

News Release

THE FEDERAL RESERVE BANK of KANSAS CITY

925 Grand Boulevard • Kansas City, MO 64198 • Phone: 816.881.2683

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CONTACT: **Tim Todd**
816/881-2308
timothy.todd@kc.frb.org

RISK MANAGEMENT AND NONBANK PARTICIPATION IN THE U.S. RETAIL PAYMENTS SYSTEM

The U.S. retail payments system has seen a rapid pace of change, in particular a shift toward electronic payments and nonbank payments providers. Most payments activity now has some nonbank presence. While nonbanks bring new technology and innovation, their emergence potentially introduces or magnifies existing risks to the system.

Rick Sullivan, senior economist at the Federal Reserve Bank of Kansas City, explores the topic in “Risk Management and Nonbank Participation in the U.S. Retail Payments System.” The article appears in the second quarter edition of the Bank’s *Economic Review*.

The author reviews the current supervisory structure over nonbank payments providers and risk management in the retail payments system, showing that a substantial amount of private and public effort is directed at managing the risks.

Public intervention has been relatively limited because market forces have generally been effective in managing risk. Nevertheless, there is some role for public involvement in managing payments risk because market imperfections that can limit the effectiveness of industry efforts.

In light of the recent changes to the payments system, risk management might be strengthened in various ways. The author considers some policy adjustments that could make both private and public risk management efforts more effective.

The article is available on the Bank’s website at www.KansasCityFed.org.

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