A Banker's View of the Payments Area

Gordon Oliver

Bankers enjoy the advantage of a customer base familiar with today's payment system. But, an Atlanta banker warns, the industry must invest in new technology if it is to remain central in tomorrow's system.

The focus of much discussion these days is primarily on ATM and point-of-sale (POS) system developments. But the payment system has been defined quite broadly by the Association of Reserve City Bankers as "the means employed to facilitate the transfer of value from one owner to another." Today, that system includes currency, checks, bankcards, and other retail-oriented payment systems such as ATMs, POS, debit cards, and home banking.

Banking originated as a system for facilitating transactions. The transactions media changed over time, from shells to gold to currency and coinage, and by the 1930s local clearing mechanisms had developed. Until the 1960s, the payment system remained essentially unchanged except for the introduction of Telex. In the mid-1960s and 1970s, credit cards, electronic transfer, ATMs, and microcomputers came into their own.

The banking industry used to promote the value of paper checks as the prime payment system. The growth of that paper based system has forced banks to invest in and develop highly complex, sophisticated, and efficient processing, clearing, and settlement systems. In the case of the C&S Bank, it has been estimated that it probably would cost $50 million to duplicate our technology and systems capability in cash management and wire services, ACH, and check collection. We are continuing to invest in ATMs, plastic cards, and switching capability.

The payment system is by definition the core of commercial bank business. Historically, the primary motivation of banks was the gathering of deposits to fund lending operations. But slowly and steadily, the role of banks has moved from **intermediators** to **transactors.**

Issues and Needs in the Nation's Payments Systems, a 1982 study for the Association of Reserve City Bankers, highlighted the principal policy issues confronting bankers.

- The payment system is efficient and operationally sound and appears viable for the foreseeable future.
- Rapid increases in turnover of balances, together with widening access to payment system facilities, pose potential large financial risks to banks.
- The historic role of banks in the payment system is changing. Traditionally they have been provided a role as the holder of deposits. Now, their role as transactors in the payment system is growing while their role as financial intermediaries is eroding.
- The payment system has become a major factor in shifting competitive relationships among banks and between banks and their nonbank competitors.
- Laws and regulations affecting banking and the payment system do not reflect technical and market realities, and permit competitors to benefit at the expense of banks.
- Events are prompting a reassessment of the role of the Federal Reserve in the payment system with potentially serious implications for the banks.

Over many years the system changed relatively little, except to grow and to develop technology to handle that growth efficiently. But the rate of change today is accelerating exponentially. Even so, the system will only slowly evolve into an electronic money transfer system, because the public will be reluctant to abandon a payment system that is reliable and efficient.

Evidence of slow consumer acceptance is seen in the use of ATMs. After some 14 years of good,

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hard marketing by the banking industry, only about one-third of all bank customers ever use an ATM. ATMs are an expensive extension of service convenience, and we have never noted any movement of market share because of ATMs. Although C&S expects that check volume will continue to grow, probably through the next decade, we anticipate that the pace of change to EFT will increase and so we must continue to invest in that development.

The banking industry has the advantage of a customer base committed to a system that is as comfortable as an old shoe. But old shoes wear out and must be replaced. C&S Bank, and the industry in general, is committed to making the investment necessary to be leaders in the evolving system. For example, C&S was involved early in the Avail ATM sharing network. An ATM system is very expensive, with the annual cost of supporting one machine ranging from $30,000 to $60,000. Simple arithmetic indicates that the proliferation of proprietary systems decreases productivity and adds immensely to costs.

To date there are 117 financial institutions with more than 600 ATMs participating in the Avail network, which is scheduled to go on-line September 30, 1984. Moreover, 85 percent of the debit card holders in the Georgia market are members of Avail. C&S Bank and Trust Company Bank were the founding partners of the Avail network. Ten other financial institutions (six commercial banks, three savings and loan associations, and one credit union) each paid $600,000 to join the system as funding members. The funding members jointly own the company which operates the interchange, and C&S operates the switch. The financial institutions must pay a yearly fee dependent upon the type of membership (funding member, charter member, or participating member) and their asset size. Transaction fees are also charged to reward those financial institutions with ATMs on the system. For example, if a Trust Company customer uses an ATM owned by C&S, Trust Company must pay a fee which is split between C&S and the Avail network.

Point-of-sale systems are evolving. Numerous pilot programs are going on around the country, but there is no evidence of widespread use. We think that POS will continue to develop at only a gradual pace. The Avail network today presents the means and system to formulate standards, and the mechanism to provide service in a logical, responsive, and responsible fashion.

Retail banking is more exciting now than ever before. There are plenty of challenges. Technology is exploding, but technology does not dictate what the consuming public wants. Old habits are hard to change.