Federal Reserve Financial Services
Strategic Direction Update
The Evolving Payments Industry
Agenda

• Payments Environment
• FRFS Strategic Direction and Areas of Focus
• Collaborating for Success
## Payment Trends

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</thead>
<tbody>
<tr>
<td>Cash</td>
<td>107 billion</td>
<td>49%</td>
<td>NA</td>
<td>1%</td>
<td>$1.8 trillion</td>
<td>0.2%</td>
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<td>Credit &amp; Debit Cards</td>
<td>65.5 billion</td>
<td>30%</td>
<td>15%</td>
<td>4%(^1)</td>
<td>$3.44 trillion</td>
<td>0.3%</td>
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<td>Checks Paid</td>
<td>24.4 billion</td>
<td>11%</td>
<td>-7%</td>
<td>-5%</td>
<td>$31.1 trillion</td>
<td>2.7%</td>
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<td>ACH</td>
<td>19.1 billion</td>
<td>9%</td>
<td>12%</td>
<td>5%</td>
<td>$37.2 trillion</td>
<td>3.3%</td>
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<tr>
<td>Wire Transfer</td>
<td>0.2 billion</td>
<td>0.1%</td>
<td>1%</td>
<td>4%</td>
<td>$1,046 trillion</td>
<td>93%</td>
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Sources: McKinsey, Compas, Federal Reserve (Note: Percentage of Volume and Percentage of Value columns do not sum to 100% due to rounding)

\(^1\) Other perspectives on this market suggest that the 4% projected growth rate may be too conservative.
State of the Payments Environment

- Financial institutions are challenged to invest in enhanced payment solutions to meet end-user demands in the midst of lost fee revenues and escalating security costs
- The payments market remains intensely competitive with continued aggressive pricing strategies
- Technology will continue to drive industry change, potentially creating market disruption
- Security threats are likely to grow in frequency and severity during a time when public confidence will be key to continued development of an effective payments system
- Healthcare regulation, the Dodd-Frank Act and other legislation will continue to cause change in the payments system
FRFS Strategic Direction

**Continuity with the past**

- Continue to foster integrity, efficiency and accessibility in the payments system
- Continue service provider role in the interbank market
- Continue to push electronic payments

**Shift in emphasis for the future**

- Add focus on improving the payments system for end users (businesses and individuals)
- Look at payments from end to end for opportunities to speed clearing, improve transparency of information about payments, and enhance security
Payment Safety and Security

• Maintain and enhance the integrity, safety and security of Federal Reserve Banks' networks and services
  – Provide software, hardware and user authentication solutions that mitigate current and anticipate emerging threats and vulnerabilities
• Continually enhance Federal Reserve Bank understanding of end-to-end security in payments processing and delivery
• Collaborate with industry to share and promote best practices along entire payment chain
• Enhance understanding of market demands for and barriers to faster payments including examining new models for faster payments

• Develop services and service access solutions that enhance payment system speed, including accelerating the delivery of information about payments to end users

• Continue efforts to fully migrate paper-based payments to electronic alternatives
• Develop services and service access solutions that promote efficiency, including solutions that address barriers to electronic B2B payments and straight-through processing

• Understand end-user needs for and barriers to payments system efficiency, including cost and supply factors that may contribute to inefficiency

• Promote and adopt payment standards and processes to improve efficiency in global commerce and cross-border financial market transactions
Industry Collaboration

Payments users select the most effective and efficient payment method based on their needs.

The Federal Reserve Banks develop services that align with industry initiatives and end-to-end needs.

Payments industry stakeholders work collaboratively to develop innovative and reliable solutions.
Questions