

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

Payment Type	2009 Transaction Volume	Percentage of Volume	Compound Annual Growth Rate 2004-2009	Projected Growth Rate 2009-2014	2009 Transaction Value	Percentage of Value
Cash	107 billion	49%	NA	1%	\$1.8 trillion	0.2%
Credit & Debit Cards	65.5 billion	30%	15%	4% ¹	\$3.44 trillion	0.3%
Checks Paid	24.4 billion	11%	-7%	-5%	\$31.1 trillion	2.7%
ACH	19.1 billion	9%	12%	5%	\$37.2 trillion	3.3%
Wire Transfer	0.2 billion	0.1%	1%	4%	\$1,046 trillion	93%

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

- 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

Payment Speed

- 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

Payment Efficiency

- 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.

Payments Users

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

Federal Reserve Banks

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

Payments Industry Stakeholders

Questions

