

Payments Perspectives

Will That Be Cash or Cell?

Remember when a cell phone was just a phone? Then it became a camera, too. And most recently, it's morphed into a palm-sized computer.

These days, the mobile phone is increasingly becoming a wallet too — and that's of interest to us. Consumers and merchants are more frequently using mobile devices to buy and sell, often in conjunction with debit or credit cards, but sometimes bypassing those options.

"The mobile space is growing and changing," said Pamela Rabaino, assistant vice president, who is heading the Richmond Fed's Payments Studies Group.

By 2020, most people will have "embraced and fully adopted" smart-device swiping for making purchases, "nearly eliminating" the need for cash or credit cards, according to a Pew Research Center study released in April. That's why the Federal Reserve Bank of Richmond and others in the Federal Reserve System are paying close attention to new payments technologies and how consumers are using these options — so that we can stay ahead of this changing environment.

So how are the Richmond Fed and the Federal Reserve System preparing?

The Richmond Fed and others in the Federal Reserve are gathering data, studying it and looking for trends.

One area of interest is cash usage. "It certainly makes sense that people might be using less cash, and mobile will have an impact even on current electronic payments," said Terry Wright, Richmond Fed vice president for Cash Services.

Interestingly, cash volumes are actually up, he said. "Circulated volume" in the Federal Reserve System was up 2.7 percent during the first quarter of 2012, compared with the same period last year. And the Fifth District's circulated volume is up 4.6 percent over the same period. Circulated volume is the true volume of currency received and shipped to customers; it excludes Fed-to-Fed transfers for processing purposes.

Wright and others attribute the modest bump in cash use in part to consumers preferring cash over adding to credit debt during the recession and continuing recovery.

Debit cards are another area of interest. After Dodd-Frank limited debit swipe fees, some banks sought to recover revenues by charging customers to use debit cards. Although banks later dropped plans for these fees due to the public outcry, some industry experts, Rabaino noted, began to see consumers increasingly turn to cash and prepaid cards, which can be used with mobile devices.

"People were concerned with increased fees that banks were planning on implementing, so they began looking for ways to avoid them by exploring and turning to alternative methods of payment," she said.

Non-bank options such as PayPal are not regulated in the way banks are. "A question the Fed may need to answer is, 'Would regulation or other Fed involvement help the market work better in terms of safety and efficiency?'"

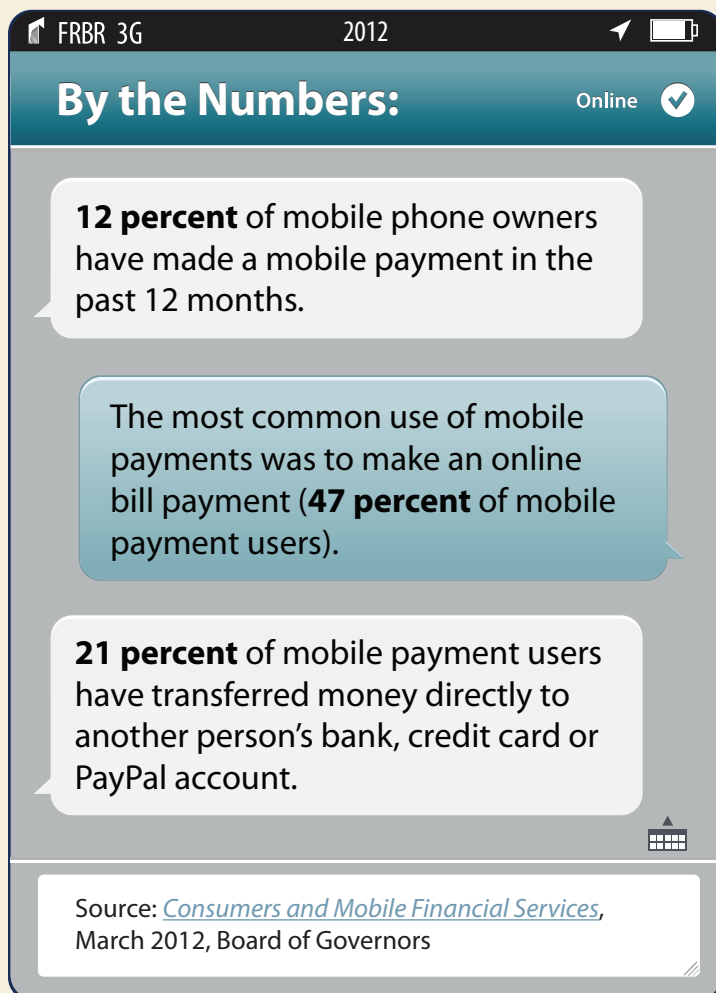
— Pamela Rabaino,
Richmond Fed's Payments Studies Group

Options such as GreenDot, a prepaid card service that allows payroll direct deposit, mean some consumers can choose to forego having bank accounts. Importantly, Rabaino added, non-bank options such as PayPal are not regulated in the way banks are. "A question the Fed may need to answer is, 'Would regulation or other Fed involvement help the market work better in terms of safety and efficiency?'" she said.

And the issue of establishing a universal settlement system for mobile transactions remains unresolved, Wright noted. "There's a discussion over how the Fed should get involved in that," he said.

Will consumers accept mobile transactions?

Consumer use of cash, credit, debit, prepaid and mobile options varies by demographic factors, including age. Generally, young consumers are more comfortable with mobile than are their parents, for example.



Rabaino routinely uses her iPhone to swipe and pay for her Caffé Vanilla Frappuccino at Starbucks, a leader in the use of mobile swipe-and-pay. And she turns to her iPad for purchases on eBay and Amazon. Her college-aged kids are already hooked: "They want to pay for everything with their phone — airplane tickets, you name it," she said.

A recent Federal Reserve mobile device study found that underbanked and unbanked populations make "comparatively heavy" use of mobile banking and mobile payments. And while in the past access to financial institutions and their services may have contributed to underbanked or unbanked trends, Rabaino said, more people now are sometimes choosing not to use bank services or giving them up.

Wright prefers the convenience and security of cash, adding there are people who still remain skeptical of some electronic payment options — let alone mobile payments — due to fraud and data privacy. The Fed's mobile device study found 42 percent of respondents were concerned about security of mobile technology.

"People have different comfort levels with technology," he said. "But no matter the form of transaction now or in the future, it's our job to safeguard the integrity of our nation's payments systems." ■

Written by Kiran Krishnamurthy of the Federal Reserve Bank of Richmond's Corporate Communications department, in consultation with Pamela Rabaino of the Payments Studies Group and Terry Wright of Cash Services.

The views expressed in this article are those of the author(s) and not necessarily those of the Federal Reserve Bank of Richmond or the Federal Reserve System.

Further Reading

- [Consumers and Mobile Financial Services, March 2012, Board of Governors](#)
- [The Future of Money in a Mobile Age, April 2012, Pew Research Center](#)