In Pursuit of a Better Payment System

The U.S. payment system is undergoing a remarkable period of change, driven by rapid adoption of technology and evolving end-user expectations. Going forward, the Federal Reserve Banks are collaborating and engaging with the industry to define and prioritize payment system improvement initiatives that advance the speed, efficiency and security of payments end to end.

The Federal Reserve Banks believe that industry collaboration is the foundation of any enduring strategic improvements to the U.S. payment system.

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In late 2013, Federal Reserve Banks solicited comments on a Payment System Improvement – Public Consultation Paper.

- The paper sought the input of payment system providers and end users on:
  - Payment system gaps, opportunities and desired outcomes
  - Potential strategies and tactics to shape the future of the U.S. payment system
  - The Federal Reserve Banks’ role in implementing these strategies and tactics
• Approximately **three quarters** of respondents **agreed** with the gaps, opportunities and desired outcomes outlined in the consultation paper.

• Feedback suggested that the Fed consider **additional areas for focus**.

• Many think a **10-year plan** for improving the U.S. payment system **is not aggressive enough**.
There was **broad support for the Fed’s efforts** to improve the U.S. payment system.

Many suggested that the **Fed become more active in developing and implementing payment standards.**

Many suggested that **the Fed engage with the industry.**

Merchants expressed desire for a **payment system governance structure.**

 Depository Institutions argued that they are **held to higher regulatory and risk management standards.**

Some non-banks would **like direct access** to the payment system, but many banks urged that the payment system **remain bank-centric.**
More than three quarters of respondents agreed that the following would be important:

- Ubiquitous participation
- Confirmation of good funds
- Both speedy payment settlement and delivery of information

Many suggested that we should **only pursue near real-time payments** if there is a **clear business case**.

Opinions were divided on how near real-time delivery of payments would be best achieved.

Many suggested that near real-time **confirmation of good funds and notification are more important than** near real-time **posting to end-user accounts and interbank settlement**.

Many urged that any **future faster payment options be limited to credit payments** to help prevent fraud.
Many suggested that the industry work together.

Many also advocated for the development and adoption of standards.

Many believe consumers need better education and incentives.
End-User Research on Demand for Select Payment Attributes
Research Results Summary

Qualitative and quantitative research was conducted to gain insights into payment preferences of end users in different use cases and to learn their views on the importance of various payment features. Specifically, the research explored end user needs related to the following attributes referenced in the Consultation Paper's desired outcomes: 2: usability, payment speed, payment notification, ability to send payments without account information and confirmation of good funds at payment initiation. Insight was also sought on awareness of different payment instruments and willingness to pay fees.

KEY TAKEAWAYS
Following are key insights from the business and consumer end user market research:

Faster Is Preferred
Overall faster payment features are preferred to slower payment features.

Payment Attributes of Interest
The research indicates that businesses and consumers are interested to varying degrees in the payment attributes defined in the Consultation Paper’s desired outcomes 2:
- Usability
- Payment speed
- Payment notification
- Ability to send payments
- In-transit account information
- Confirmation of good funds at payment initiation

Important to Consumers
The consumer survey showed that faster debiting from a consumer payee’s account is generally a more important feature than faster crediting to a payee.

Important to Businesses
For businesses, fast availability of funds was the most important element of payment speed.

Sharing of Information
Businesses continue to agree that they would rather share an email address or phone number instead of sharing their bank account number.

85% of consumers and 81% of businesses indicated that when making a payment, not having to give their bank account information to the payee is important.
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33% of consumers
75% of businesses

Willingness to Pay
Roughly one-third of consumers and three-quarters of businesses expressed willingness to pay more for payments that have faster availability to the payer.

61% of consumers
67% of businesses

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

Payment Notification
Approximately 75% of consumers and 64% of businesses stated that it is important to receive timely notification that a payment has been made.
Approximately 70% of consumers and 62% of businesses stated that it is important to receive notification when the payment was received by the payer.

Payment Speed
When presented with a choice between payment speeds of either
- Instant
- One hour
- 12 hours
- 24 hours
- 2-3 business days
69% of consumer payments and 75% of business payments indicated preference for instant or one-hour payment speed.

Federal Reserve Banks Strategic Direction in Payments
The Federal Reserve Banks updated their strategic direction in payments in 2015. At the heart of this vision to improve the speed, efficiency, and reliability of the U.S. payment system is a concept called the “Fed Payments Vision.” We believe industry collaboration will be essential to any enduring strategic improvement in the U.S. payment system.
Next Steps

• Continue payment industry collaboration efforts to encourage and document interactive dialogue on the U.S. payment system gaps and opportunities, desired outcomes and possible solutions that improve speed, efficiency and security.

• Use *Consultation Paper* industry input and additional research insight to inform FRFS future plans and actions and identify areas where collaboration with industry or independent industry action would be useful in the implementation of U.S. payment system improvements.

• Define and prioritize U.S. payment system improvement initiatives that advance the speed, efficiency and security of payments and communicate these plans in a white paper expected to be published in the second half of 2014.