Welcoming Remarks

Good morning. I’m Michael Moskow, President and CEO of the Federal Reserve Bank of Chicago. I’m pleased to welcome you to our seventh annual payments conference: “Competitive Forces Shaping the Payments Environment: What’s Next?” The conference will consider the new challenges and opportunities facing our payments system in an increasingly competitive environment. I think you’ll find that we have assembled a refreshing and provocative program, and we welcome your active participation. We have a diverse group of participants, with senior representatives of financial institutions, merchants, venture capital firms, payment networks, solution providers, universities, central banks, nonprofit organizations, and government agencies in attendance. I’d like to thank Dick Porter and the payments team from our Research Department for the outstanding job they’ve done bringing all of you together.

More than anything, we want this conference to be interactive. In addition to the illustrious group of speakers we have gathered, the strength of this conference in the past has been the high level of expertise and thoughtfulness that you bring as participants. We have scheduled ample time for discussion in order to take advantage of the free exchange of ideas.

Over the past several years, the payments landscape in the United States has undergone significant changes. Consumers, merchants, and financial institutions face a constantly shifting array of payment options. Moreover, the delivery of those payment mechanisms is increasingly driven by a broader variety of firms than in the past. Nonfinancial firms—including merchants, vendors, alternative service providers and others—are increasing their participation in the provision of payments, often competing directly with banks. We’ll hear from a group of industry experts tomorrow who will debate the
pros and cons of retail firms offering payment products to customers and discuss the factors that contribute to the success or failure of such retail banking partnerships. We will also have a keynote speech about the future role of banks in payments, which is an issue that the Fed follows closely.

We believe that the increase in the number of players in the payments industry—the rise in competition—has led to new innovations in the provision of payment services. To gain widespread acceptance, successful payment innovations have to present multilateral advantages to a host of parties: payment processors and banks, households and businesses, and in-store merchants. These benefits can include decreased cost, enhanced convenience, expanded access, and improved security.

When a payments network grows sufficiently, scale economies lower operating costs and the technology suddenly becomes profitable in new venues. Payment habits typically evolve slowly, especially when individual payment instruments perform well and remain highly convenient. But, ultimately, changing cost structures cause the products that payment networks offer and the products consumers choose to use to shift.

During the past dozen years or so, we have witnessed several important milestones in the movement from paper to electronic payments. Check usage within the United States finally began to decline in the mid-1990s. While debit cards were introduced initially in the 1970s to dispense cash from ATM machines, it wasn't until the last decade that debit card use at the checkout register soared. Merchants have become more willing to accept plastic in lieu of cash or checks partly because of the lower costs of placing PIN pads at the checkout counter. These developments have engendered a cultural shift in the U.S. which has transformed many previously cash-only locations. By 2003, electronic payment transactions in the United States exceeded check payments, and after a faltering start, online banking has finally taken hold among American households.

During this conference we'll discuss how some previously cash-dominant businesses, such as taxi-cabs, coffee shops, doctor's offices, fast food restaurants, grocery stores, mass transit systems, and utility companies, have turned to plastic payments. A distinguished group of panelists will highlight the characteristics of cash that are difficult to mimic in other payment forms and discuss the main factors that are driving their industries to offer alternatives to cash. This discussion will help us identify the relative costs and benefits of cash in the face of the availability of electronic payment options.

Payment processors and banks are becoming more and more concerned with how businesses and individuals choose to make payments. What factors lead an employer to continue to disburse paper pay checks or a family to embrace mobile banking? To that end, we have a panel today that focuses on the process that merchants and consumers go through when making payment choices in an extremely diverse and complex environment. The panel will discuss the different ways that payment providers influence consumer and merchant decisions. We will also hear about how consumer demand for payment features and functionality has evolved over time.

It's clear that individual consumers are increasingly driving payment trends by making concerted efforts to control their payment transactions. These consumers, who are often quite tech-savvy, have a variety of payment options. Households increasingly choose to purchase goods and services online, using existing card and ACH networks. And new payment processors have entered the marketplace to service the ballooning online auction business and consumers who are interested in making person-to-person payments from any place, at any time.
More recently, the U.S. has begun to catch up with its international peers by offering payment options via mobile phones and contactless cards. Consumers like the ease and convenience of making payments anytime, anywhere—and they also appreciate the ability to access and manage the complex array of information that accompanies payment transactions.

But these new payment innovations, while promising, highlight important questions related to security, regulation, and relationships between consumers and financial service providers. During our mobile payments panel today, we will hear leaders in the industry discuss the challenges of these payments and the lessons that the U.S. can learn from international providers of mobile payments.

We can learn much from watching payment trends internationally, and we should be aware of how international trends affect domestic operations. We are now in a truly global market, and consumers and merchants have payment options—and obligations—that regularly cross borders, such as international remittance transfers. It’s estimated that global remittance volume reached more than $232 billion in 2005, with very large unquantifiable amounts transmitted through informal channels. Tomorrow we will have an opportunity to delve into this issue more deeply, as we host a panel of industry experts who will talk about using remittances to reach new customers.

One of the more interesting facets of the new competitive payments landscape is the opportunity that innovation brings for partnerships. We will hear industry leaders discuss how they work with other firms as both collaborators and competitors. This trend has the potential to create a more cooperative payments system in which various players are more aware of issues that affect one another.

As I said in the beginning, increased competition among providers of existing and emerging payment products is likely to improve the efficiency of the payment system as a whole. But we should not just sit back and watch these changes take place without engaging in a dialogue, such as the one we will have over the next two days, about what these changing trends mean for consumers, businesses, and payment providers. Additionally, during times of transition, policymakers may be compelled to revisit the efficacy of current payment laws and regulations, and we hope to offer an open and honest forum for that conversation to take place.

With that in mind, it is my distinct pleasure to introduce our first keynote speaker, Randy Kroszner. Randy had a distinguished academic career at the University of Chicago’s Graduate School of Business and a variety of other posts before catching Potomac Fever during a stint in D.C. a few years ago as a member of the Council of Economic Advisors. In over 200 years the medical profession has been unable to come up with a cure for this fever, which affects many Washington denizens. Since the only known treatment is to go back to the swamp, Randy returned to Washington in 2006 as a member of the Federal Reserve Board of Governors. In prior years, Randy has worked with us at the Chicago Fed and we are delighted that he is now a member of the Board of Governors and delighted that he is here today. Please join me in welcoming Randy Kroszner.