




Rapid Changes in Payments Services June 7, 2007

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Topics of Discussion

- The Role of the Fed and the Payments System
- Forces Driving Changes in Payments
- Payment Instruments and Trends
- What does the future hold for consumers?

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The Role of the Fed and the Payments System

Mission of the Federal Reserve Bank

- To foster the integrity, efficiency, and accessibility of U.S. payments and settlement systems in support of financial stability and economic growth

Roles of the Federal Reserve Bank

- Service provider
- Fiscal agent
- Leader and policymaker

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Payments Market Trends

- Growing use of electronic payments, especially debit & prepaid cards
- Growing use of Internet/Web for online banking & bill pay
- Adopting e-commerce & use of online payment service providers
- Check volumes continue to decline
- Cash volumes declining
- ACH volumes increase as business-to-business payments migrate to electronics at a faster rate

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Demographics

- Savvy users of computers, Internet/Web & wireless technology
- Baby Boomers retiring
- Gens X, Y & beyond
- Conduct business anytime/anywhere

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Payment Services

- Paper Check Clearing
- Check 21
- ACH
- Cash
- Fedwire Funds

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Paper Check Clearing

- Check writing is declining rapidly
- Electronic payment volume surpassed paper check for the first time in 2003

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Check Clearing Act for the 21st Century

- Congress passed the Check 21 Act to be implemented on October 28, 2004
- Law facilitates the truncation of checks by collecting banks by allowing financial institutions to convert paper checks into electronic digital images
- Law requires paying banks to accept substitute checks as a legal replacement for the original item

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Automated Clearing House (ACH)

- ACH enables an electronic exchange of debit and credit transactions among business and consumer accounts at financial institutions
- NACHA formed in 1974; members define ACH rules
- Fed & EPN serve as ACH operators
- Provides financial institutions with an easily accessible, cost-effective and convenient method for exchanging payments
- Debits are more than half of all ACH transactions
 - 1.37 billion ACH debit payments made via the internet in 2006
- ARC (Accounts Receivable Conversion) fastest growing application in ACH network history
 - Conversion of a consumer check received via mail at a corporate lockbox to a single ACH debit

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FedACH

- FedACH International Services provide institutions with the ability to send international payments via the same process used to send domestic transactions
- Engaging the industry in ACH risk reduction efforts and deploy risk mitigation services

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Fedwire Funds

- Fedwire Funds offers real-time processing of individual payments
- Individual payments are processed and irrevocably settled in central bank money immediately upon receipt by the Federal Reserve Bank
- Highly secure infrastructure
- Large dollars; small volumes
- \$2.1 trillion per day transferred

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What does the future hold for consumers?

- Biometric Authentication
- PayByTouch
- Mobile payments
- Additional risk management tools

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Questions?

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