

CONFERENCE ON PROMOTING THE USE OF ELECTRONIC PAYMENTS:  
ASSESSING THE BUSINESS, TECHNOLOGICAL AND LEGAL INFRASTRUCTURE  
FEDERAL RESERVE BANK OF CHICAGO

Chicago, Illinois  
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I. Good morning.

- A. I'm Michael Moskow, president of the Federal Reserve Bank of Chicago.
- B. I'd like to welcome you to this "Workshop on Promoting the Use of Electronic Payments" on behalf of **Hank Perritt**, Dean of the Illinois Institute of Technology's School of law;
  - my colleagues in the FR System,
  - and industry leaders from local banks,
  - members of the Financial Services Technology Consortium,
  - leaders from American Bar Association,
  - and leading consultants, all of whom contributed their ideas and expertise.

II. I'm delighted you're here and that this workshop attracted such an excellent and diverse group.

- Your willingness to participate signals the importance of the subject.
- A. It's a challenging subject that involves tough questions about business, technology, law, and public policy

- a subject that requires a range of expertise and a variety of perspectives.
- B. As all of you know, a number of organizations are doing critical work in the area.
- C. Our goal is not to duplicate these efforts.
1. Rather, it is to frame the discussion of key public policy questions around the business case for electronic payments.
  2. These questions include issues relating to standards, privacy, jurisdiction and contracting, access to payments, and others.

III. I want to save as much time as possible for the experts, so I'll be brief. But I'd like to quickly go over just two items:

- The motivation for and objectives of this workshop; and,
  - An overview of this workshop's structure.
- A. To set the stage, let me briefly review where we are with electronic payments.
- B. As you know, data on payments is limited in availability, quality, and consistency.
- So it's hard to get apple-to-apple comparisons.
- C. Keeping that in mind, first consider the progress we've made with the credit card.
- *(Chart 1)*
  - Despite significant increases in credit card use, they still don't rise to the level of checks at a macro level across the economy.
- D. Nonetheless, the credit card seems to have overtaken the check at the point of sale.

*(NOTE to MM: recalling that check volume includes business checks while credit cards are primarily consumer...example of apples to apples issue).*

- E. Second, consider the progress with debit cards
- *(Chart 2)*
  - Despite the increasing familiarity and both online and offline use of debit cards, we see that they do not even come close to credit cards, let alone to checks.

IV. Economist David Humphrey has compared the United States to other nations and found that we are clearly a check-focused economy.

- A. Here again however, we need to be careful to consider the accuracy of reported statistics and make sure to compare apples to apples.
- B. You'll be hearing on the subject of Fed efforts to develop good baseline statistics later from Pat Barron who is the leading the System's efforts in this area.
- C. Why are we so interested in discussions about electronic payments?
  - 1. First of all, one of the primary purposes of the financial services industry as a whole is, of course, to support how business is done and how business will be done in the future.
- D. As a result, we must not only concern ourselves with the future of the payments mechanism, but think of it in terms of the end user — that is, in terms of consumers, small and large merchants, and the government.
  - And, to reiterate, I can't emphasize enough how important it is to focus on both their current and future needs.
- E. Second, as you know, part of the Federal Reserve's mission is to foster an efficient and effective payments mechanism.
  - The rapid changes caused by technology mean that we sometimes have to do double time to keep up.
- F. Informal forums like this insure discussion and debate on a number of questions that are critical to the industry.

V. What have we learned to date on this subject?

- We've learned there's a long list of potential obstacles.
- A. We could each give our top 10 list:
  - 1. check is cheaper;
  - 2. there are mis-aligned incentives;
  - 3. and legal and regulatory obstacles
  - 4. and, of course, the chicken and egg "network technology" issue
- B. But, the more we've studied this, the more we've learned that these potential obstacles and barriers must also be studied from the perspective of different stakeholders' needs.

C. That brings us to today.

1. We've been able to boil all these questions down to four general areas for conversation, based on many discussions with industry, Federal Reserve colleagues, and others:

D. The first area is — what can and what should be learned from past and ongoing experiences?

- Domestically?
- And internationally?

E. Second, what will consumers and merchants require?

- What will they value in terms of payment capabilities?

F. Third, what is the business case for different payment models?

- For card-based systems?
- For electronic banking?
- Or E-cash?

G. And finally, what are the implications for technology and standards as they evolve?

- What are the implications for the law as it evolves?
- And for business practices?

VI. Obviously, we are not going to be able to cover all these topics in detail.

- And we don't intend to.

A. We do want to focus on a manageable number of questions.

- As a result, we will not be able to focus on questions such as serving the unbanked or the potential implications of electronic money on monetary policy.

B. There will be no easy answers.

- But for our discussion, let me propose three ground rules:

1. There are no bad ideas.

- Let's have an open and honest discussion.
- Please feel free to share both your ideas and critiques of ideas.

2. Panelists and participants must be conscious about time and help us keep on schedule.
  - Each panel could easily take a full day to discuss its topic and still not be finished.
  - It's clear that we'll need to continue some discussions afterwards.
3. Lastly, please take all discussion as feedback — not as criticism.
  - I think it's clear that we're all learning as we go.
  - I suspect that the Federal Reserve might need to have some thick skin today, and that's OK!

VII. Now, I'd like to turn the podium over to David Allardice who has a few comments about workshop logistics while the opening panelists takes their spots.

- A. David will then turn it over to Hank Perritt and the opening panel.
- B. I'm looking forward to the next day and a half.