

Evolving Consumer Financial Services Marketplace: Payments and Banking

Scott Schuh

**Federal Reserve Bank of Boston
Consumer Payment Research Center**

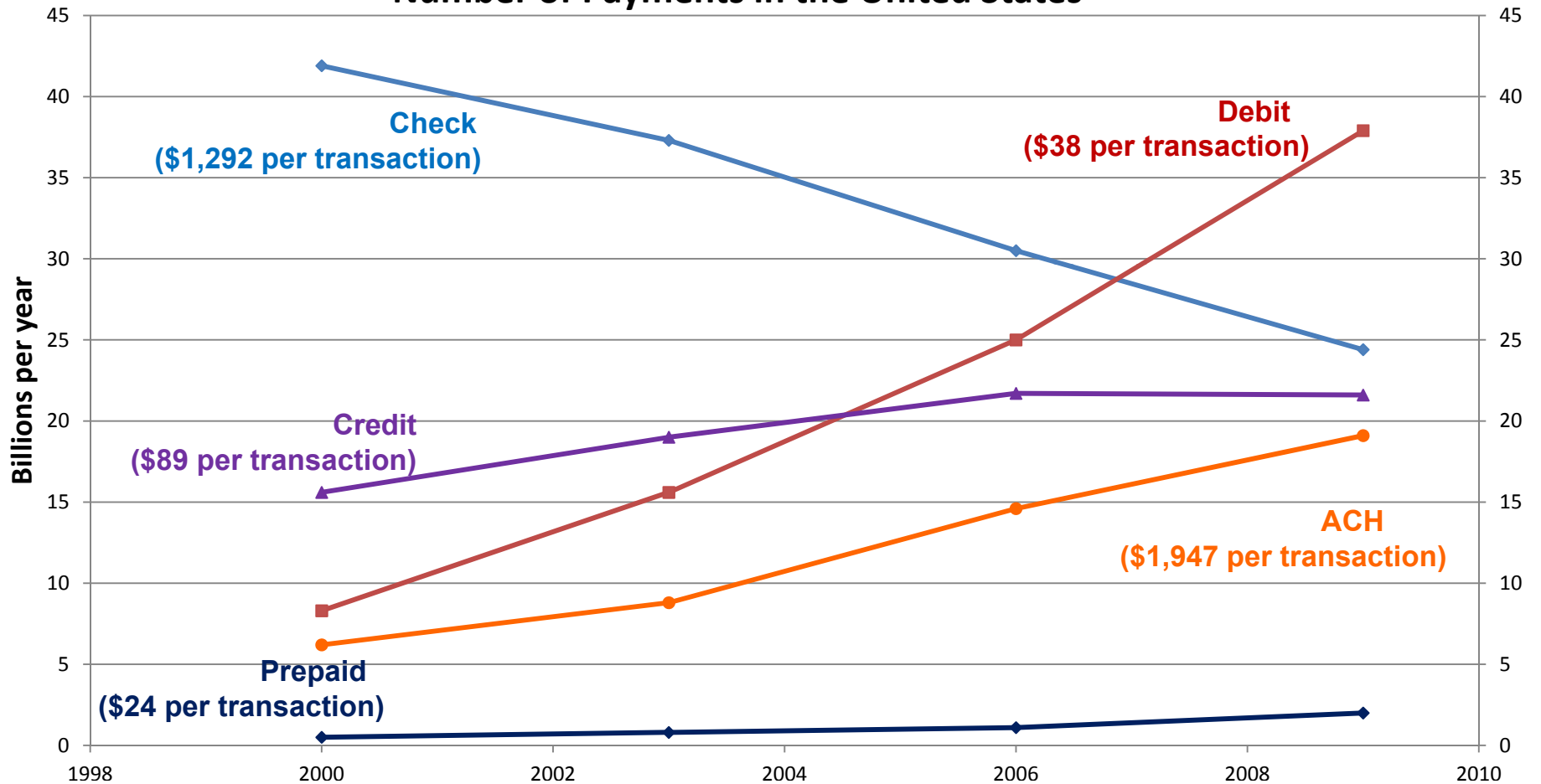
December 1, 2011



Presented at the annual conference of the Consumer Federation of America, Washington DC

Payments Transformation

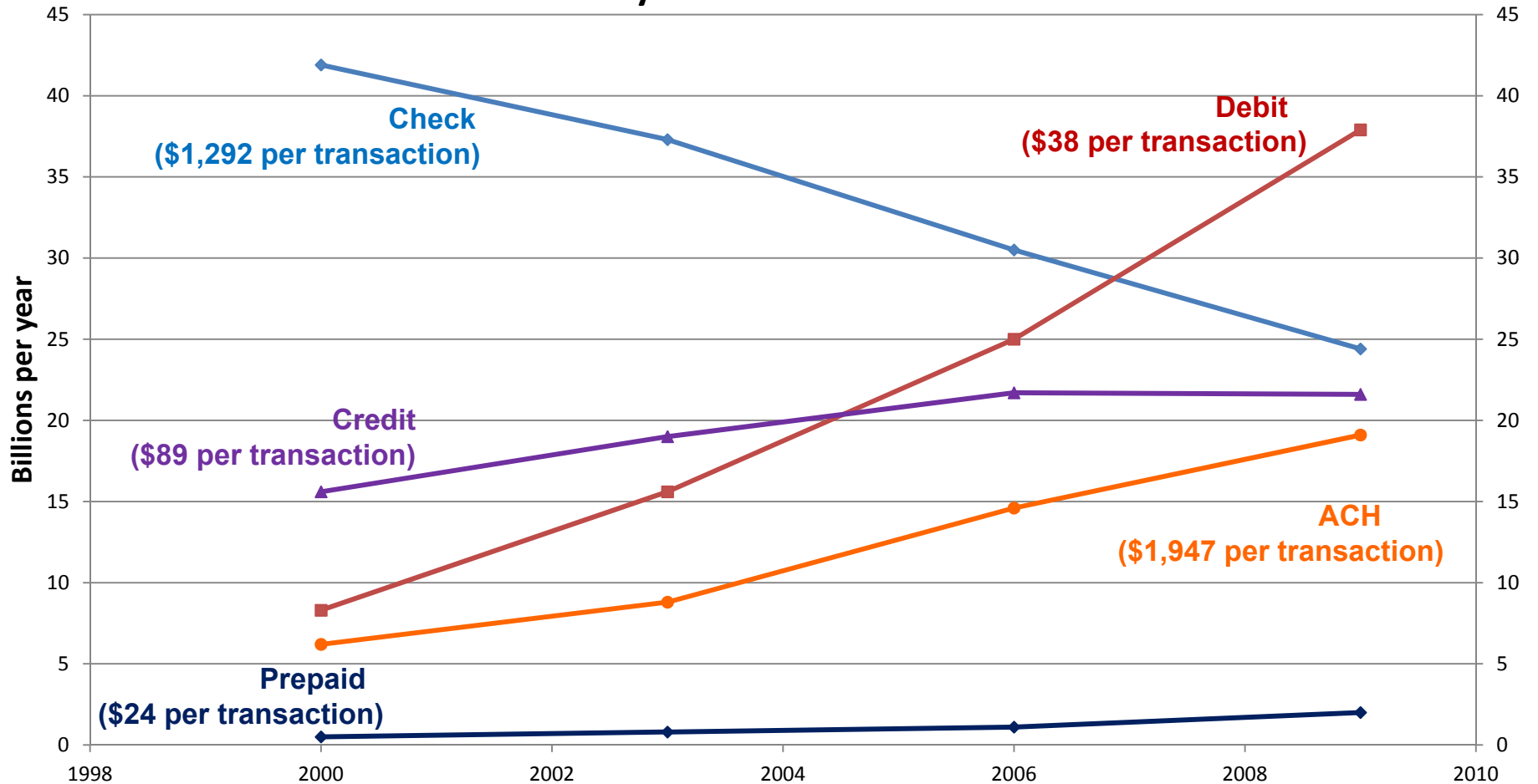
Number of Payments in the United States



SOURCE: 2010 Federal Reserve Payment Study (FRPS)

Payments Transformation

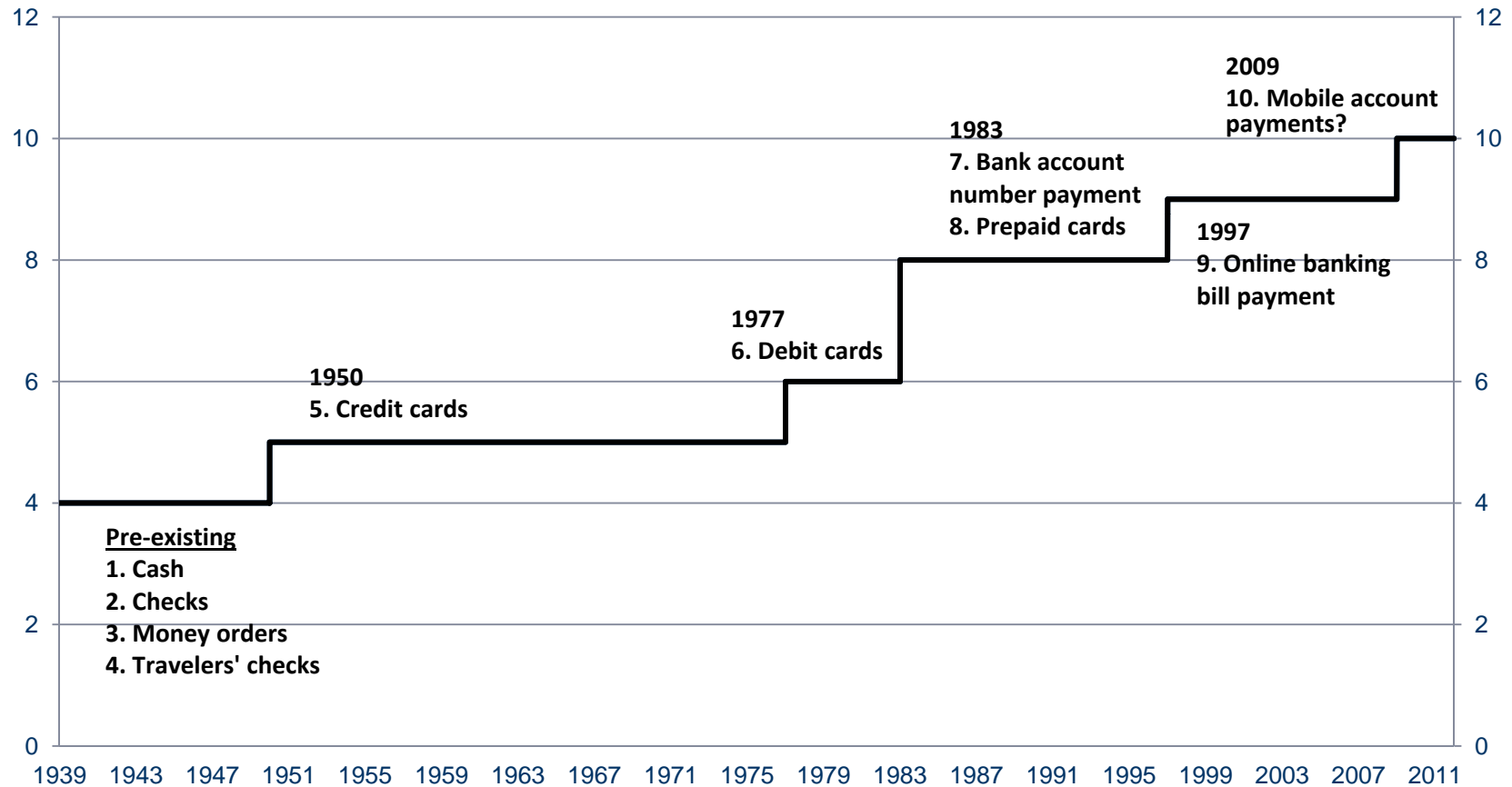
Number of Payments in the United States



SOURCE: 2010 Federal Reserve Payment Study (FRPS)

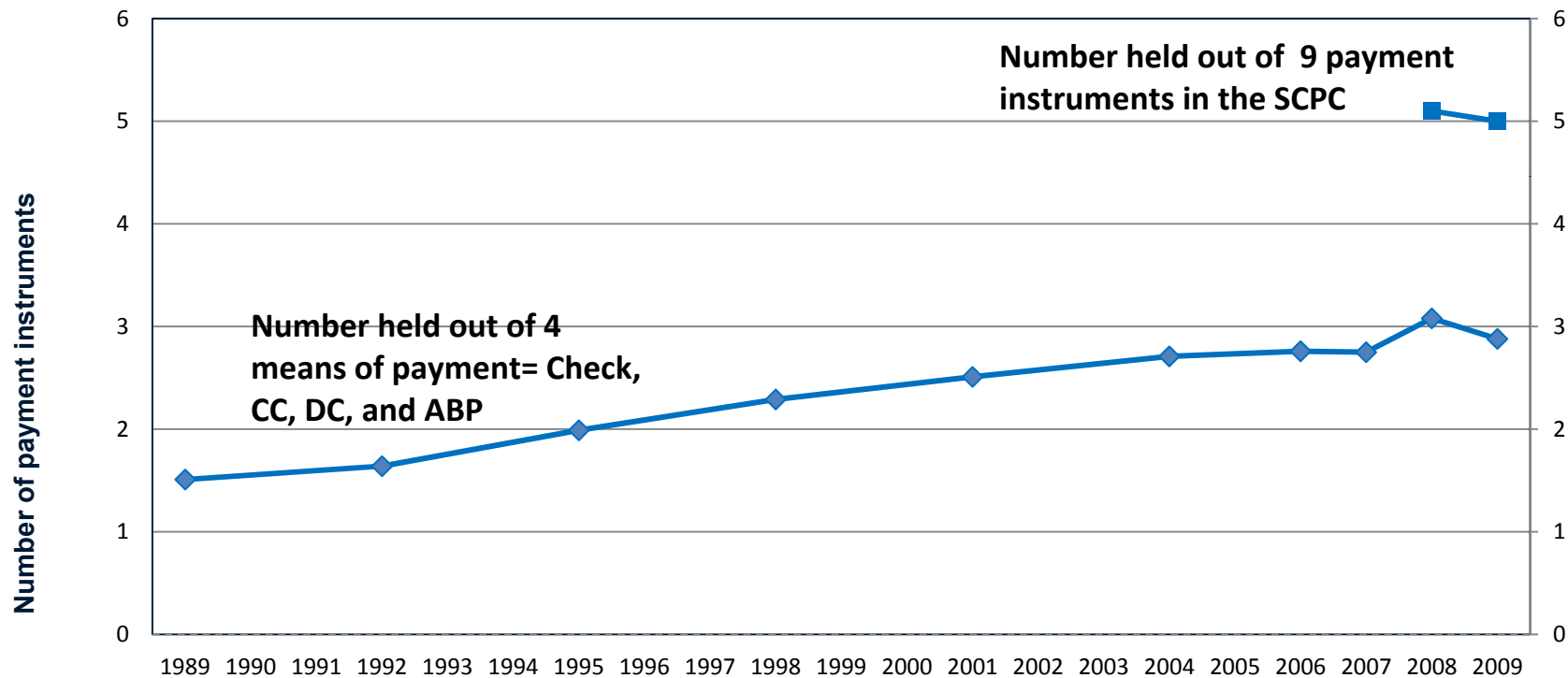
History of Payments

U.S. consumers have more payment instruments to choose from...



Consumer Response

...and consumers are holding more payment instruments over time



SOURCES: 1983-2007 Survey of Consumer Finances; 2006, 2008-2009 Survey of Consumer Payment Choice, subject to revision. See 2009 SCPC Table 8.

Instrument Portfolios

Most popular portfolios, 2010

of Instruments

Percent of consumers

7



9%

6



12%

5



7%

4

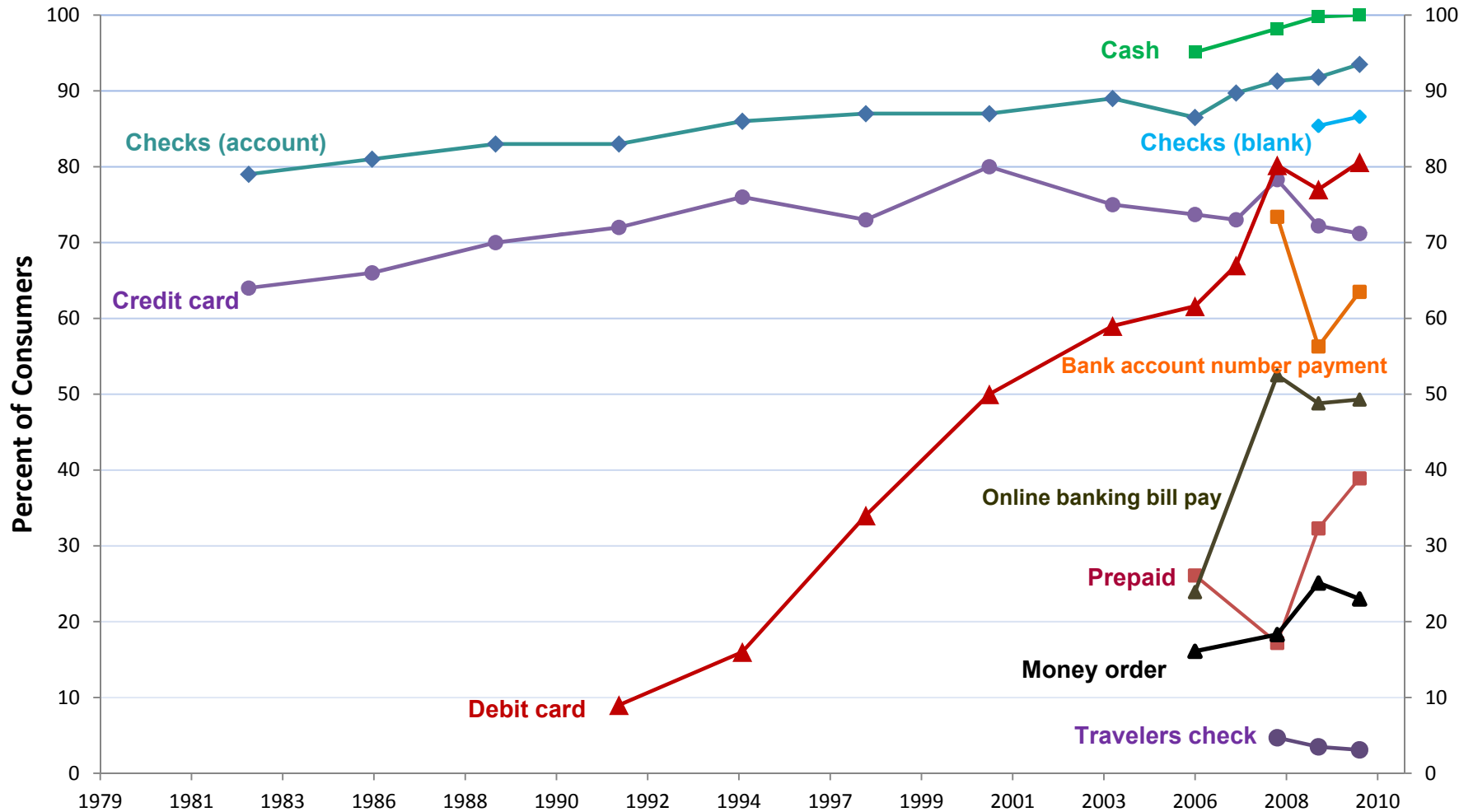


4%

SOURCE: Survey of Consumer Payment Choice

Instrument Adoption

Consumers are adopting newer instruments but keeping most older ones...

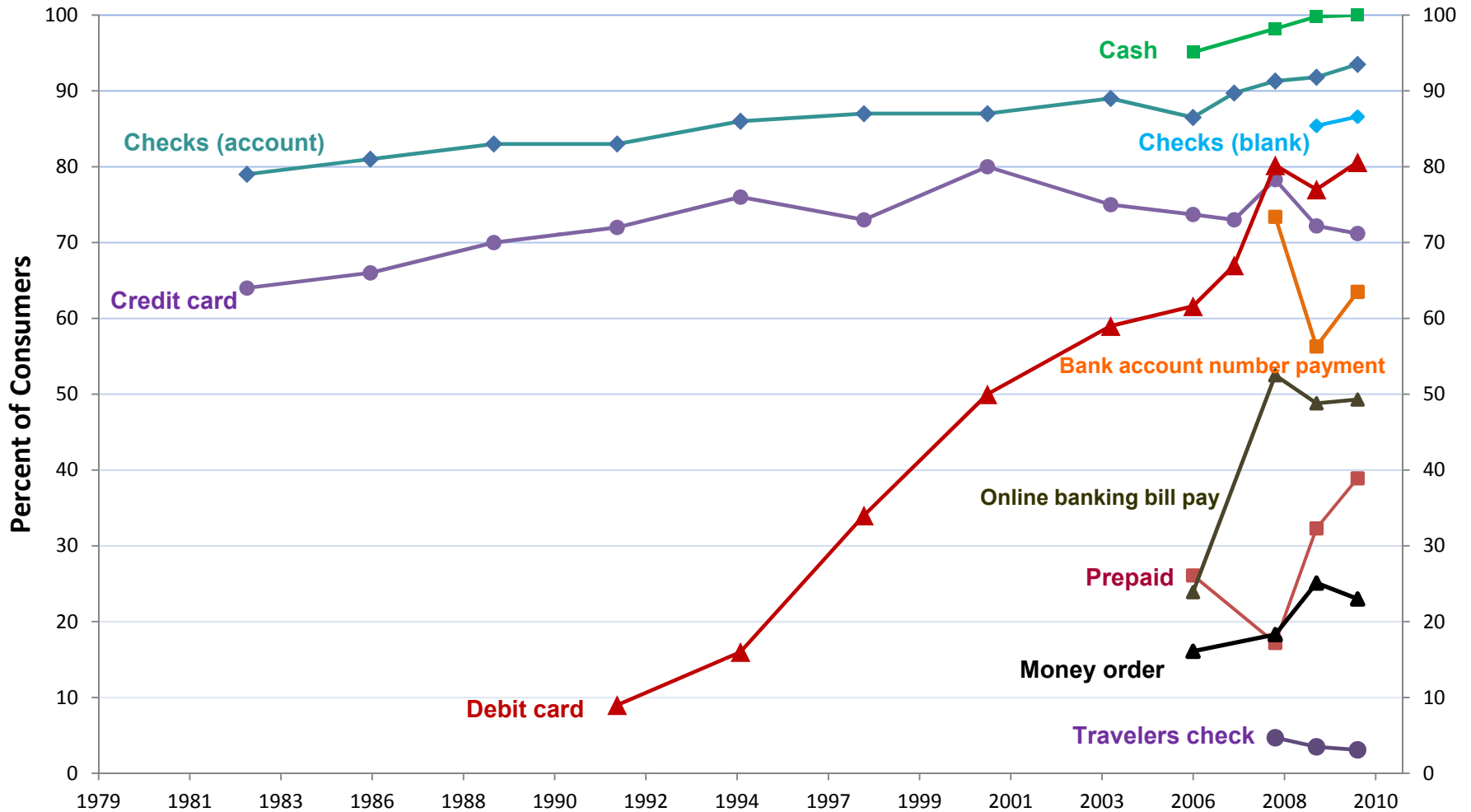


SOURCES: Survey of Consumer Finance, Survey of Consumer Payment Choice



Instrument Adoption

Consumers are adopting newer instruments but keeping most older ones...



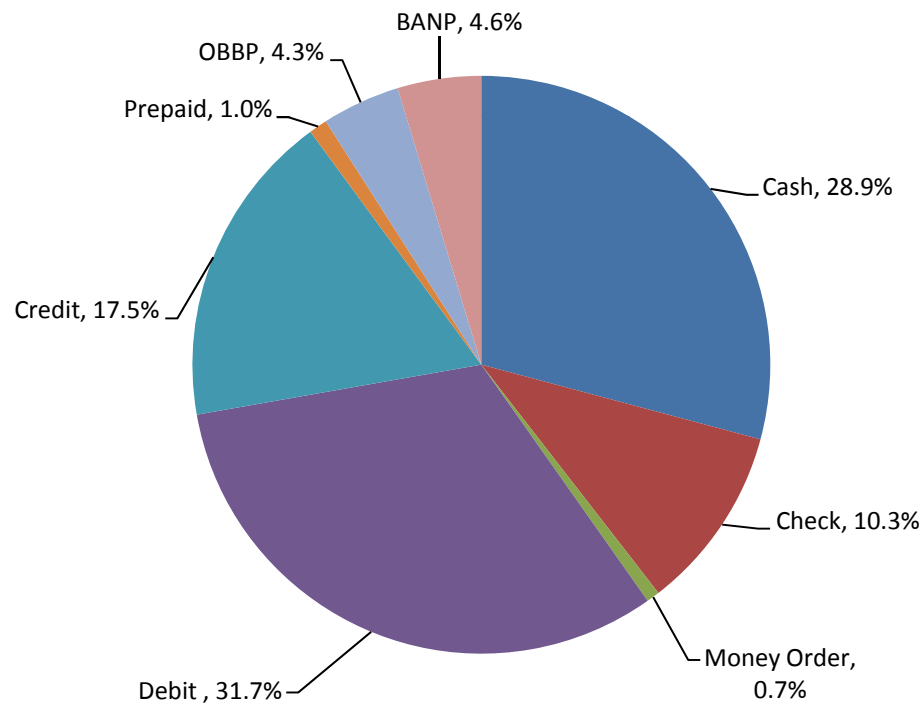
SOURCES: Survey of Consumer Finance, Survey of Consumer Payment Choice



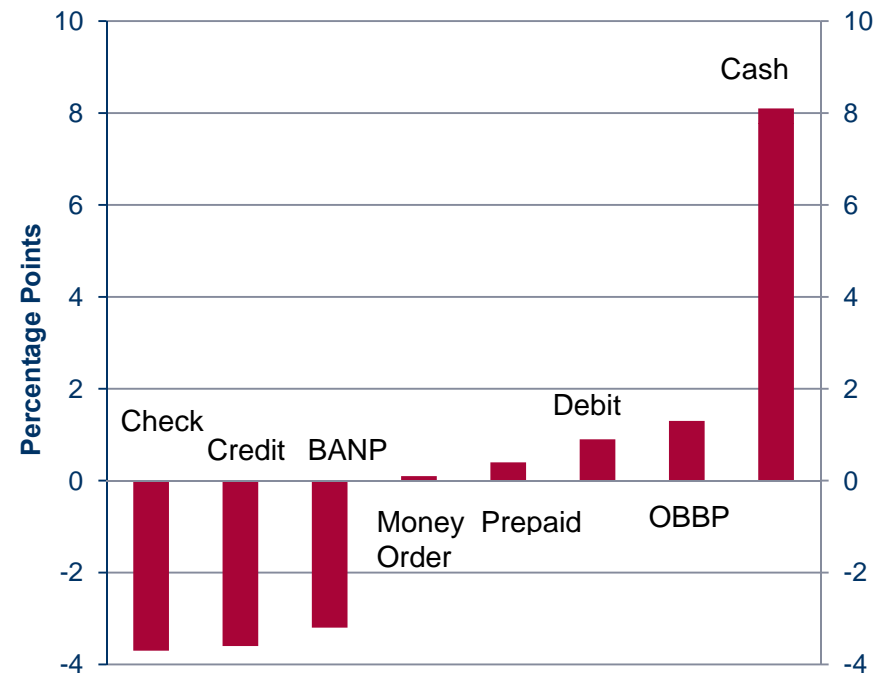
Instrument Use

Consumer use of cash has increased since the financial crisis

Payments per Month, 2010 shares



Change in Shares, 2008-2010



SOURCE: Survey of Consumer Payment Choice

Merchant Payment Signs



Merchant Payment Costs

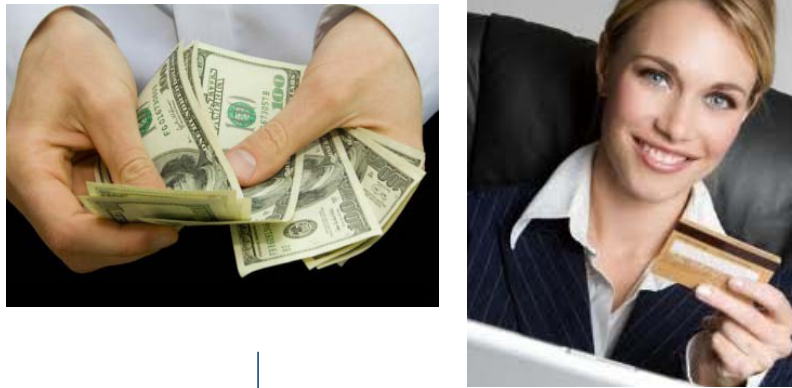
Merchants face higher costs of accepting payment cards

Payment Instrument	Estimated Cost (% of sale price)
"Cash"	0.50
Electronic (ACH)	<0.1
Currency	0.50
Debit card (PIN)	0.58 – 1.14
Check	1.20
Debit card (No PIN)	1.75
Credit cards	2.00

SOURCE: Scott Schuh, Oz Shy and Joanna Stavins(2011), "Who Gains and Who Loses from Credit Card Payments? Theory and Calibrations," Federal Reserve Bank of Boston Working Paper 10-03.

“One Price” Policy

0% merchant credit card fee



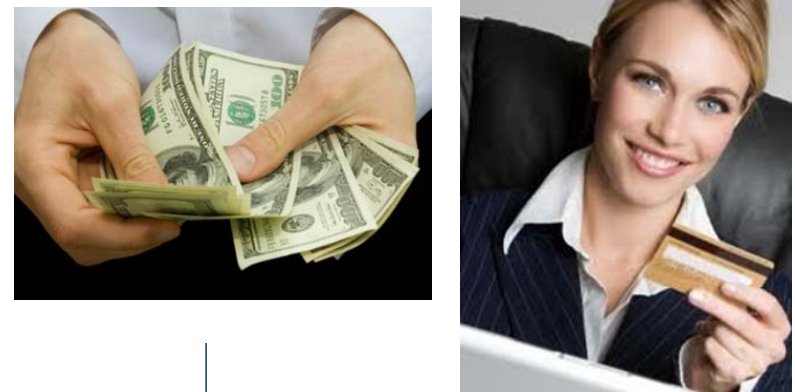
\$100

Price

\$100



2% merchant credit card fee



\$101

Price

\$101



“Reverse Robin Hood” Effect

Credit card merchant fees (2%) and “one-price” policy for payments induce transfers from low-income to high-income consumers

Annual Income	Transfers received	
	Total (\$ Billions)	Per household (\$)
Under \$20,000	-1.5	-63
\$20,000--49,999	-3.4	-89
\$50,000--79,999	-2.2	-96
\$80,000--99,999	-0.5	-56
\$100,000--119,999	-0.6	-89
\$120,000--149,999	0.1	10
Over \$150,000	8.2	823
Low (< 100,000)	-7.7	-81
High (≥ 100,000)	7.7	355

SOURCE: Scott Schuh, Oz Shy and Joanna Stavins(2011), “Who Gains and Who Loses from Credit Card Payments? Theory and Calibrations,” Federal Reserve Bank of Boston Working Paper 10-03.

Policy Responses

- **Durbin Amendment to 2010 DFA**
 - Instructs Fed to regulate debit interchange fees
 - Allows merchants to “steer” payment w/discounts
- **2011 Settlement of DOJ antitrust complaint against credit card companies**
 - Allows more merchant “steering” of payment
 - Allows merchants *to disclose payment card fees*
 - To work, merchants must get detailed fee data!

SOURCE: Scott Schuh, Oz Shy, Joanna Stavins(2011), “An Economic Analysis of the 2010 Proposed Settlement between the Department of Justice and Credit Card Networks,” Federal Reserve Bank of Boston Public Policy Discussion Paper 11-04 (forthcoming *Journal of Competition Law and Economics*.)

Payment Service Pricing

Is checking really “free”?...

	Bank of America debit	PayPal debit	Green Dot prepaid
Initial purchase [fixed]	FREE	FREE	\$4.95
Monthly fee			
Regular	\$6.00	FREE	\$5.95
Waived*	FREE or \$5?	FREE	FREE
Cash withdrawals			
ATM/in network	FREE	\$1.00	FREE
ATM/out of network	\$2.00	\$1.00	\$2.50
Teller cash advance	FREE	na	\$2.50
Balance inquiry			
Lost/stolen card replacement	?	?	\$4.95
Reload at retailer (max)	na	na	\$4.95
Expedited card delivery (FedEx)	?	?	\$19.95
Second card			
Non-student	FREE	FREE	\$4.95
Student	FREE	FREE	FREE
Overdraft fees			
No protection	\$35.00	?	NONE
Protection	\$10.00	?	NONE
Cash back reward	?	1%	na

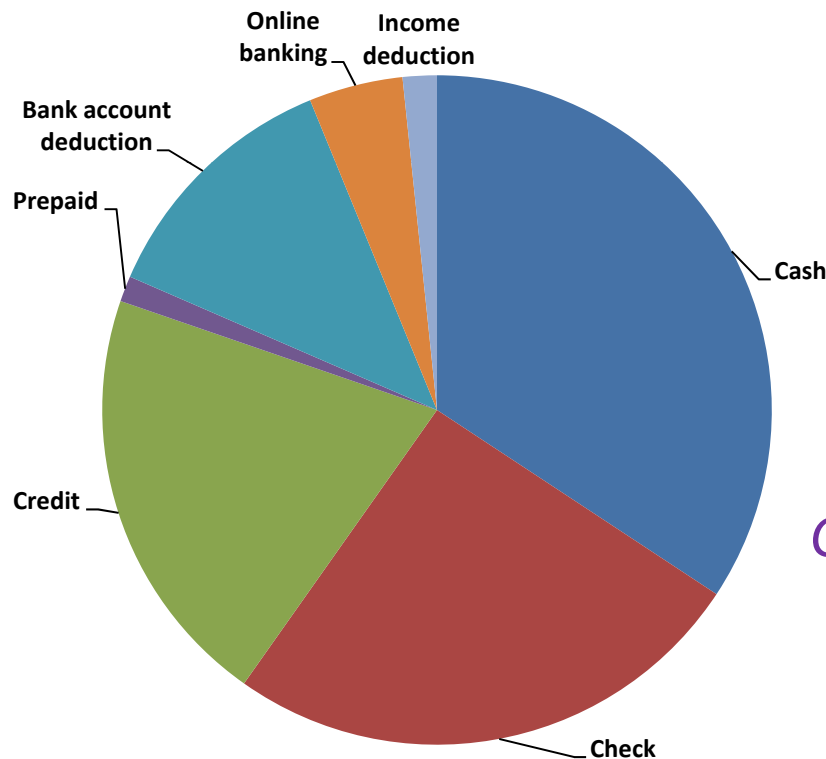
SOURCES: Company web sites.

NOTES: Bank of America data as of 3/18/2011; PayPal as of 10/14/09.



Substitution among Payments

Forecasted increase in consumer use of alternative payments after an increase in the cost of debit card use (assumes no change in bank accounts)

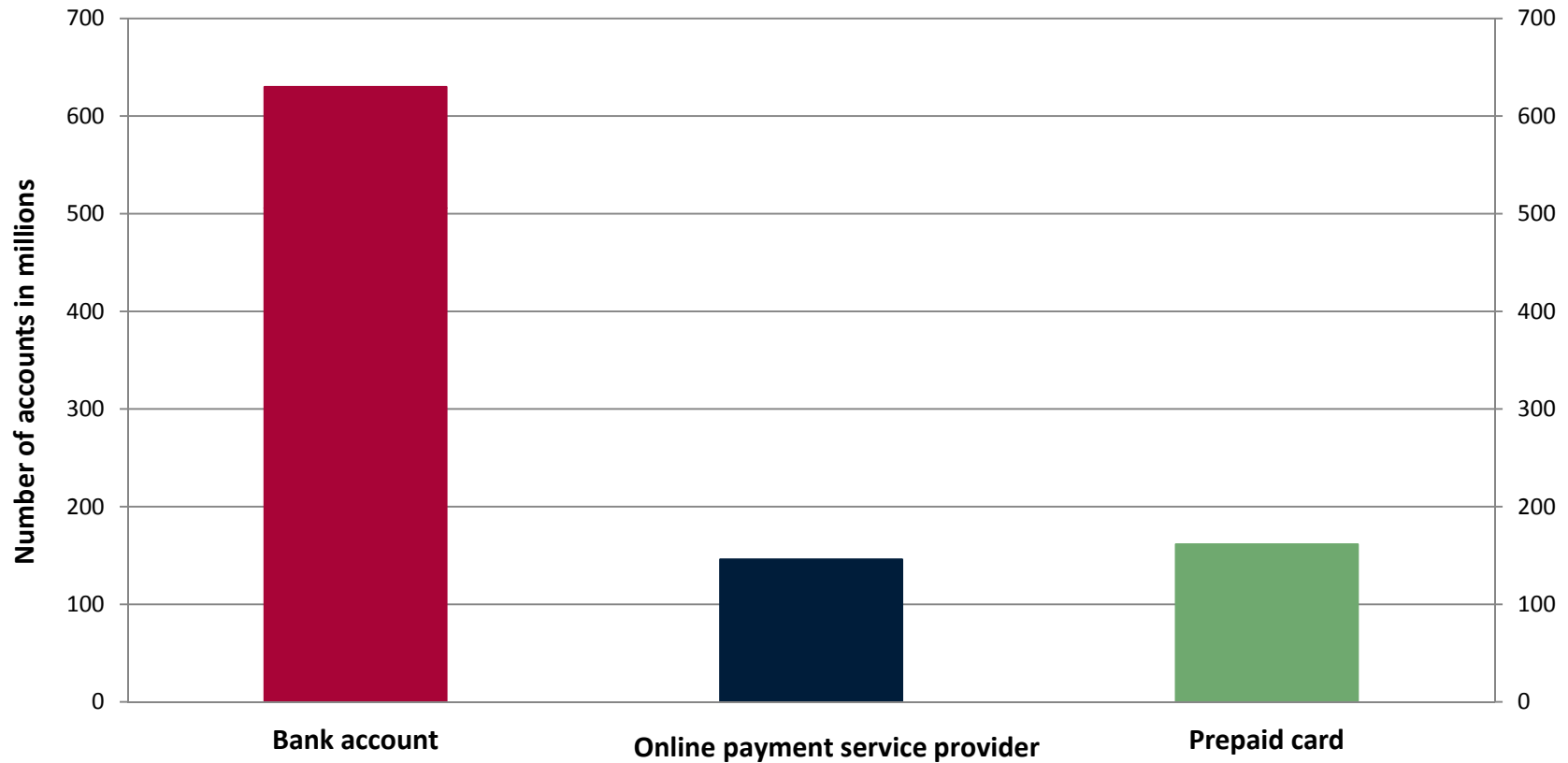


Consumers would shift primarily back to “paper” instruments from debit

Source: Sergei Koulayev, Marc Rysman, Scott Schuh and Joanna Stavins (2011), “Explaining adoption and use of payment instruments by U.S. consumers,” unpublished working paper.

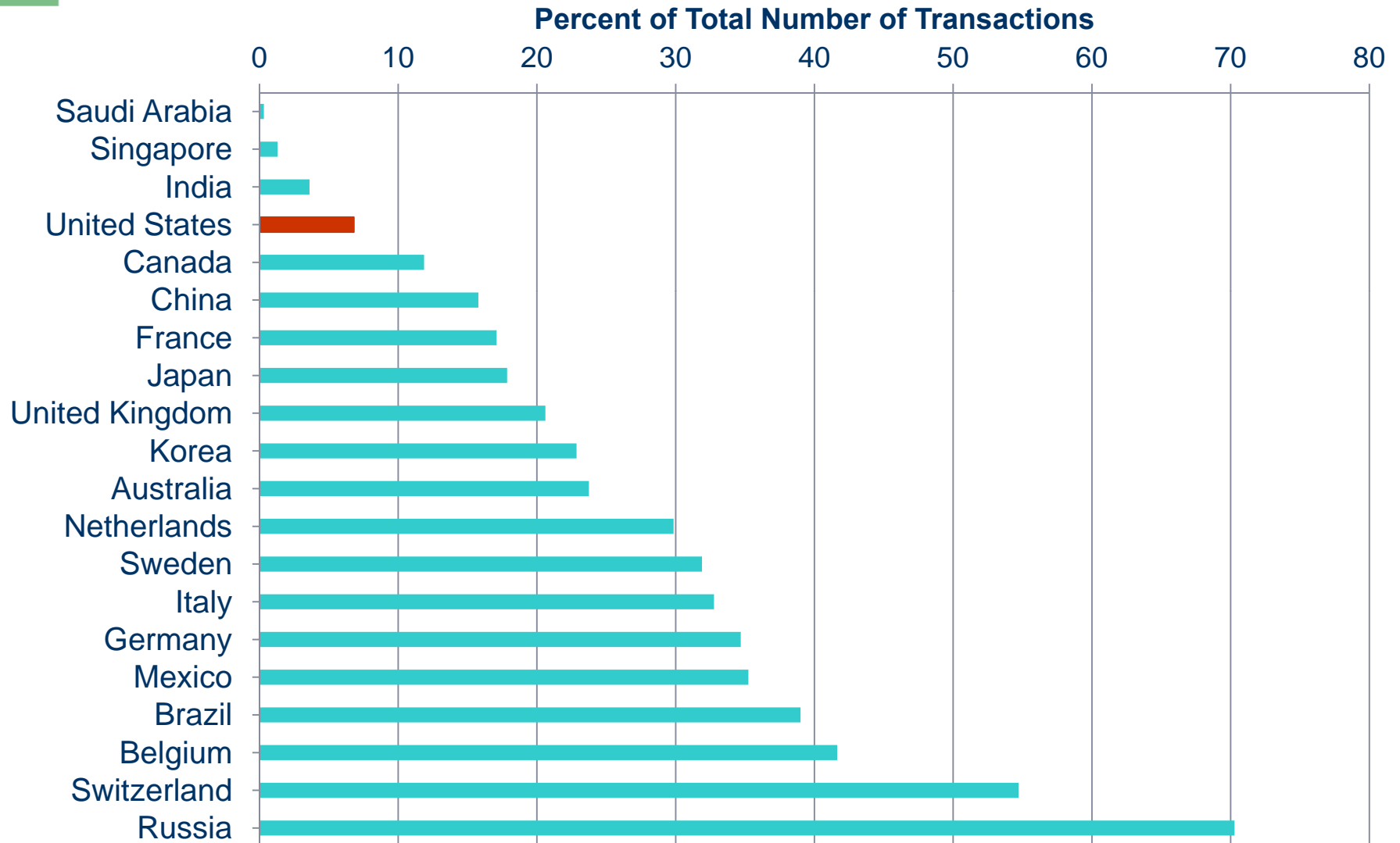
Payment Accounts

Number of accounts held by U.S. consumers 2010



SOURCES: 2010 Call Report; 2010 Survey of Consumer Payment Choice (preliminary, subject to revision).

A2A Electronic Money Transfers



A2A Electronic Money Transfers

During the last 2 years, some banks began introducing this service. *Problem:* **Multiple** standards!

ING DIRECT

Save your money®

Overview

Help Topics

Contact Us

Help Topics > Electric Orange Checking > Person2Person Payment

Person2Person Payment

What is a Person2Person Payment?

How does a Person2Person Payment work?

Is a Person2Person Payment secure?

Does a Person2Person Payment expire?

Can I set up a future-dated Person2Person Payment?

How do I delete a Person2Person Payment?

How much does it cost to use Person2Person Payment?

Are there any transaction limits on Person2Person Payments?

My friends don't want to give me their account number – what can I do?

How do I know if a Person2Person Payment has been picked up?

Major U.S. Banks Form P2P Payments Joint Venture

Tags » [Bank of America](#) [JP Morgan Chase](#) [p2p - Person to Person Payments](#) [Wells Fargo](#) » [Comments \(1\)](#)

7 retweet

Like

Bank of America, JPMorgan Chase, and Wells Fargo have announced that they have formed a new P2P payments joint venture.

clearXchange®

citi® Citi never sleeps®

Banking

Credit Cards

Lines & Loans

Investing

Planning

Business

[Home](#) / [Banking](#) / [Online Banking](#) / [Popmoney](#)

Popmoney®

Welcome to the future of making payments.

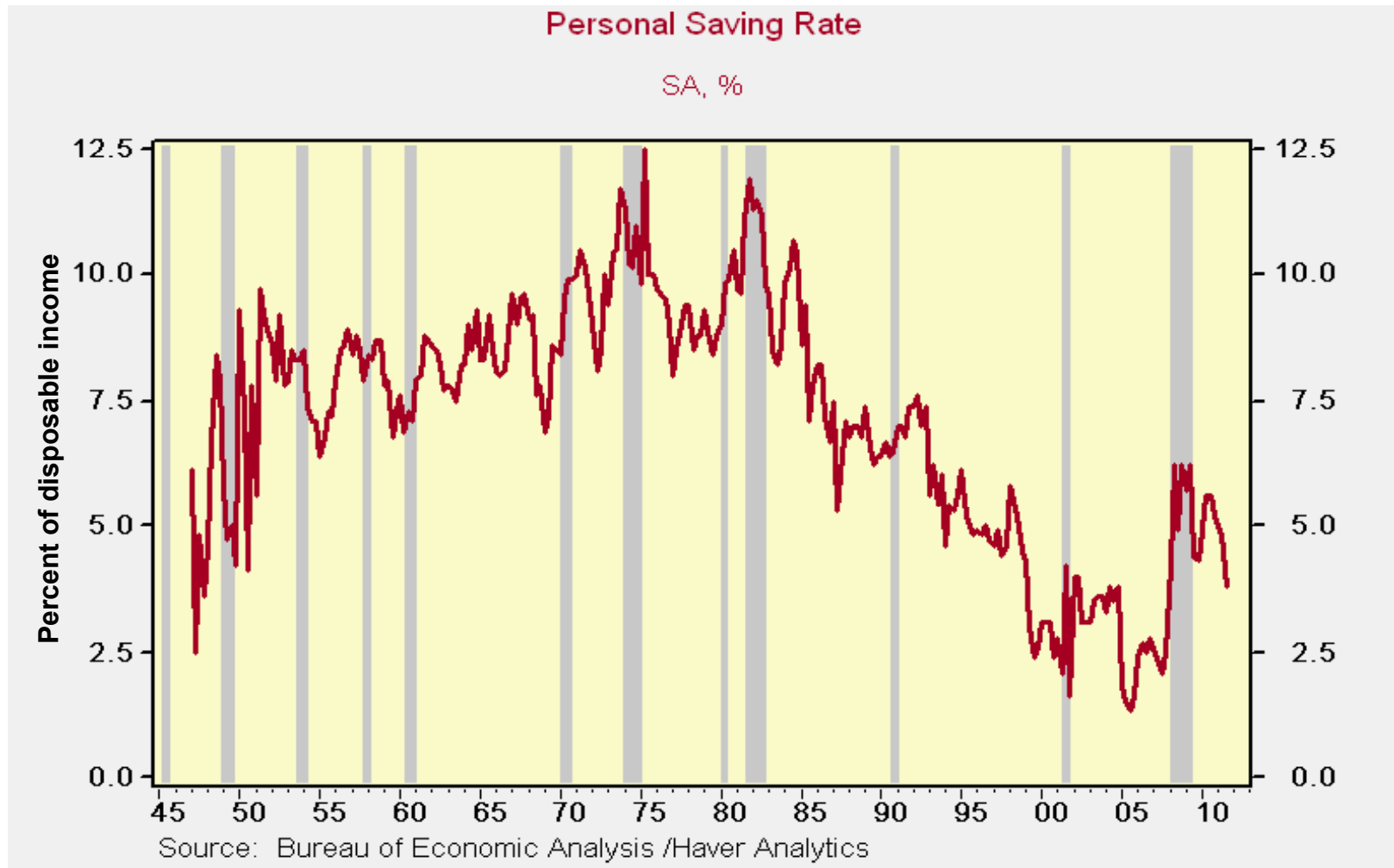
At Citibank, the future is now. With Popmoney, you can "Pay Other People" (POP) directly from your Citibank account—it's as easy as sending an email.

amazon payments

PayPal™

FEDERAL RESERVE
BANK OF BOSTON™

Consumer Saving



Banking and Budgeting?



Log in

Sign up

WHAT IS MINT?

HOW IT WORKS

FIND SAVINGS

COMMUNITY

COMPANY

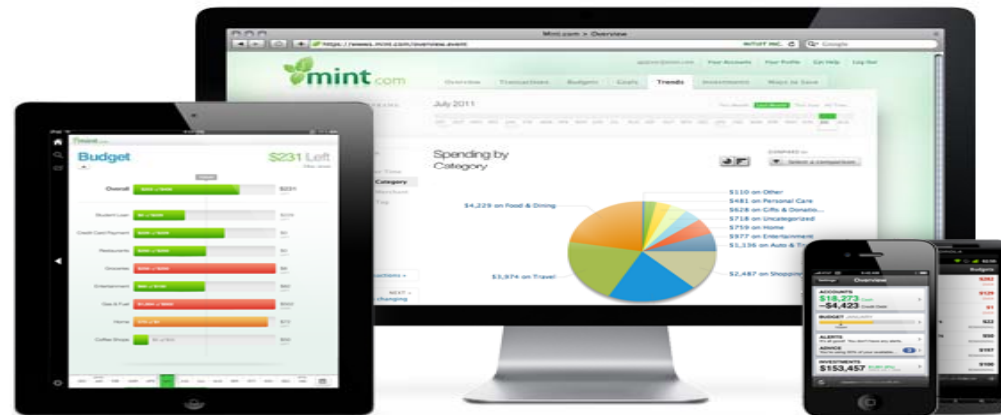
Mint Canada

The best free way to manage your money.

Mint brings all your financial accounts together online or on your mobile device, automatically categorizes your transactions, lets you set budgets and helps you achieve your savings goals.

Watch the video | Learn more

Free! Get started here



Manage your money from wherever you are with Mint's free mobile apps for iPad, iPhone and Android.

Stay SAFE and SECURE



Bank-level data security
You can't move any money
Alerts to keep you safe

Learn more

MINT for iPad is HERE



Stay organized, track budgets, and manage your money—from wherever you are. Everything you love about Mint, maximized for iPad. Learn more

FEELIN' the LOVE

Like 128k



"Two great features: It's free & it's easy to use"



"Your financial situation, in the palm of your hand"



Our top pick
★★★★

"Simply amazing. This is exactly what each bank should actually be offering these days."

— Jay R., Minneapolis, MN

"...You have already helped me save money. I'm saving hundreds of dollars in ATM fees."

— Steve D., Missoula, MT

More