

# Foreword

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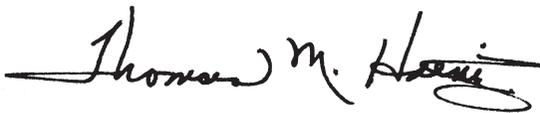
Retail payment systems around the world have entered a period of dramatic change. The shift from paper to electronics, the emergence of new instruments and payments channels, the rise in nonbank participation, the change in risk profiles—all are elements of this new landscape. What role should central banks play in this new environment?

The shift toward electronic payments has been striking. In the United States, for example, a recent Federal Reserve study indicates that electronic payments are now more than two-thirds of all noncash payments. Accompanying—and in large part driving—these developments have been dramatic technological advances in computing power and telecommunications that have created economies of scale. Technology has also led to a growing complexity and interrelatedness in technical and business relationships, increasing vulnerability to “single points of failure.” Risk profiles accordingly have shifted, with new sources of systemic risk, operational risk, and fraud risk emerging. In addition, industry structures in retail payments are also evolving. One example is the increased concentration of credit, debit, and ATM markets. Another is the increased prominence of nonbanks in the payments system.

Central banks traditionally serve three roles in retail payment systems: operator, facilitator, and overseer. The level and type of involvement in these three roles varies widely across central banks, reflecting different histories, institutional structures, and legislative authorities. Almost all central banks play at least a minimal operational role by providing settlement services, and a majority also act in some capacity as facilitator or catalyst. A number of central banks also have explicit oversight responsibilities. Recognizing the significant changes under way in the payments industry, central banks around the world have been reevaluating their roles in their respective payment systems, and many have recently adopted or are considering new policies.

To explore the changing retail payments landscape and to assess implications for central bank payments policies, the Federal Reserve Bank of Kansas City sponsored an international payments conference titled, “The Changing Retail Payments Landscape: What Role for Central Banks?” on November 9 and 10, 2009. The conference brought together a distinguished group of industry executives, central bankers, and academics for an exchange of views and ideas. The first day of the conference presented an overview of the evolving retail payments landscape and examined the underlying economic forces driving change. How are various countries’ payments systems evolving over time? In what ways do consumer preferences affect industry outcomes? How do payments markets differ from other markets? The second day of the conference explored policy implications, with a focus on efficiency, integrity, and the role of central banks. Are payments markets sufficiently competitive and safe? If not, what private and public policies would be beneficial? What role should central banks play in the retail payments system of the future?

Though questions remain, we believe the conference contributed significantly to our understanding of retail payments developments and implications. This volume includes all of the presentations and papers from the conference as well as all commentary and general discussion. The exceptional knowledge and insight of participants are evident throughout the volume. We at the Federal Reserve Bank of Kansas City sincerely thank them all for their contributions to this very important topic.

A handwritten signature in black ink, reading "Thomas M. Hoenig". The signature is fluid and cursive, with a long horizontal line extending to the left of the first name.

Thomas M. Hoenig  
President and Chief Executive Officer  
Federal Reserve Bank of Kansas City