

Written Testimony of

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“Is Cash Still King? Reviewing the Rise of Mobile Payments”

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Chairman Lynch, Ranking Member Emmer, and distinguished members of the Task Force on Financial Technology of the House Financial Service Committee, thank you for this opportunity to testify before you today at this hearing on “Is Cash Still King? Reviewing the Rise of Mobile Payments.” My name is Kim Ford, and I am the Executive Director of the Faster Payments Council (FPC), an industry trade association born out of the efforts of the Federal Reserve and the collective payments industry to modernize the U.S. payments system. Today, the FPC serves as an inclusive and representative membership organization whose mission is to facilitate ubiquitous faster payments in the U.S. Our membership represents every facet of the payments industry, including business end-users, consumer organizations, financial institutions, payment network operators, technology providers, associations and other interested stakeholders such as individuals representing academic institutions and industry consultants.

The FPC works to achieve its mission through:

1. Education - The FPC spearheads educational initiatives to foster better understanding of faster payments and confidence among providers and end users to increase adoption.
2. Problem-Solving - The FPC tackles the tough issues that inhibit adoption of faster payments so that end users can pay and be paid in seamless and transparent ways. The FPC provides safe forums for dialogue, encouraging honest contributions, and honoring differing views to enable the ideas and solutions that will drive progress.
3. Industry Guidance - The FPC identifies and evaluates practices, principles, and guidelines that enhance safety, security, and transparency, and enable opportunities and access.

Prior to my role at the FPC, I was employed at First Data for 15 years, most recently serving as senior vice president and head of global government affairs. I’ve also held a number of industry leadership positions, including serving as Chair of the Legislative and Regulatory Council for the Electronic Funds Transfer Association; Co-Chair of the Government Relations Council at the Electronic Transaction Association; Past Chair of the Board of Directors for the National Card Coalition; and Board Member for the Innovative Payments Association.

My current and past industry roles have allowed me to develop a deep subject-matter expertise on a broad range of payments topics, particularly electronic/digital payments (of which mobile payments are a component). Thus, I am grateful for this opportunity to share with you details on how consumers pay,

the growing use of electronic payments as a preferred payment choice, the role faster payments can play in furthering electronic payments, and some of our organization's efforts to ensure we foster a secure, efficient, and accessible digital payments future for U.S. consumers.

I. Background: Payments Landscape

The payments landscape is rapidly evolving. With a plethora of mobile payment offerings, the advent of faster payments, and the availability of new technologies such as artificial intelligence and machine learning, we are transitioning from an environment dominated by paper checks and cash to a digitally-based payments system where electronic transactions serve as a primary form of payment and constitute nearly \$100 trillion of the value of payments overall.¹ According to the Federal Reserve's 2019 Diary of Consumer Payments Choice², electronic payments surpassed cash as the preferred method of payment for the first time in 2018. According to the study, consumers used cash in only 26 percent of transactions, while debit cards were cited as the most frequently used payment instrument, accounting for 28 percent of payments.³

With respect to checks, 2018 served as the first year that automated clearinghouse (ACH) transactions outnumbered check payments. According to the Federal Reserve's 2019 Payments Study, there were 16.6 billion ACH debit transfers compared to 14.5 billion check payments. In contrast, in 2000, the number of ACH debit transfers stood at 2.1 billion compared to 42.6 billion check payments.⁴

II. How Consumers Pay and Why

Consumers' Payment Use: Choice Matters

While evidence points to consumers' growing desire to use electronic payment formats, they still use a wide variety of payment options, such as cash, check, ACH, debit and credit cards, demonstrating a strong desire for payment choice. While choice rings through as a theme, the trend towards electronic

¹ 2019 Federal Reserve Payments Study at <https://www.federalreserve.gov/paymentsystems/2019-December-The-Federal-Reserve-Payments-Study.htm>

² 2019 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/>

³ 2019 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/>

⁴ 2019 Federal Reserve Payments Study at <https://www.federalreserve.gov/paymentsystems/2019-December-The-Federal-Reserve-Payments-Study.htm>

payments cannot be ignored. The 2019 Diary of Consumer Payments Choice also showed that electronic payments—specifically, debit cards—were the most frequently used payment option in 2018, experiencing a growth of 2 percent from 2017. In fact, use of all major electronic payment methods experienced growth from 2017 to 2018. And while cash is still a widely preferred payment option, usage is decreasing, as its share of payments dropped 4 percent from 2017 to 2018.⁵

Not only is cash use decreasing overall, but it is being used less and less for the major payment categories it once dominated. Historically, cash has been used for low-value payments below \$25. But 2018 numbers show that electronic payments are beginning to take hold as a way to conduct small-value transactions. 2018 marks the first year that cash was not used for the majority of transactions for purchases under \$10 (decreasing from 56 percent to 49 percent) and in the \$10-\$24.99 payment range, debit cards and cash now stand nearly identical in terms of use.⁶

Even in other types of categories, such as in-person payments and gifts/person-to-person (P2P) transfers, where cash has historically reigned supreme, electronic payments have gained ground. While cash remains the most used payment instrument for in-person payments at 35 percent, in-person credit card usage grew 5 percent over the last three years, cutting into cash's share, while cash use declined 5 percent. Additionally, 2018 represented the first year that both debit and credit cards were used for gifts and transfers, reflecting the growing trend towards use of digital payments apps for these types of transactions. And even when looking at the other major payment categories, such as government and nonprofit; auto and vehicle related; food and personal care payments; medical, education and personal service; general merchandise; entertainment and transportation and housing related, cash use declined in every category from 2017 to 2018.⁷

Types of Consumers and Payment Use

When looking at various age groups, cash is a universal payment type that is still used among all segments. Individuals under 25 and over 45 represent the segments that use cash the most, while consumers age 25 to 44 remain the segment using cash least. But even within these segments, cash use

⁵ 2019 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/>

⁶ 2019 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/>

⁷ Ibid.

is declining. And more often than not, age segments that are showing a decline in cash use are replacing this payment option for electronic options, such as debit and credit cards.⁸

When considering income level, cash is used among all segments regardless of income, and consumers make about the same number of cash transactions each month. Those making under \$25,000 represent the largest users of cash payments. In all other income segments, credit and debit card use outnumbers cash.⁹

Consumers' Preferred Payment Method and Rationale

Various Federal Reserve and other industry studies report that while cash is a universal payment type, electronic payments rank highest among consumer segments as the *preferred* way to pay. Both the 2019 Diary and other studies on consumer payment mechanisms, such as Tsys's 2018 Consumer Payments Study, show that debit cards are the most preferred payment method among the surveyed individuals.¹⁰ Credit cards generally rank second, and cash third.¹¹

Today's payment preferences are driven by a number of factors, dominated by a desire for convenience and security. According to the most recent PSCU Eye on Payments study, 60 percent of consumers reported convenience and ease of use as the main drivers behind their choice in payment. And nearly 40 percent cited safety as a factor influencing payment choice.¹²

Almost 80 percent of consumers own a debit or credit card.¹³ And both of these instruments are widely accepted at retailers across the globe. Electronic transactions are traceable. They enable convenient logging and tracking of transactions. Electronic payments, particularly debit cards, also allow consumers

⁸ 2019 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/>

⁹ 2018 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2018/november/2018-findings-from-the-diary-of-consumer-payment-choice/>

¹⁰ Tsys 2018 Consumer Payments Study at https://www.tsys.com/Assets/TSYS/downloads/rs_2018-us-consumer-payment-study.pdf

¹¹ 2019 Diary of Consumer Payment Choice at <https://www.frbsf.org/cash/publications/fed-notes/2019/june/2019-findings-from-the-diary-of-consumer-payment-choice/>

¹² 2019 Eye on Payments at <http://www.pscu.com/PDF/Whitepapers/2019%20Eye%20On%20Payments.pdf>

¹³ The 2018 Survey of Consumer Payment Choice at <https://www.frbatlanta.org/-/media/documents/banking/consumer-payments/survey-of-consumer-payment-choice/2018/2018-survey-of-consumer-payment-choice.pdf>

to efficiently manage their money. Additionally, electronic payments provide consumers with protections against loss and fraud.

While cash may be convenient, easy-to-carry, and widely accepted, it can be easily lost or stolen, and there are no measures in place for consumers to recoup such funds. For these reasons, among others, electronic payments have climbed the ranks to become a dominant payment option for U.S. consumers.

Mobile Payments Use

In the U.S., mobile payment use is also on the rise. Much of the growth of mobile payments can be attributed to the proliferation of smartphone ownership and the availability of mobile payment apps. Almost nine in 10 U.S. households own a smartphone, making it the second-most owned technology device after television sets¹⁴, and 30 percent of smartphone owners used a mobile payment app in 2019, representing an increase of 9.1 percent over the previous year.¹⁵ Even more, nearly 30 percent of U.S. consumers have indicated a desire to pay with their smartphone all the time.¹⁶ As consumers increasingly spend time on their smartphones and integrate them into all aspects of their lives, it's understandable that consumers want to incorporate payments into their mobile phone experience as well.

Tsys's 2018 study also showed that over the last three years of their research, survey respondents consistently rated the most attractive mobile features as the ability to immediately stop a fraudulent transaction, the ability to instantly view their transactions, and the ability to use their phone to turn their payment card on or off to prevent unauthorized usage.¹⁷ These findings underscore the population's increasing reliance on electronic payments to solve for convenience and added security.

The significance of this growing mobile use is that more often than not, the funding mechanism behind mobile transactions is an electronic payment option, typically a credit or debit card. Thus, as electronic

¹⁴ "5 Trends Driving Growth of Digital Wallets" at <https://www.paymentssource.com/list/5-trends-driving-growth-of-digital-wallets>

¹⁵ "ApplePay Overtakes Starbucks as Top Mobile Payment App in the US" at <https://www.emarketer.com/content/apple-pay-overtakes-starbucks-as-top-mobile-payment-app-in-the-us>

¹⁶ Statista at <https://www.statista.com/topics/982/mobile-payments/>

¹⁷ Tsys 2018 Consumer Payments Study at https://www.tsys.com/Assets/TSYS/downloads/rs_2018-us-consumer-payment-study.pdf

payment usage continues to grow and access to the Internet becomes more widespread, we can expect a commensurate increase in mobile payment usage.

Financial Inclusion

The FPC is driven by values of inclusivity and transparency, and we take seriously the desire of our member organizations to provide access to a safe and efficient payments system for as many end users as possible. Across the globe, financial inclusion is getting better, and various studies credit smart phones and digital payments as factors. For example, the 2017 Global Findex report created by the World Bank in partnership with the Bill and Melinda Gates Foundation states that recent progress in financial inclusion “has been driven by digital payments, government policies, and a new generation of financial services accessed through mobile phones and the Internet.”¹⁸

The report goes on to state that the benefits of digital financial services are wide ranging. For example, mobile money services can help improve individuals’ income earning potential and thus reduce poverty, and digital financial services can help individuals manage financial risk, can lower the cost of receiving payments, and can also help people accumulate savings and increase spending on necessities.

Similar findings were uncovered at a 2018 conference, *FinTech Financial Inclusion – and the Potential to Transform Financial Services*, hosted by the Boston Federal Reserve and the Aspen Institute’s Financial Security Program. The discussions from that conference highlighted that “established and emerging FinTech solutions offer real potential to give unbanked people new access to financial services and impact their financial lives” and pointed to mobile devices as the starting point for providing the unbanked with access to financial services.¹⁹

III. The Faster Payments Opportunity

Benefits of Faster Payments in an Electronic Environment

The growing and preferred use of electronic payment options across all US demographics presents a substantial opportunity for faster payments. Faster payments has been defined differently in countries

¹⁸ The Global Findex Database 2017, <https://globalfindex.worldbank.org/>

¹⁹ The Boston Federal Reserve Bank, “Can FinTech Close the Gap Between ‘Unbanked’ Populations and Financial Services?” <https://www.bostonfed.org/news-and-events/news/2018/fintech-and-financial-inclusion.aspx>

around the world, but according to the Faster Payments Playbook, a joint project between Nacha and the FPC, the term “faster payments” is broadly used in the U.S. payments industry to indicate that increased speed, convenience and accessibility are essential features for the future of the payment and settlement system.”²⁰

As such, in an environment in the U.S. where electronic payments are a preferred payment method, faster payments can provide for the following:

1. Improved visibility and financial management – Faster electronic payments allow for easier cash flow management with accurate and timely insight into account activities. Faster payments reduce the chance for end users to make unintentional overdrafts and help them avoid costly fees or the need for short-term financing.
2. Improve payments system efficiency – Faster electronic payments decrease the reliance on infrastructure needed to support paper-based payments, like checks and cash, reducing costs and resources necessary to operate and maintain such infrastructure.
3. Minimize payments risk – Faster electronic payments help reduce many of the risks in the current payments system by shortening the delay between payment initiation, clearing, and settlement. Timely confirmation of good funds and payment finality can provide certainty of payment for consumers.
4. Encourage global competitiveness – Faster electronic payments could foster greater global competitiveness and the potential for faster and easier global transactions. Indeed, faster payments solutions with global interoperability could eventually help to facilitate faster and more transparent cross-border payments.

IV. FPC Efforts

Regulatory, Fraud and Transparency-Related Efforts

State and federal regulators, along with certain payments industry participants, have established a robust framework of statutes, regulations, and industry standards that protect consumers, promote a

²⁰ The Faster Payments Playbook, <https://fasterpaymentsplaybook.org/>

reliable and consistent user experience, and help maintain a healthy, efficient, and safe financial market with respect to payments.

As FPC members collectively prepare for a U.S. payments system that enables broad adoption of faster payments solutions, the FPC has established a Regulatory Work Group to identify and analyze laws and regulations that may impact faster payments and consider options as to how to support and accelerate the adoption of faster payments. The Work Group is currently conducting a comprehensive review of laws, regulations and regulatory guidance that apply to faster payments, including UCC Article 4A, the Electronic Funds Transfer Act, the Bank Secrecy Act, FFIEC guidance, and more. These requirements are being categorized and examined so that organizations that want to incorporate faster payments into their suite of solutions can arm their legal and compliance teams with a better understanding of the regulatory landscape.

As electronic transactions become increasingly widespread, continued work to safeguard the data surrounding them remains a focus of the payments industry. Our efforts in assessing today's robust regulatory infrastructure extend to evaluating data security as well. Payments stakeholders rely on key data points to combat and reduce fraud and to safeguard transactions, and at the same time, are working diligently to ensure the robust consumer protections in place today continue to meet their customers' needs. As the payments system speeds up, the FPC's collective efforts will focus on striking that right balance, enabled by input from all facets of the industry.

In addition, to support the security of transactions, the FPC recognizes the need to exchange data related to fraud in an effort to protect the payments system from all threats, whether they be cyber threats or other fraud threats. To that end, the FPC established the Fraud Information Sharing Work Group. Today, it is working to develop a publicly accessible white paper addressing the following three areas of fraud prevention as they pertain to faster payments: 1) fraud prevention best practices, 2) fraud themes and trends, and 3) fraud prevention solutions and channels.

The FPC believes that this paper will serve as a comprehensive resource to help the industry mitigate the potential for fraud in a faster payments environment.

And we are also working diligently to ensure consumers are informed of and prepared for faster payments. The FPC's End-User Transparency Work Group recently released *Faster Payments Transparency Guidelines for Payment Services Providers*. The resource is designed to help providers of

faster payments anticipate and answer a wide variety of consumer questions that may surface about certain characteristics, associated fees, and protections related to their faster payment offering. Solution providers are presented with questions such as “How long does the enrollment process take?, Is there a limit on the amount of a single transaction?, What is the process for disputing a payment?,” and more. By outlining these questions for solution providers, the FPC believes that they will be better prepared to educate their customers while also creating a safe and positive user experience.

Global Effort Considerations

Many countries outside of the U.S. are making significant advancements towards a faster, more cashless payments environment. While the U.S. is moving in that direction with the launch of new real-time payments systems, including The Clearing House’s Real-Time Payment (RTP) network and the recently announced FedNowSM system, we are still generally behind many other countries in the adoption of faster payments systems. These countries can provide some instructive lessons learned for the U.S. and the future of payments. Because of this, the FPC recently announced plans to establish a Cross-Border Payments Work Group, which is expected to, among other things, examine the payments environments of other countries to assemble helpful tips and information to support our efforts to modernize the payments system in the U.S. Our goal with this work will be to draw out key lessons learned and identify areas of opportunity for the U.S. in moving into a more digital, faster payments environment.

V. Conclusion

In conclusion, it is clear that Americans continue to embrace a more digital society, given the advent of real-time payments systems and the growing use of electronic payments. With that said, our payments system has evolved over time to support many different payment mechanisms, driven by individuals’ desire to pay how they want, where they want, when they want. Ultimately, the FPC supports an environment in which payment choice is preserved, while also allowing the flexibility to enable a faster, more digital payments environment enables that delivers an array of benefits and protections for consumers, businesses and government end-users. We are dedicated to working with all of the stakeholders across the payments ecosystem to ensure that together we can achieve the ideal faster, more efficient, and more secure payments environment of the future.

Again, thank you for the opportunity to testify today. I look forward to answering any questions you may have.