



U.S. Retail Payments Trends and Linking Systems with Panama

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Agenda

- Retail payments trends in the U.S.
- 2007 Payments Study
- U.S. ↔ Panama Service

Payments in the United States

Historical Perspective

- Checks and credit cards were the main types of non-cash retail payments in the United States until the 1970s when ATM and Automated Clearing House (ACH) options evolved nationwide
- Debit cards became popular in the late 1990s
- All payments alternatives grew continuously until the late 1990s
- The pace of change has been slow

Managing More Rapid Change

- As the pace of change became faster, business profitability became more challenging
- No accurate studies of the payments system as a whole, and the check system more specifically, had been done since 1979
- In 2000, the Federal Reserve, as the largest processor of check and ACH payments, decided to conduct a valid study and share the results with the whole industry

Purpose of Study

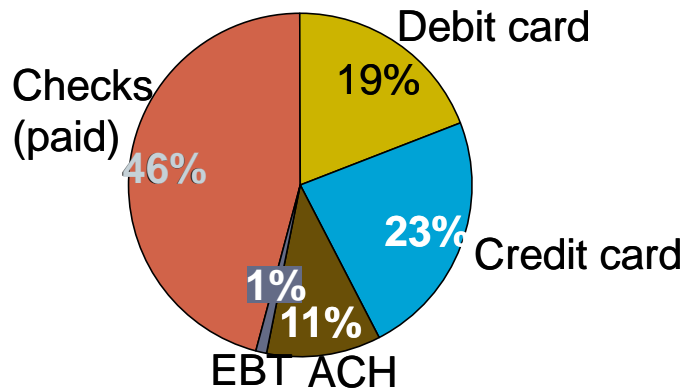
- Define and understand recent trends in the use of noncash retail payment instruments
 - Estimate the annual number and value of check and electronic payments
 - Better understand the composition of the check market (who writes checks to whom and why)
 - Measure the pace of migration from paper-based to electronic payments
 - The study methodologies from the 2001 and 2004 studies were repeated.
 - Cross-border payments not included in study

Number of Noncash Retail Payments

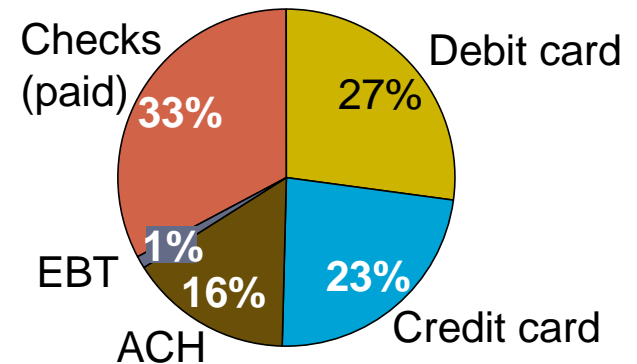
	2000	2003	2006	<i>CAGR</i>	
				2000 - 2003	2003 - 2006
Total (billions)	72.5	81.4	93.3	3.9%	4.6%
Checks (paid)	41.9	37.3	30.6	-3.8%	-6.4%
Debit card	8.3	15.6	25.3	23.5%	17.5%
<i>Signature</i>	5.3	10.3	16.0	24.9%	15.8%
<i>PIN</i>	3.0	5.3	9.4	21.0%	20.6%
Credit card	15.6	19.0	21.7	6.7%	4.6%
ACH	6.2	8.8	14.6	12.1%	18.6%
EBT	0.5	0.8	1.1	15.4%	10.0%

Distribution of Noncash Retail Payments

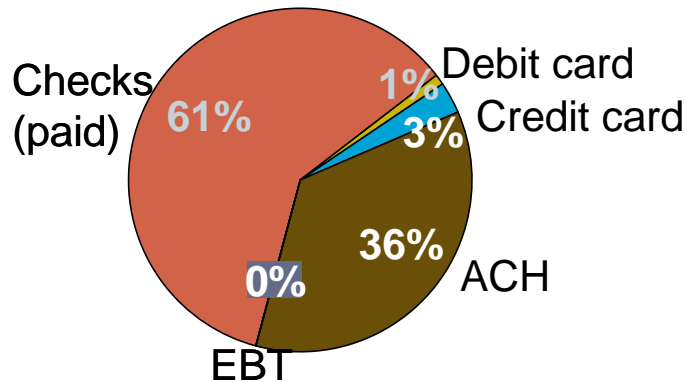
2003 Number



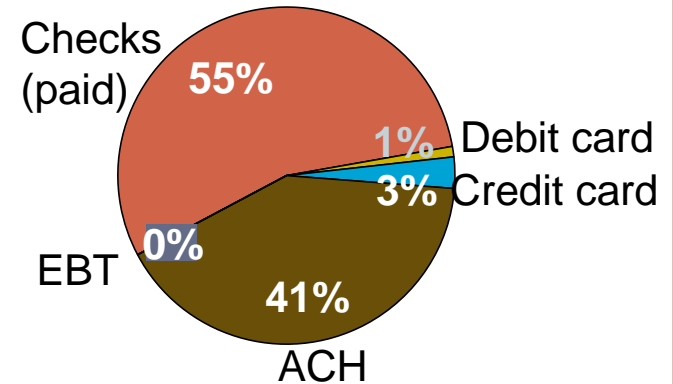
2006 Number



2003 Value



2006 Value



A Closer Look at Check Payments

- The number of checks paid is different than the number of checks written because of the possibility that some checks can be converted to ACH debits for the purpose of collection
- The Check Truncation Act (Check 21) was adopted in 2004 and allows collecting banks to truncate their checks and exchange check images for collection
- Most banks offer both Check 21 and ACH conversion services

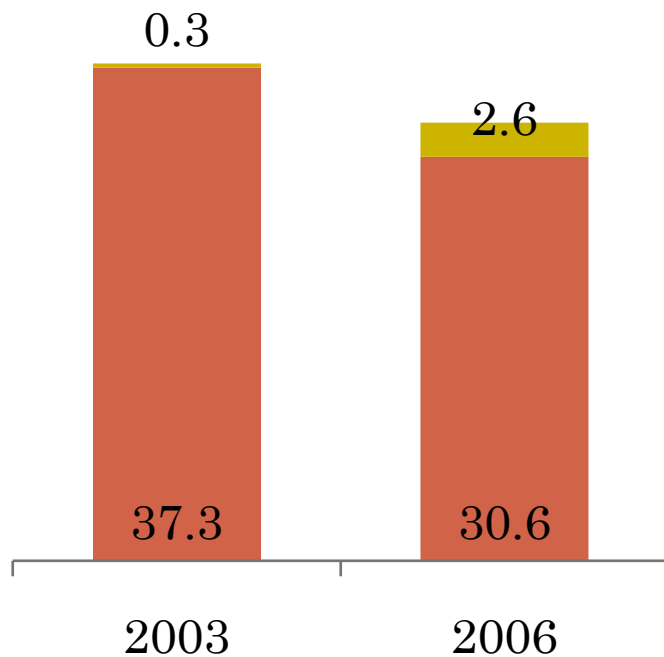
A Closer Look at Checks Written

Number of checks written, paid, and converted to ACH
(billions)

CAGR
(2003-06)

Total change
(billions)

■ Checks Paid ■ Converted to ACH

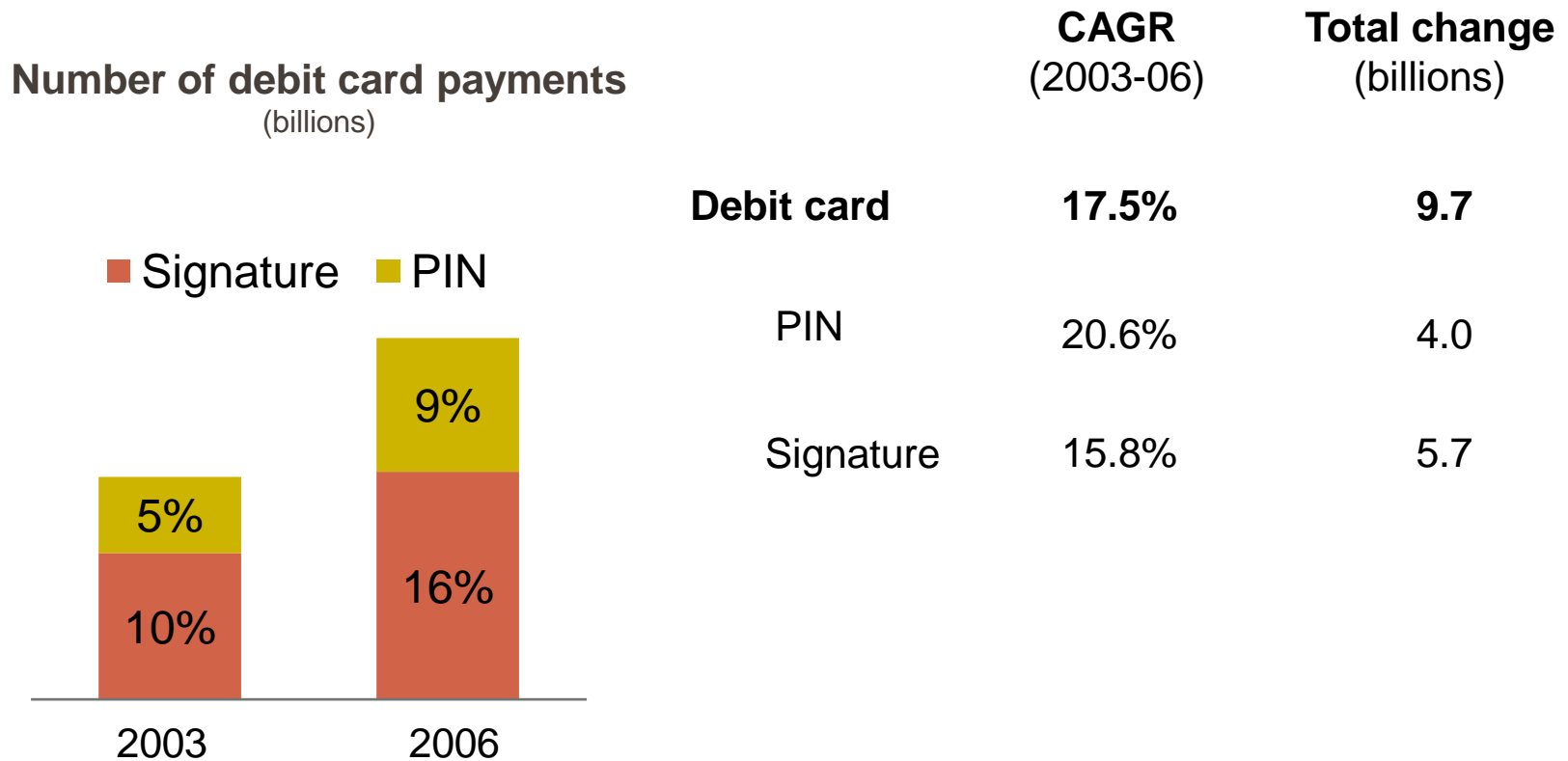


Checks written	-4.1%	-4.5
Converted to ACH*	98.7%	2.2
Checks paid	-6.4%	-6.7

Figures may not add due to rounding.

* Other forms of check conversion exist, but their volumes are insignificant.

A Closer Look at Card Payments: Debit Card Payments by Type

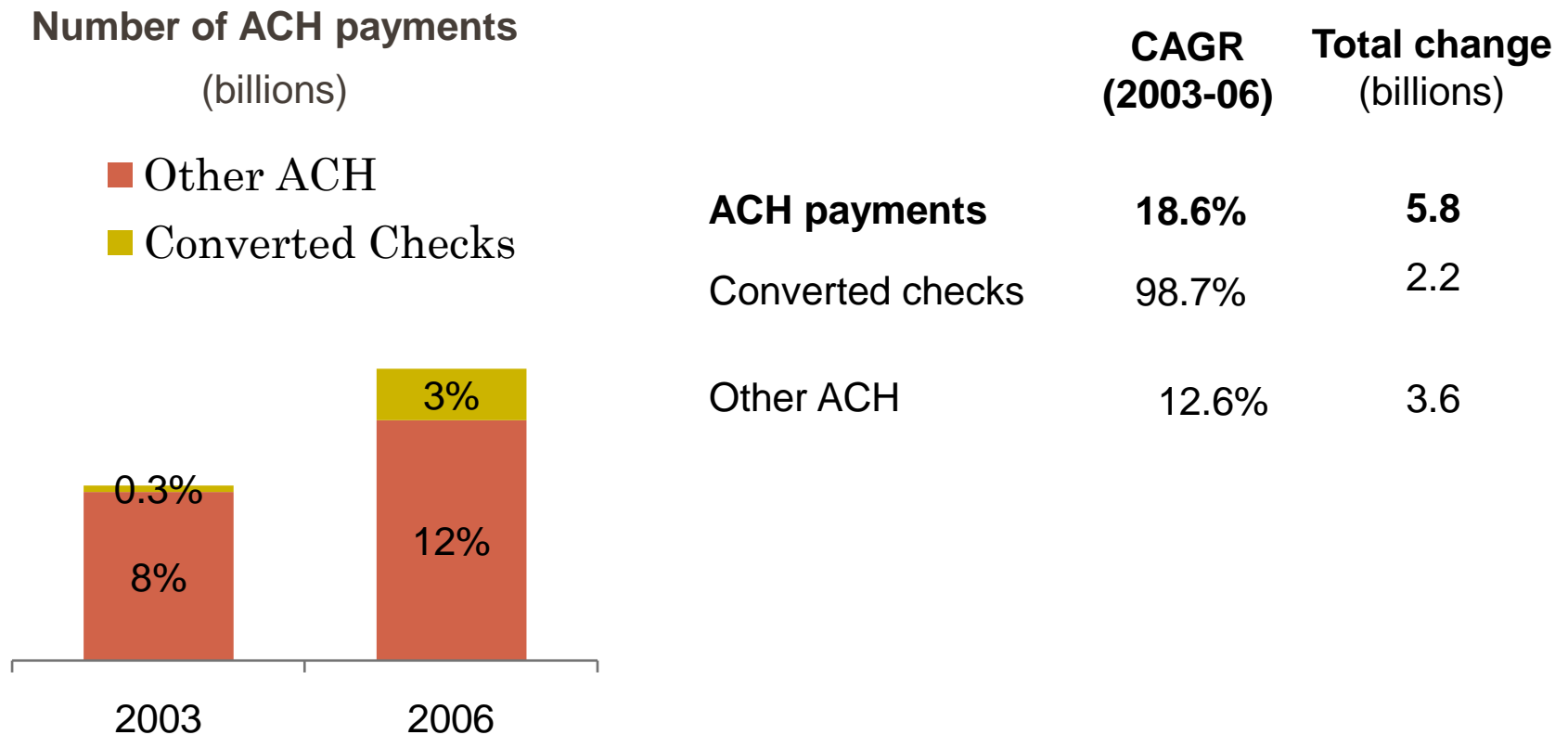


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Prepaid Cards

Payment Instrument	Number (millions)	Value (\$ billions)
Closed loop prepaid	3,077	36.3
Open loop prepaid	322	13.3
Government prepaid	88	3.2

A Closer Look at ACH Payments



Figures may not add due to rounding.

2007 View

- Electronic payments today comprise over two-thirds of all noncash retail payments
- Card payments are now over half of all noncash retail payments
- Debit cards are now used more frequently than credit cards
- The number of checks continues to decline, and at a more rapid rate
- Check clearing is increasingly electronic
- Biggest share of checks remaining are consumer to business

Conclusions from Payments Study

- Payments are being made electronically and more paper payments are being processed electronically
- Results underscore the importance of check electronification and other innovations that improve payments system efficiency
- Payment instruments and the preferences of consumers and businesses will continue to evolve
- Market intelligence is increasingly important and payments system participants must carefully manage assets and resources

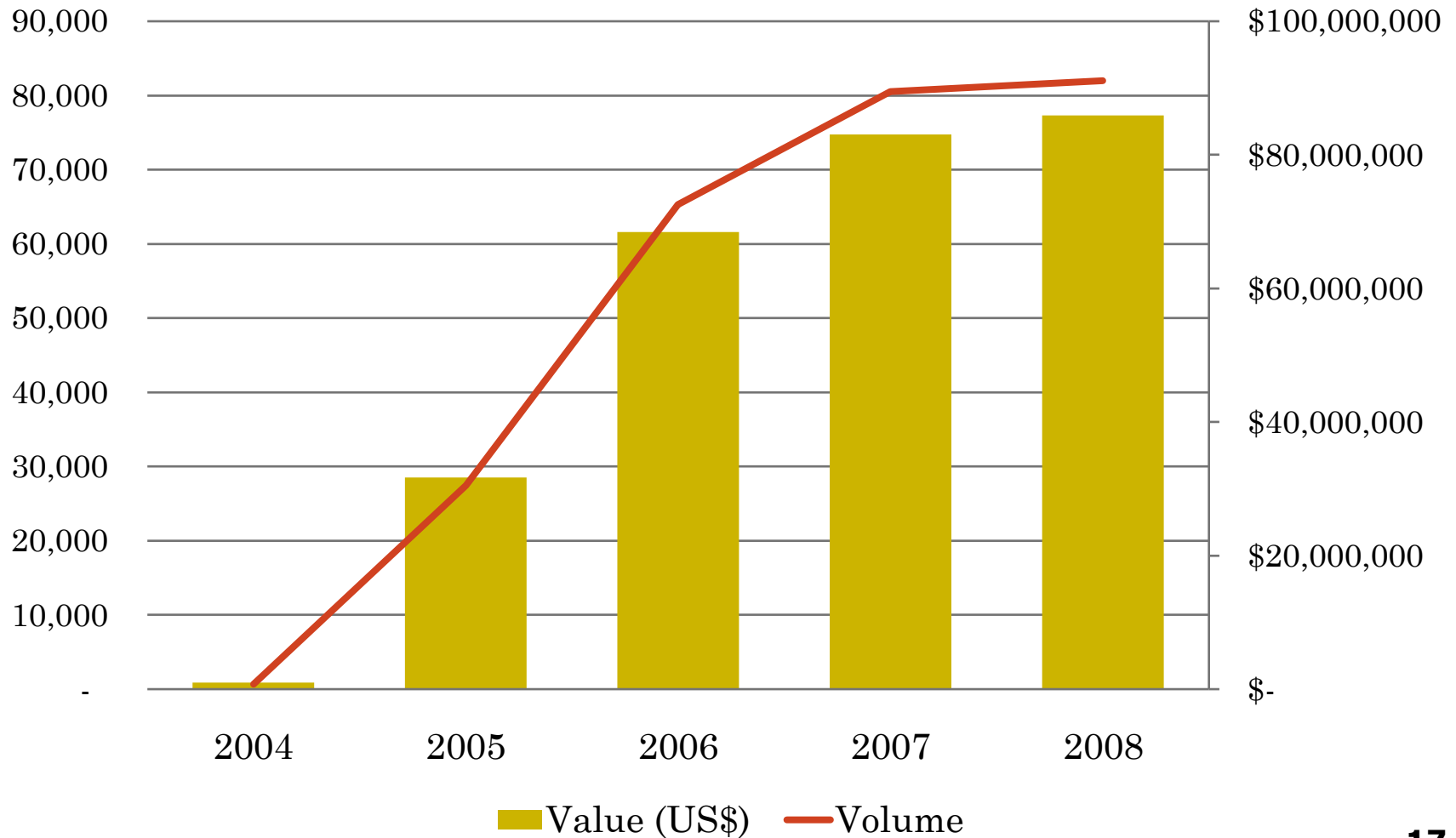
U.S. ↔ Panama Service

- Connection between payments systems
- Enhancements in Panama and U.S.
- Process Flows

Connecting US and Panama ACH Systems

- Gateway connection between the Federal Reserve and Banco Nacional
 - Banco Nacional manages settlement with the Federal Reserve and with Panama financial institutions
 - Began in 2004 to send government pension payments to individuals living in Panama
 - Social Security Administration
 - Office of Personnel Management
 - Veteran Affairs
 - Processed approximately 260,000 payments since 2004
 - Average payment is around \$1,056
 - 0.12% return rate in 2008

Current US to Panama Volume Trends



Connecting US and Panama ACH Systems

- Starting on September 18, 2009, the connection will expand to allow banks to send and receive commercial ACH payments
 - US ↔ Panama credits; business and consumer payments
 - One-day delivery to receivers in Panama and U.S.
 - Enrolled US financial institutions can send payments to all Panama banks
 - Panama banks can send payments to all US financial institutions

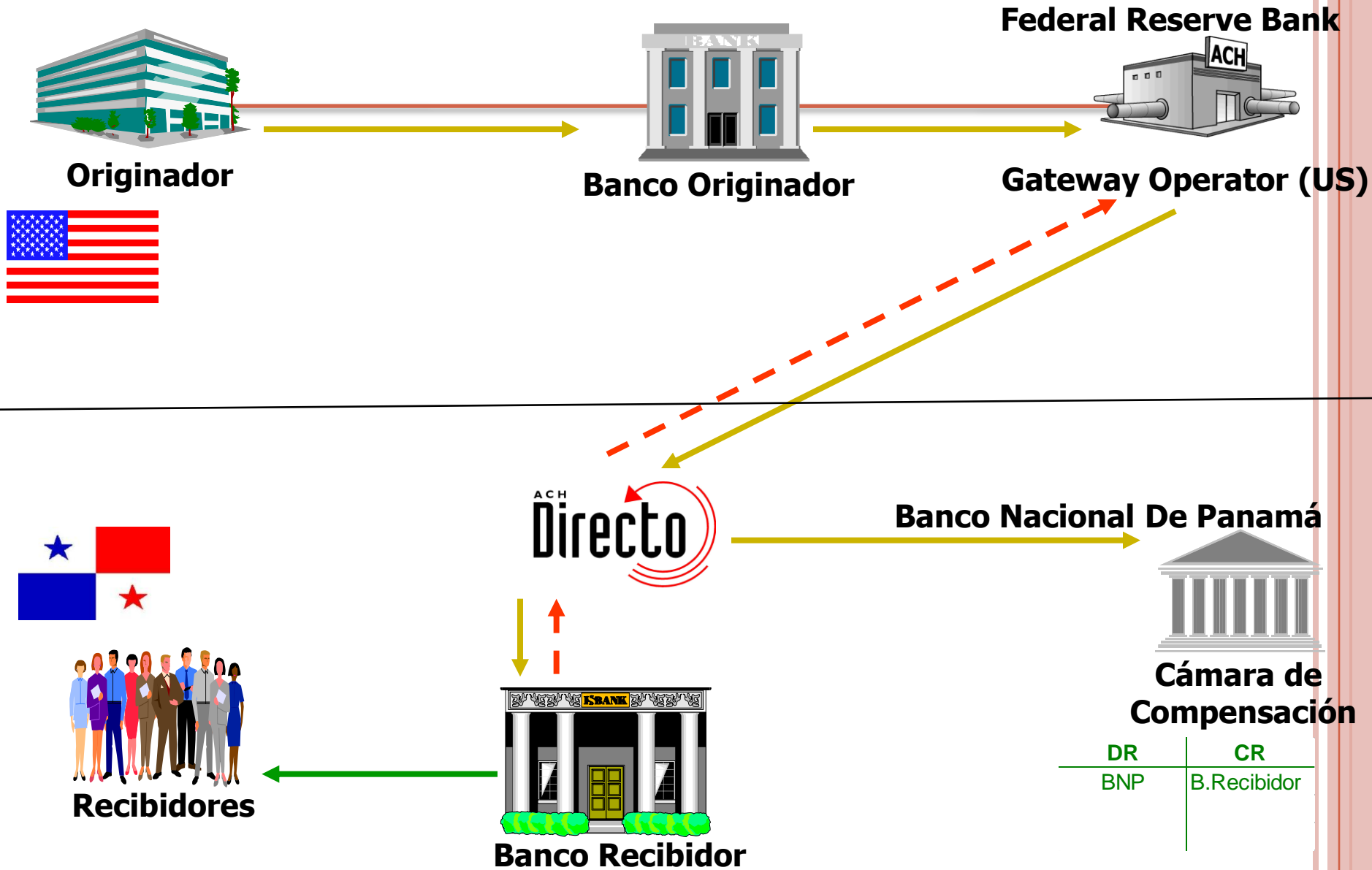
Enhancements to ACH System in Panama

- Telered will modify application to allow origination and receipt of international ACH items
- Telered will modify the client application to originate and receive international ACH items for financial institutions using the ACH HUB
- Panama financial institutions that are not part of the ACH HUB need to make their own modifications in application

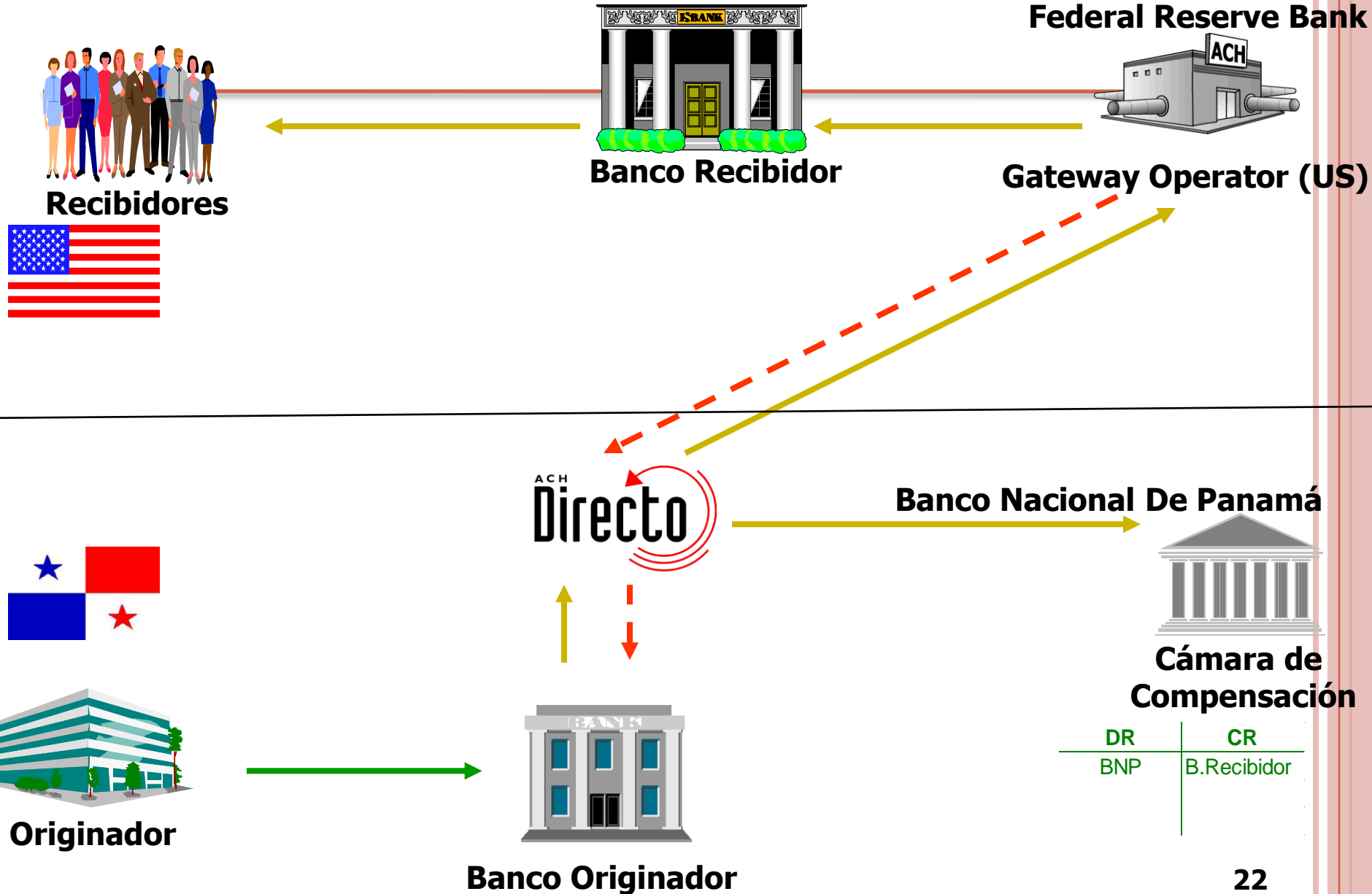
Responsibilities for Panama Banks

- Comply with rules and regulations associated with Panama and U.S. payment systems
- Ability to format international ACH payments according to technical specifications
 - Provide necessary information related to both originator and receiver
- Ability to manage returns from the U.S.

U.S. to Panama Process Flow



Panama to U.S. Process Flow



Gracias por su interés

- Detailed reports on the three studies are available at www.frbervices.org
- ¿Preguntas?

Contact Information

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