



South West Regional Symposium

Trends in Payments Systems Mechanisms

March 27, 2008

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Topics

- Overview of Payments System Research at the Kansas City Fed
- The Changing Payments Landscape
- Credit and Debit Card Payments
- Stored-Value Card Payments
- Automated Clearing House Payments
- Payments on the “Verge”?
- Resources



Reserve Bank Research

- All reserve banks and the Board of Governors have research departments
- But, not all research departments have payments system research groups
- Those that do are:
 - Board of Governors (general)
 - New York (wholesale)
 - Boston (consumer preferences)
 - Chicago (emerging payments)
 - Philadelphia (payment cards)
 - Kansas City (retail policy issues)



Payments System Research at the Kansas City Fed

- PSR is one of three functions in the Economic Research Department
 - Payments System Research
 - Macroeconomics and Monetary Policy Research
 - Banking and Financial Market Research
- Mission: To conduct policy-oriented research on retail payments issues
- Currently six members: four economists, one industry specialist, one research associate



Payments System Research Activities

- Conduct research on retail payments issues, both domestic and international
- Communicate results of research to central banks, industry, and academic audiences via publications and presentations
- Sponsor conferences: Interchange (2003), Nonbanks (2005)
- Publish works
 - Books
 - Articles: FRBKC *Economic Review*, academic journals, FRBKC *Briefing*
 - Conference proceedings
 - Working papers



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>	<i>5.3</i>	<i>10.3</i>	<i>24.8%</i>	<i>10.3</i>	<i>16.0</i>	<i>15.8%</i>
<i>PIN</i>	<i>3.0</i>	<i>5.3</i>	<i>20.9%</i>	<i>5.3</i>	<i>9.4</i>	<i>20.6%</i>
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%

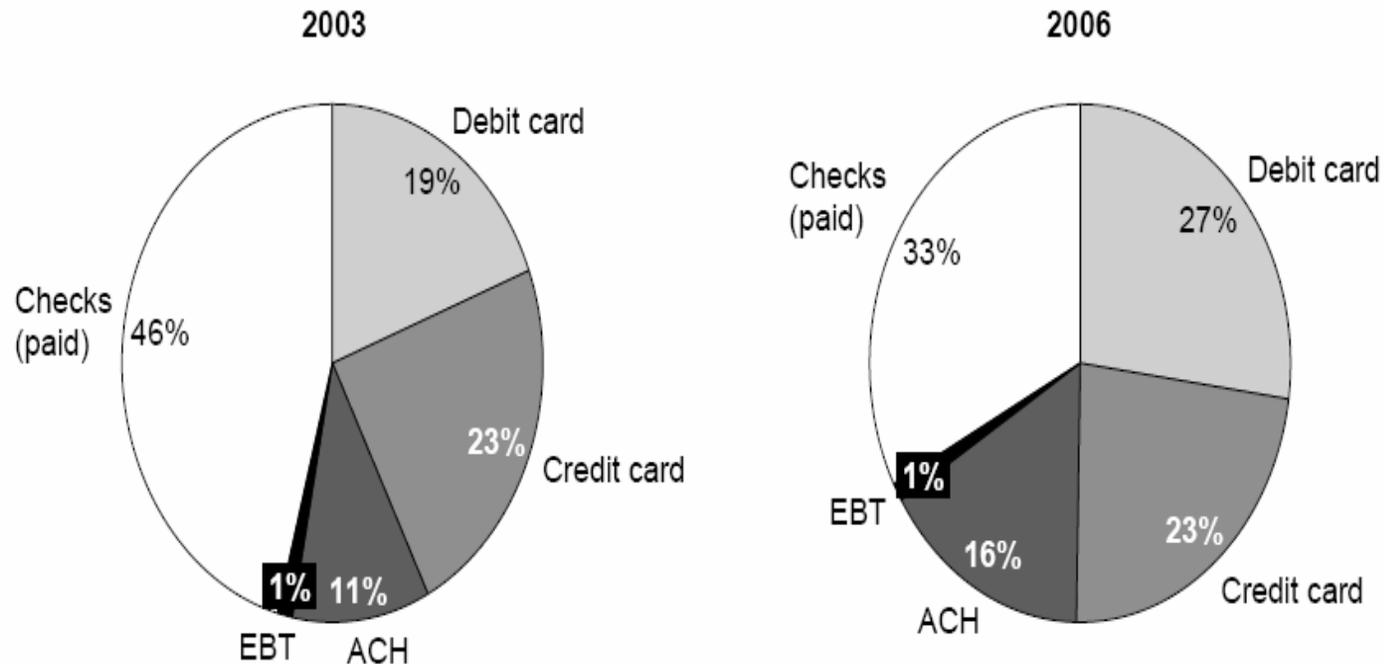
* CAGR is the compound annual growth rate.

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



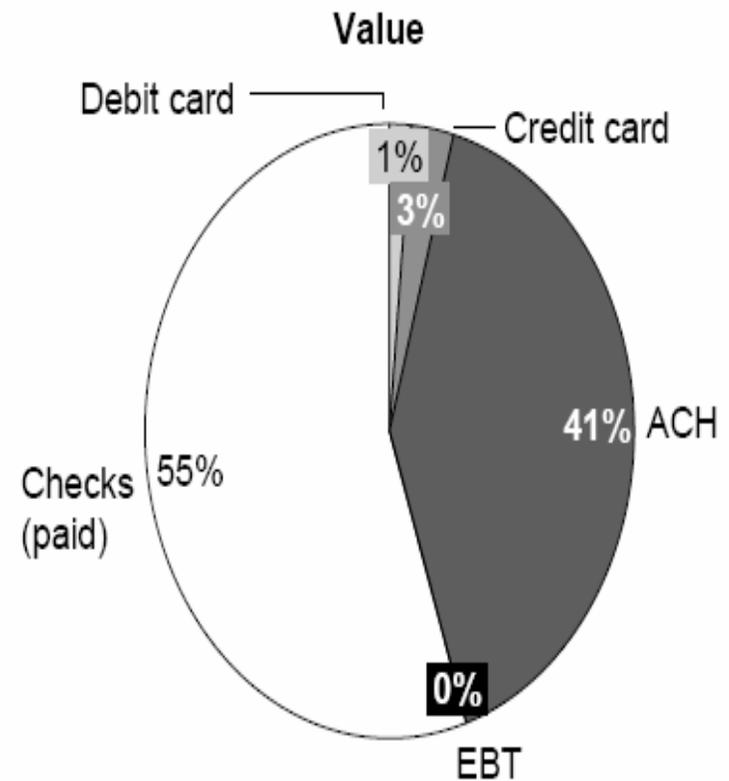
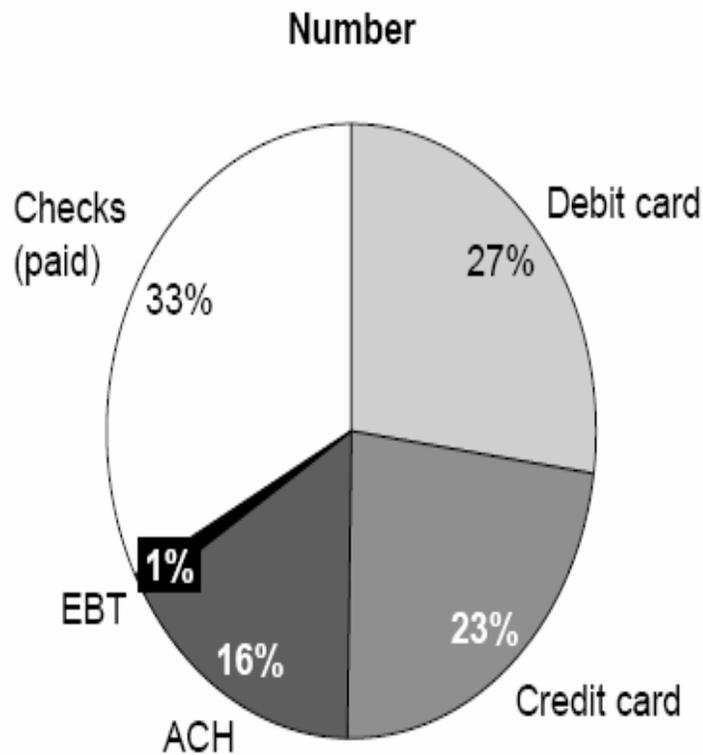
Distribution of the Number of Noncash Payments

- Comparison of 2003 and 2006





Distribution of the Number and Value of 2006 Noncash Payments





Credit and Debit Card Payments

- Of all of the electronic payments, credit cards experienced the lowest rate of growth
 - 4.6 percent per year
- For the first time, the number of debit card payments exceeded the number of credit card payments
 - PIN debit use increased 20.6 percent per year
 - Signature debit use increased 15.8 percent per year



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 wallet*

* Source: Nilson Report

** Source: SCF 2001



Credit and Debit Card Payments





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



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



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



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

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GAP

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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



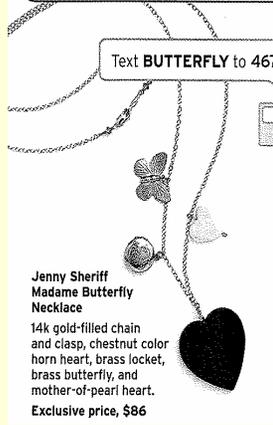
Payments on the Verge?

- An example of Mobile payment via text

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Closing Remarks

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



Resources

- Briefing Articles
 - <https://connect2.federalreserve.org/EconRes/PSR/Briefings/,DanaInfo=.awxyCofzzi1mt5.tttQ6-0+PSR-Briefings.htm>
- Conference Summaries
 - <https://connect2.federalreserve.org/home/,DanaInfo=.awxyCofzzi1mt5.tttQ6-0+subwebnav.cfm?level=3&theID=10276&SubWeb=7>
- Working Papers
 - <https://connect2.federalreserve.org/Econres/PSR/RWP/,DanaInfo=.awxyCofzzi1mt5.tttQ6-0+PSR-WorkingPapers.htm>
- Books
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