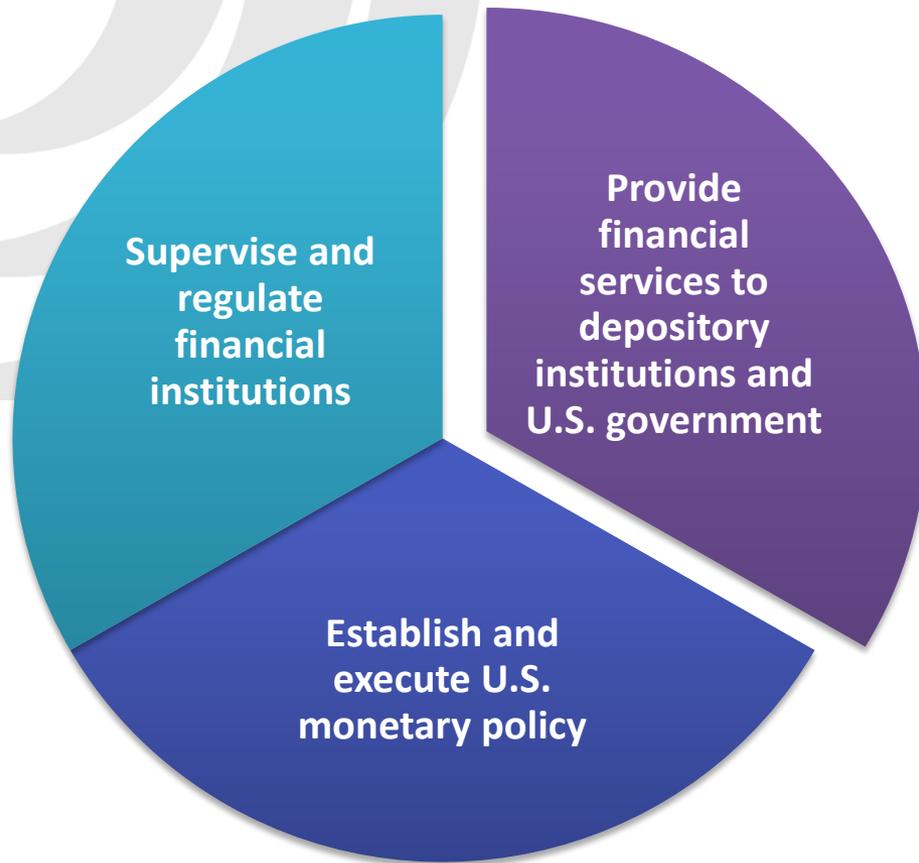


# **Advancing the Federal Reserve Financial Services Strategic Direction**

## **Overview of Current and Future Payment Ecosystems**

**W3C Workshop: How do you want to pay?  
March 24, 2014**

# Federal Reserve Banks Overview



***...to maintain a stable financial system and contain systemic risk***

## Mission

- To foster integrity, efficiency and accessibility of the U.S. payment system



## Vision

- Payments are safe and efficient
- End users can select payment options with attributes (e.g., speed, convenience, cost, security) that meet their needs
- Incentives promote efficient selection and use of these options



## Role

- Act as a major service provider to the interbank market
- Collaborate with industry and emphasize innovations in electronic payment systems

## End-to-End Strategic Focus

### Safety and Security

- Maintain and enhance FRB network security
- Enhance understanding of end-to-end security
- Collaborate and promote industry best practices

### Speed

- Develop solutions to enhance payment speed
- Understand market demand for faster payments
- Continue migration of paper to electronic

### Efficiency

- Develop solutions to promote efficiency
- Understand needs and barriers
- Promote standards adoption to improve efficiency

# Payment System Improvement Consultation Paper

## Desired Outcomes

### *Strategic Industry Engagement*

- Key improvements for the future state of the payment system have been *collectively* identified and embraced by payment participants, and material progress has been made in implementing them.

### *Ubiquitous Real-Time Retail Payments*

- A ubiquitous electronic solution(s) for making retail payments exists that does not require the sender to know the bank account number of the recipient. Provides confirmation of good funds at initiation, timely sender/receiver payment notification, and near-real-time debit to payer and credit to payee.

### *Improved Efficiency*

- Greater electronification and process improvements have reduced the average end-to-end (societal) costs of payment transactions and resulted in innovative payment services that deliver improved value to consumers, businesses and governments.

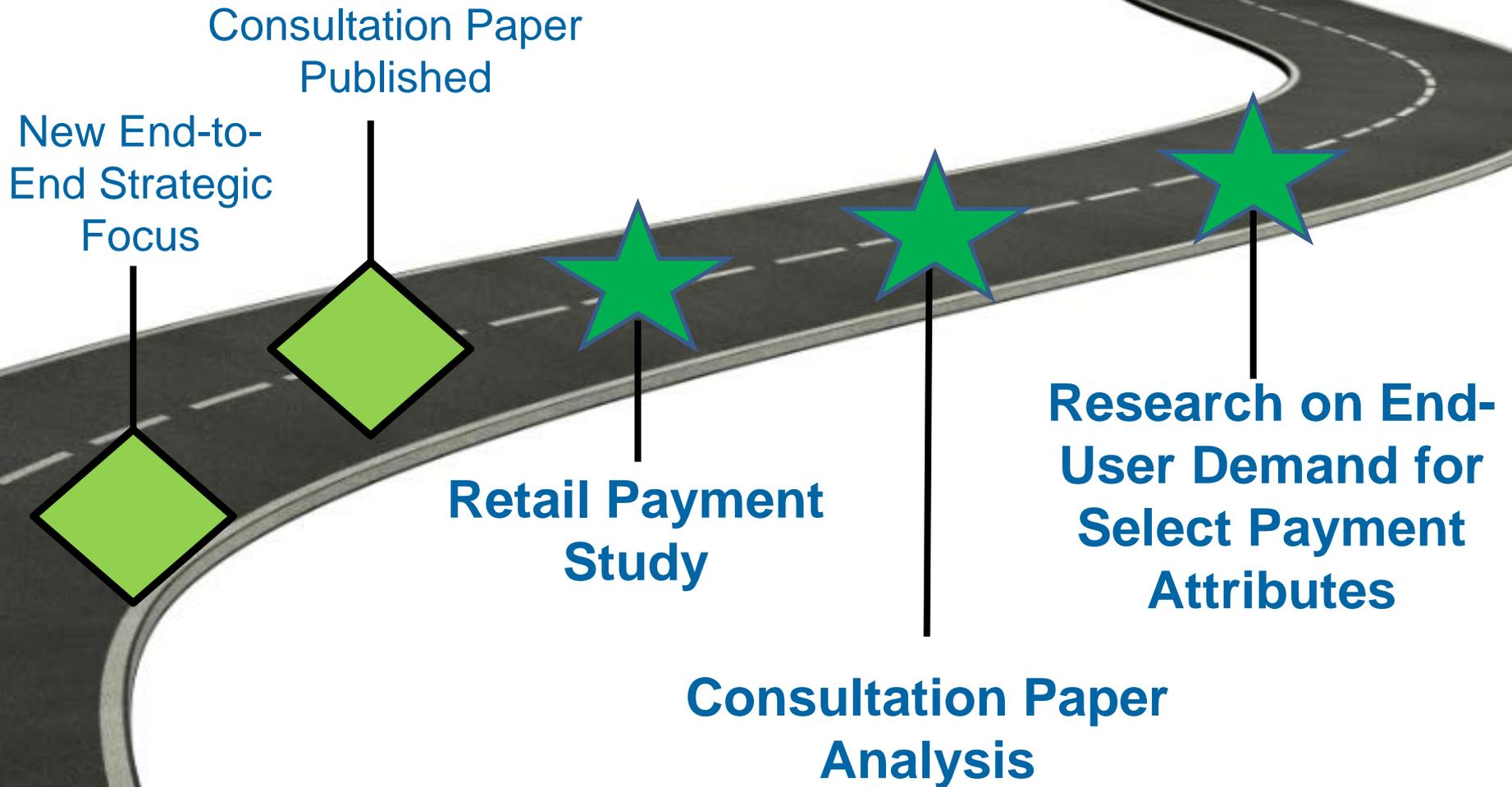
### *Improvements in Cross-Border Payments*

- Consumers and businesses have better choice in making convenient, cost-effective and timely cross-border payments from and to the United States.

### *Enhanced Payments Safety and Security*

- We have collaborated with the industry to promote end-to-end payment system security amid a rapidly evolving technology and threat environment. Public confidence in FRFS security remains high.

# Strategic Direction Roadmap



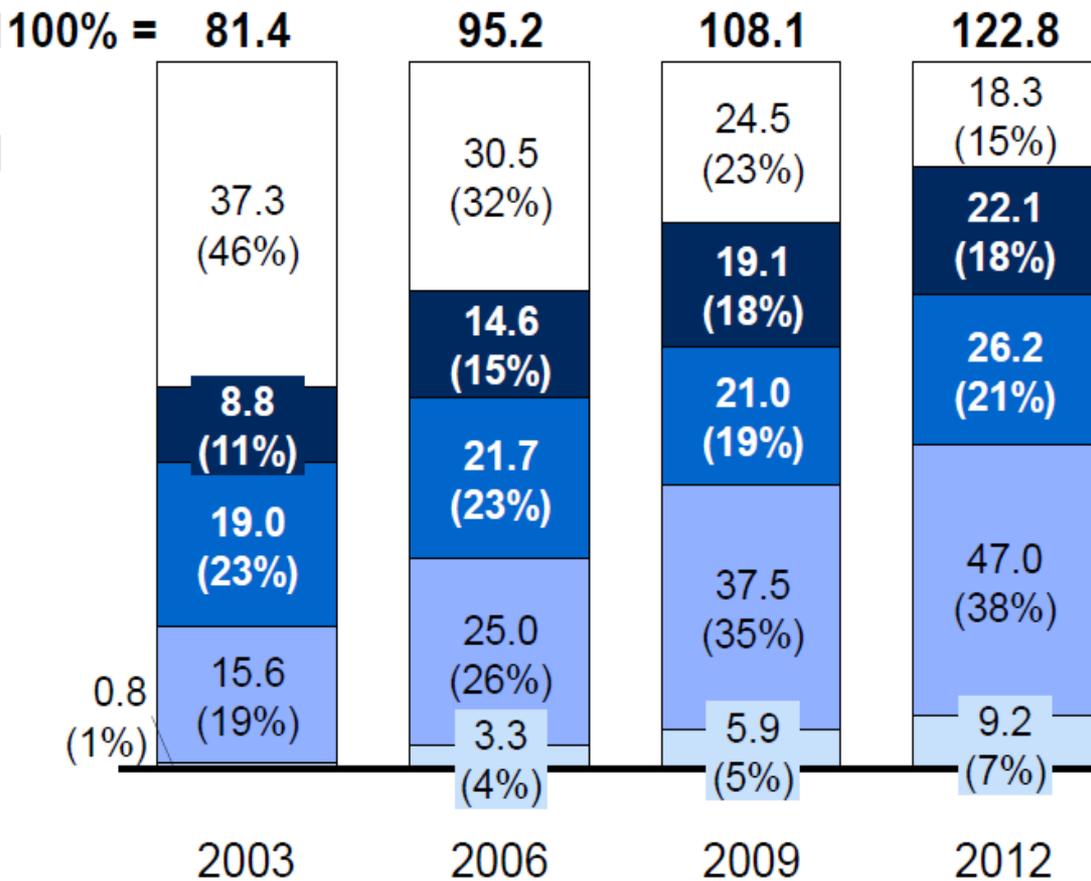
# Federal Reserve Retail Payments Study

## U.S. Non-Cash Transactions by Payment Type

Billions

CAGR\*

2003-12      2009-12



	2003-12	2009-12
<b>Total</b>	<b>4.7%</b>	<b>4.4%</b>
Checks (paid)	-7.6%	-9.2%
ACH	10.9%	5.1%
Credit card	3.7%	7.6%
Debit card	13.0%	7.7%
Prepaid card	30.7%	15.8%

Source:  
[http://www.frbfinancialservices.org/files/communications/pdf/research/2013\\_payments\\_study\\_summary.pdf](http://www.frbfinancialservices.org/files/communications/pdf/research/2013_payments_study_summary.pdf)

## Payment System Improvement – Public Consultation Paper Industry Feedback Summary – Common Themes

- Approx **three quarters** of respondents **agreed** with the gaps, opportunities and desired outcomes with suggestions for **additional focus on regulatory issues and serving the under-banked**
- Many suggested that the **Fed become more active in developing and implementing payment standards**
- Some non-banks **want greater influence in or direct access to the payment system**
- Depository institutions argued that they are **held to higher regulatory and risk management standards than non-bank payment providers**
- General desire for **faster payment settlement and delivery of information**, but concern over **business case**

# Research on End-User Demand for Select Payment Attributes

## Key Takeaways

**69%** of Consumer Payers and **75%** of Business Payees preferred **instant or one-hour payment speed**

**61%** consumers and **67%** businesses agreed that they “won’t use a payment method unless it is **used and accepted by most people and businesses**”

**75%** of businesses and **33%** of consumers expressed a **willingness to pay a fee** for payments that have faster availability to the payee



**85%** of Consumers and **81%** businesses indicated that they would rather **share an email address or a phone number** to make/receive payments

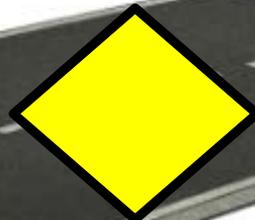
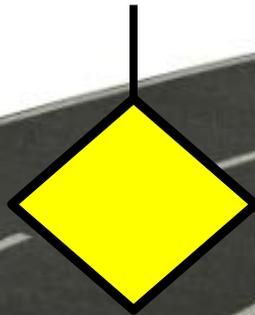
~ **70%** of consumers and ~ **82%** of businesses stated that it is important to **receive timely notification** that a payment has been made and when the payment was received by the payee

# Strategic Direction Roadmap

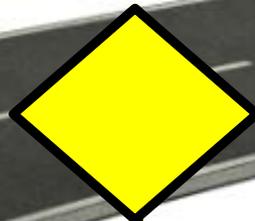
## Next Steps

Improvement  
Plan

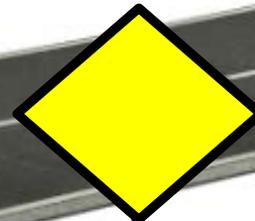
ISO 20022  
Business Case  
Assessment



EPO Exploration



Payment Security  
Landscape Study



Real-Time  
Alternatives  
Assessment

# Staying Connected



Visit [FedPaymentsImprovement.org](http://FedPaymentsImprovement.org)



Visit us at Fed and industry forums

- E.g., NACHA Payments 2014, NAFCU, Sibos 2014, the ABA Conference, Money2020 and the AFP annual conference



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