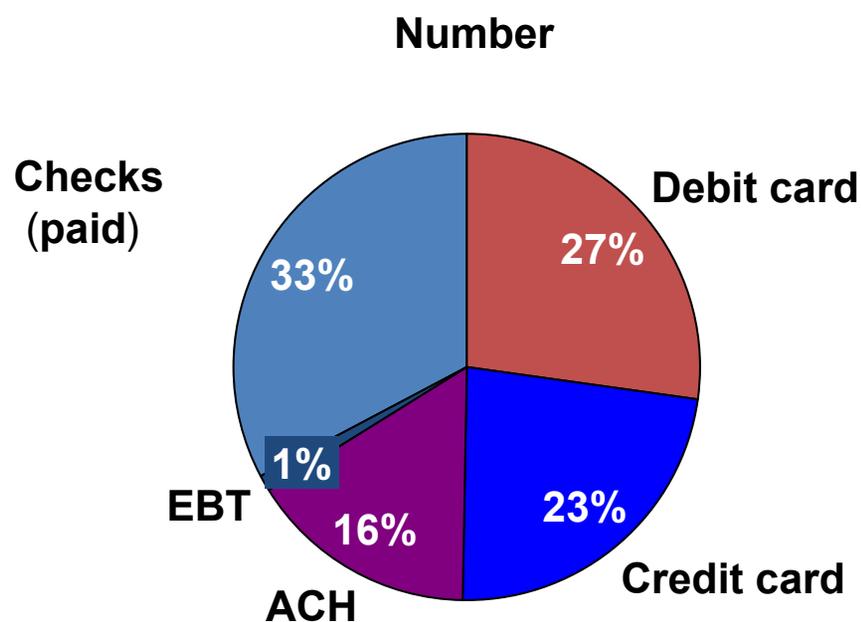
Source: 2007, 2004, and 2001 Federal Reserve Payments Studies

Distribution of the Number of Noncash Payments

- Comparison of 2003 and 2006

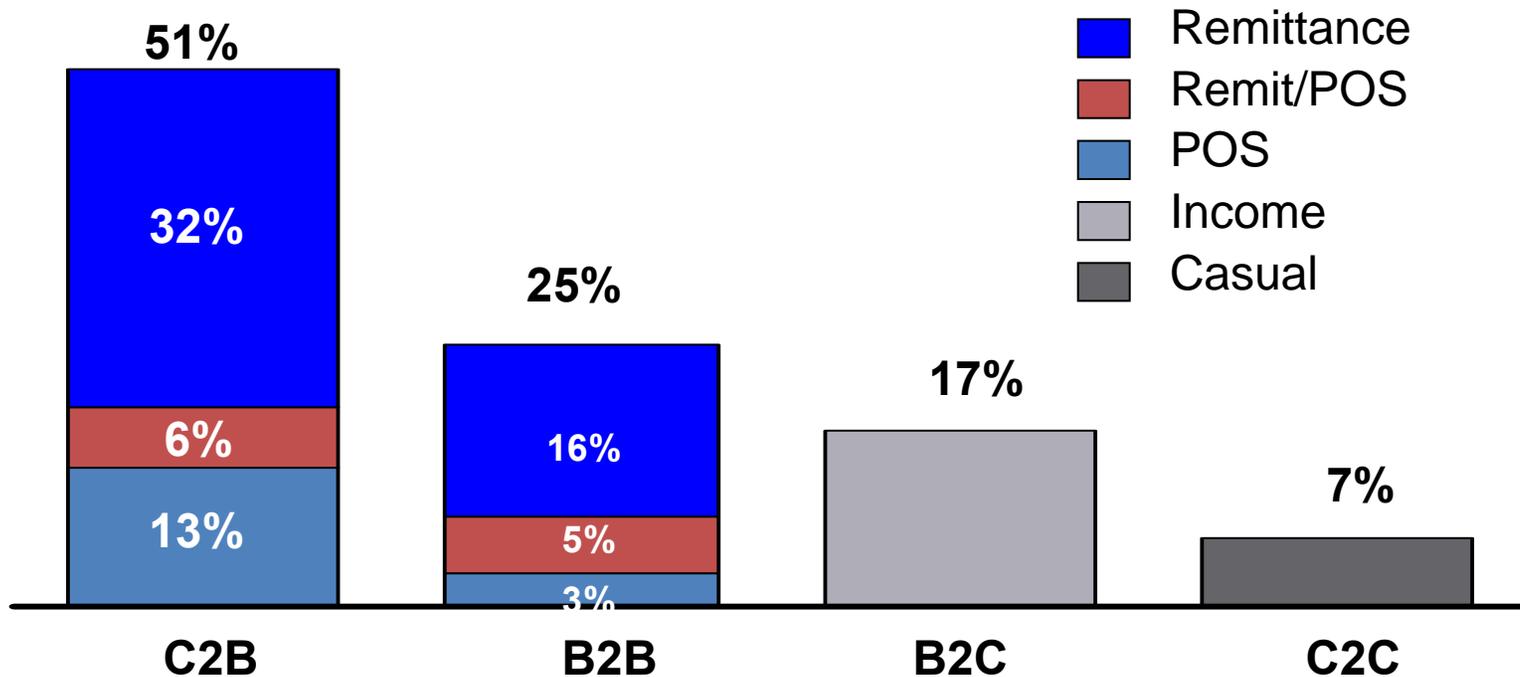


Distribution of the Number and Value of 2006 Noncash Payments



Check Payments

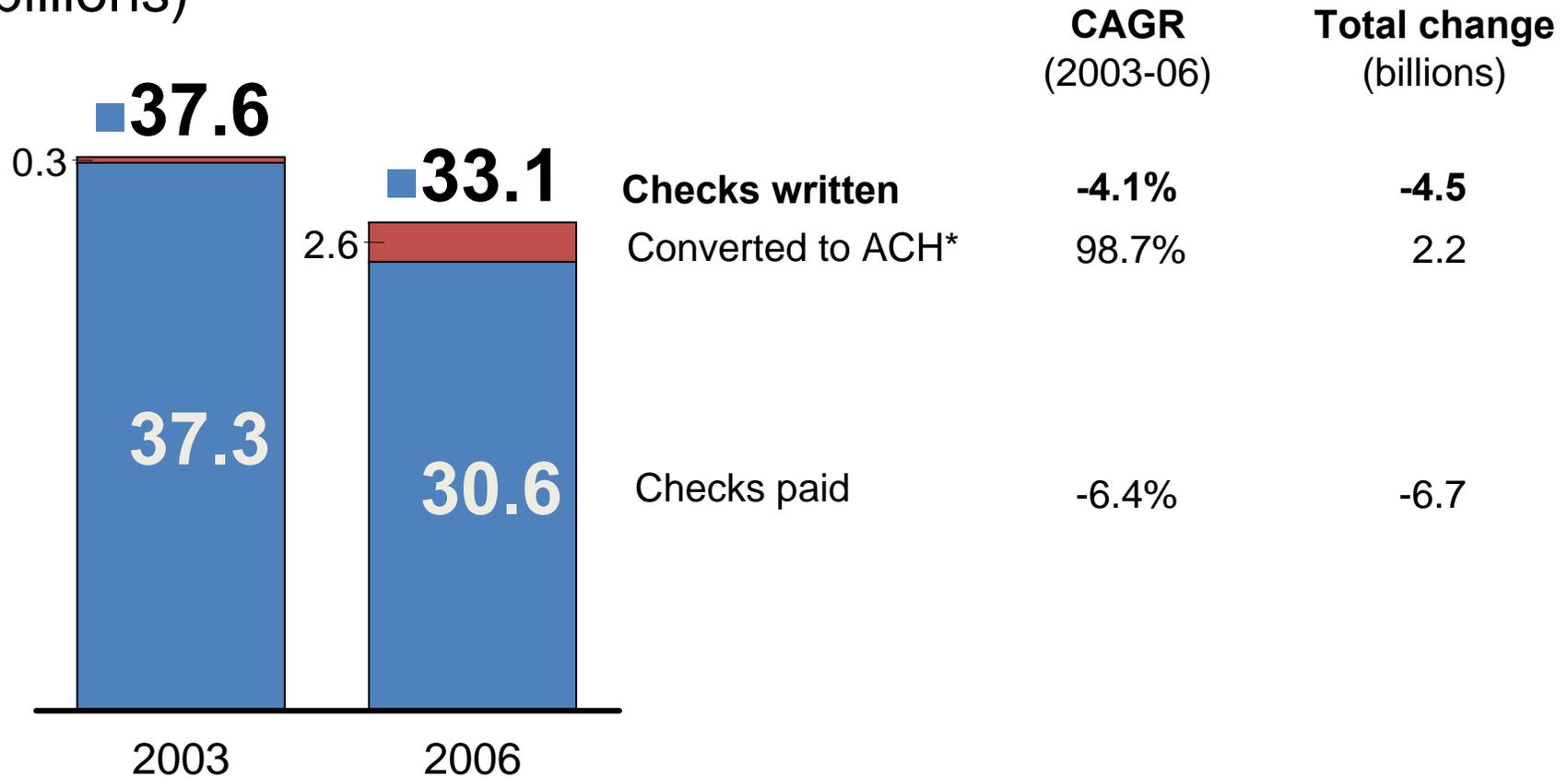
- 2006 distribution of checks by counterparty and purpose*



* Population is "prime pass" checks processed by nine large commercial banks. Estimate excludes 0.2 percent of checks that could not be classified.

Check Payments

■ Number of checks written, paid, and converted to ACH
(billions)



Figures may not add up due to rounding.

* Other forms of check conversion exist, but their volumes are insignificant.

Credit and Debit Card Payments

- Of all of the electronic payments, credit cards experienced the lowest rate of growth
 - For the first time, the number of debit card payments exceeds the number of credit card payments
 - PIN debit use increased 20.6 percent per year
 - Signature debit use increased 15.8 percent per year
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Credit and Debit Card Payments

- In 2006, nearly 700* million credit cards were issued
 - Of those, nearly 600 million were Visa or MasterCard branded
- 75 percent of consumers have at least one credit card**
- The average credit card customer has 2-3 Visa or MasterCard branded cards in their wallets*

* Source: Nilson Report, Issue

** Source: SCF 2001

Credit and Debit Card Payments

- Credit and debit payments are now accepted forms of payment almost everywhere!



Stored-Value Card Payments

- There are essentially two types of cards
 - Open-loop cards
 - Carry a network logo
 - Can be used nearly anywhere the network card is accepted
 - Closed-loop cards
 - Specific to a store or group of stores
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Stored-Value Card Payments

- Stored-value cards are among the most frequently given gifts
 - Used for payroll purposes for unbanked
 - Can provide an electronic means of payment for those without access to credit or debit cards
 - Some offer reload capabilities
 - Issues
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ACH Payments

- The latest Payments Study revealed that noncash payments made via the ACH grew most significantly from 2003 to 2006
 - 18.6 percent per year
 - Included among these types of payments are direct deposit of payroll and benefits; direct, online, and automatic bill payment; and conversion of payments that were initiated via check
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ACH Payments

- Conversion of payments that were initiated via check include the following:
 - ❑ Checks converted via the Web
 - ❑ Checks converted via the phone
 - ❑ Checks converted after return for NSF
 - ❑ Checks converted in a “back office”
 - ❑ Checks mailed/dropped as bill payments
 - ❑ Checks converted at the point-of-purchase

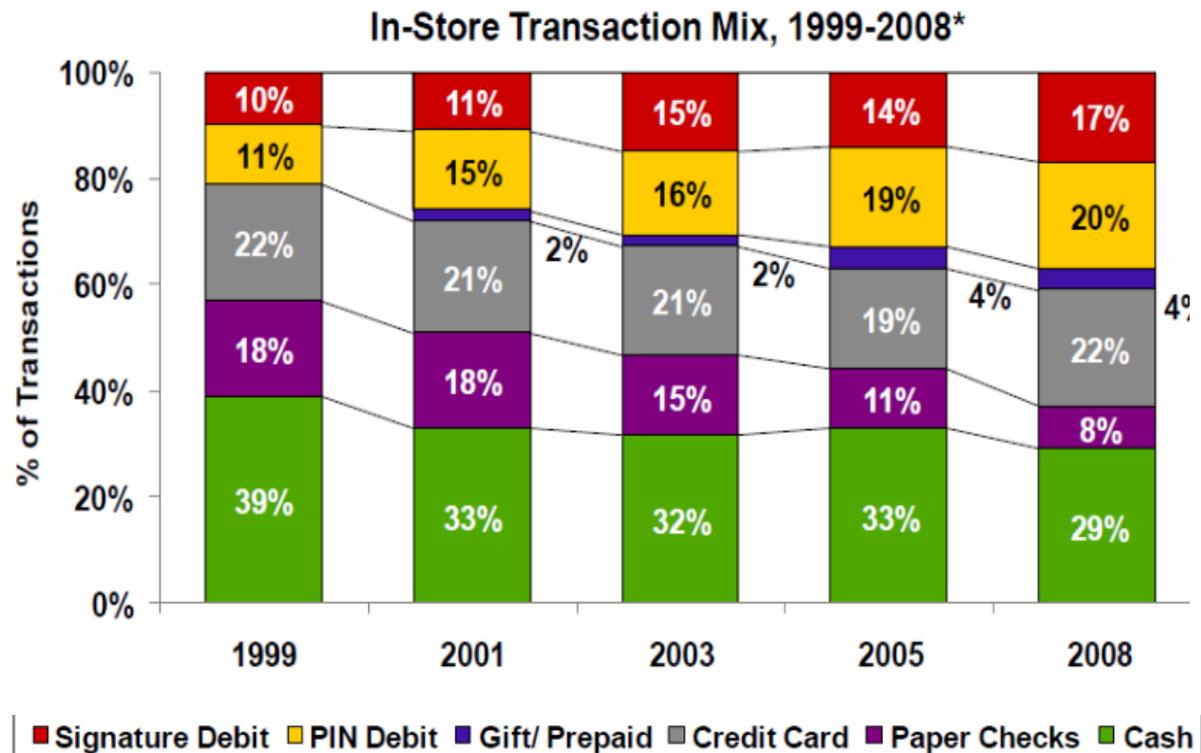
WAL★MART
Save money. Live better.™



Abercrombie & Fitch

BANANA REPUBLIC

Hitachi Consulting Study on Consumer Payment Preferences



* In 1999 and 2001, consumers were not asked specifically about gift/prepaid cards; in 2001, the 2% is - "other".

Payments on the Verge?

- Decoupled debit card products
 - Mechanism to issue debit cards in a manner similar to credit cards
 - Contactless card payments
 - Tap or wave to make purchase
 - Mobile payments
 - Enabling payments via mobile devices using text, wireless, contactless, and/or application download
 - Among the providers are PayPal, MocaPay, and Obopay
 - Hybrid – contactless stickers
 - GoTag and Bling
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Closing Remarks

- Any one of these topics could have taken the entire session to discuss
 - All are areas of ongoing interest and focus for our group
 - Beyond mere discussion of payment types and their uses there are a host of other issues
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Resources

■ Payments Studies

- https://connect2.federalreserve.org/files/communications/pdf/research/,DanaInfo=.awxyCjwhzm05tor6O48y+2007_chek_sample_study.pdf
 - https://connect2.federalreserve.org/files/communications/pdf/research/,DanaInfo=.awxyCjwhzm05tor6O48y+2007_depository_institutions_payments_study.pdf
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