

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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Payment System Improvement – Public Consultation Paper

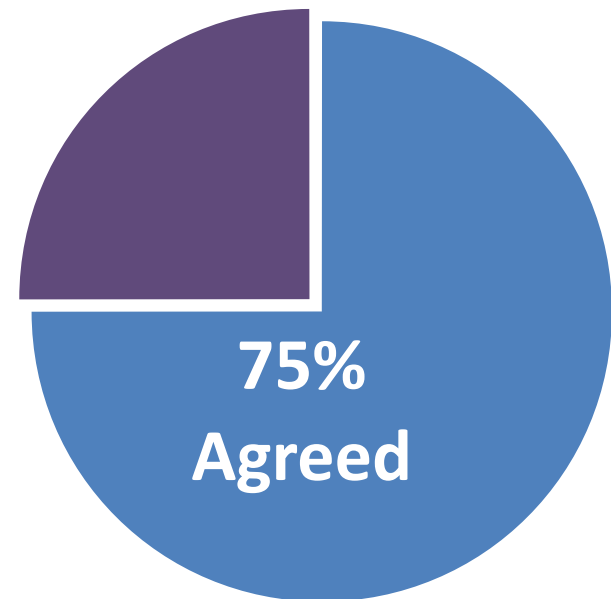
In late 2013, Federal Reserve Banks solicited comments on a *Payment System Improvement – Public Consultation Paper*.

- 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

Payment System Improvement – Public Consultation Paper Industry Feedback Summary – Common Themes

Agreement with Gaps, Opportunities and Desired Outcomes

- 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**.



Payment System Improvement – Public Consultation Paper Industry Feedback Summary – Common Themes

Approaches to Achieving Payment System Improvements

- 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.**


Payment System Improvement – Public Consultation Paper Industry Feedback Summary – Common Themes

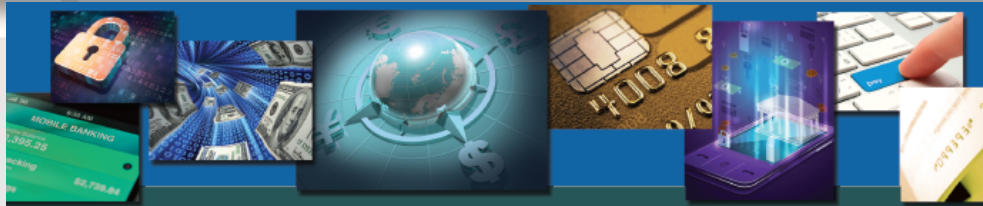
Faster Payments

- **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.

Payment System Improvement – Public Consultation Paper Industry Feedback Summary – Common Themes

Security

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- 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 seek insights on payment preferences of end users in different "use case" scenarios 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 outcome 2: ubiquity, 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 this 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 outcome 2:

- Ubiquity
- Payment speed
- Payment notification
- Ability to send payments without account information
- Confirmation of good funds at payment initiation

Important to Consumers

The consumer survey showed that **faster debiting** from a consumer payer'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

By a significant margin, consumers and businesses indicated that they would **rather share an email address or a phone number** to make/receive payments instead of sharing their bank account numbers.



85% of consumers and 81% of businesses



stated that when making a payment, not having to give their bank account information to the payee is important.

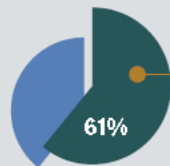
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33% OF CONSUMERS

75% OF BUSINESSES

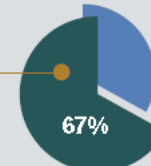
Willingness to Pay

Roughly one-third of consumers and three-quarters of businesses expressed **willingness to pay some fee** for payments that have faster availability to the payee.



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 percent of consumers and 84 percent of businesses stated that it is important to receive timely notification that a payment has been made.

75% OF CONSUMERS
(payment made)

84% OF BUSINESSES

Approximately 70 percent of consumers and 82 percent of businesses stated that it is important to receive notification when the payment was received by the payee.

70% OF CONSUMERS
(payment received)

82% OF BUSINESSES



Payment Speed

When presented with a choice between payment speeds of either:

Instant • One hour • 12 hours • 12-24 hours • 2-3 business days

69% of consumer payers and 75% of business payees 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 2012. At the heart is a vision to improve the speed, efficiency and safety of the U.S. payment system from end-to-end. To achieve this vision, the Federal Reserve Banks seek to engage with all organizations involved in delivering payment services to end users. We believe industry collaboration will be essential to any enduring strategic improvements.

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.