Emerging Payments Research Group
Federal Reserve Bank of Boston

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Emerging Payments Research Group

- What is the EPRG
- Why Look at Consumer and Merchant Behavior
- What we do
  - Conference in October
  - Consumer Behavior Survey
  - Industry Outreach
  - Cash Usage Study
  - Merchant Focus Groups
  - Prepaid Cards
  - Mobile Payments
  - Underbanked
What is the Emerging Payments Research Group?

- Cross functional team
  - Payment staff
  - Economists

- Goal:
  - Understand *why* consumers make payment choices

- Economic research to date
  - Focus on supply of payments
  - Not consumer demand

- Within context of a dynamic payments landscape
  - Paper to electronic
    - Decline in check volume
  - New payment technology
    - Contactless
  - Merchants accepting more payment types
    - Prepaid/Gift Cards
Why focus on Consumer & Merchant Behavior?

- Fed’s primary view of payment is through its customers—Banks
- Much research has been done on process
- Need to understand what consumers prefer and why
What we do

- Conference in October
- Consumer Behavior Survey
- Industry Outreach
  - Block Island Case Study
  - Merchant Focus Groups
- Cash Usage Study
- Prepaid Cards
- Mobile Payments
- Underbanked
- Trends
October Conference

- Goal: Stimulate new economic research on consumer payment behavior
- Collaboration of Economists and business leaders
- Review research papers
- Industry panels on POS and bill payment behavior
Consumer Payment Surveys

- Little data on why to analyze
- Fed System survey
- Co sponsor Dove/ABA 2005 Consumer Payment Survey
- Cash survey in 2006
Industry Outreach

- Meet with NE Area companies to share knowledge and understand issues they face
- Leadership team projects:
  - Block Island
  - Merchant focus groups
Block Island Case Study

- Leadership team analyzes payment system within microcosm: Block Island

- Analyzed cash usage and other payment types used by tourists and residents

- Looked at opportunity for prepaid cards
Merchant Focus Groups

- Leadership team will conduct merchant focus groups over Q3&4 of 2005
- Goal: Understand payments through the eyes of merchants
- How much do merchants care about payment?
  - Transaction fees can be costly
- How does a merchant decide what payment types to offer?
Cash Usage Study

- Central cash office for Federal Reserve interested in understanding cash demand by merchant and consumer

- Will play an important role in understanding consumer and business needs

- Cash has often been viewed as the payment default; no comprehensive analysis of cash as a payment type
Prepaid Cards: Open vs. Closed

- **Open System**
  - Electronic Benefit Transfer (EBT)
  - Payroll
  - Flexible/ Medical Spending
  - Visa/MC/AMEX Issued Cards
    - Simon Mall Visa

- **Closed System**
  - Retailer Issued
    - Starbucks
    - Gap
    - Barnes and Noble
  - Transit
  - Phone Cards
Prepaid: FRB Operated System for US Treasury/Military

- US Military training bases
- Overseas peace keeping operations
  - Army and Air Force
- Closed system
- Smart card based
- POS machines
- Kiosks for loading and unloading
- Back office accounting in Boston
Mobile/Contactless Payments

- US use of mobile payments:
  - Fast Lane
  - Mobile Speed Pass
- Contactless standard Fall 2004
- Will soon see readers at fast food chains and retailers
- Future integration with cell phones
Underbank Populations

- 9.5M in US do not have a checking account
- Check cashing is expensive
- New prepaid products for this population
  - Payroll cards
  - Rush & Usher prepaid cards
  - Electronic Transfer Accounts (ETA)
Payment Trends

- Total non cash payments are increasing
  - 2000: 72.5B
  - 2003: 81.2B

- Electronic payments exceeded total non-cash payments in 2003

Source: 2003 Federal Reserve Payments Study
Payment Trends

Check volume is declining
- From 41.9 B in 2000 to 36.7 in 2003*

- ARCing: **
  - Began in 2002
  - Reached 1.25B in 2004
  - Projected: 2B in 2005

- Check 21: 800,000 items per night (FRS Only)

Cash Volume needs more analysis

Sources:
*Federal Reserve Payments Study    **NACHA
Payment Trends

- Payment landscape is changing
  - Mobile and contactless payments

- Micropayments:
  - Big Macs: charge small value purchases
  - New opportunities: I Tunes

- Prepaid cards are growing
  - Payroll cards
  - Unbanked communities
  - Most large merchant: Dunkin Donuts
Final Comments

Q&A

- Trends the R&C Banks are seeing
- Impact of migration from paper to electronic?