



The ATM and Debit Card Industry: A View From the Fed

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Principal message

- Two segments of the industry, ATM and debit, are moving in opposite directions
- ATM industry has matured
- Debit industry is expanding rapidly
- Important implications for business strategies and industry structure



Topics

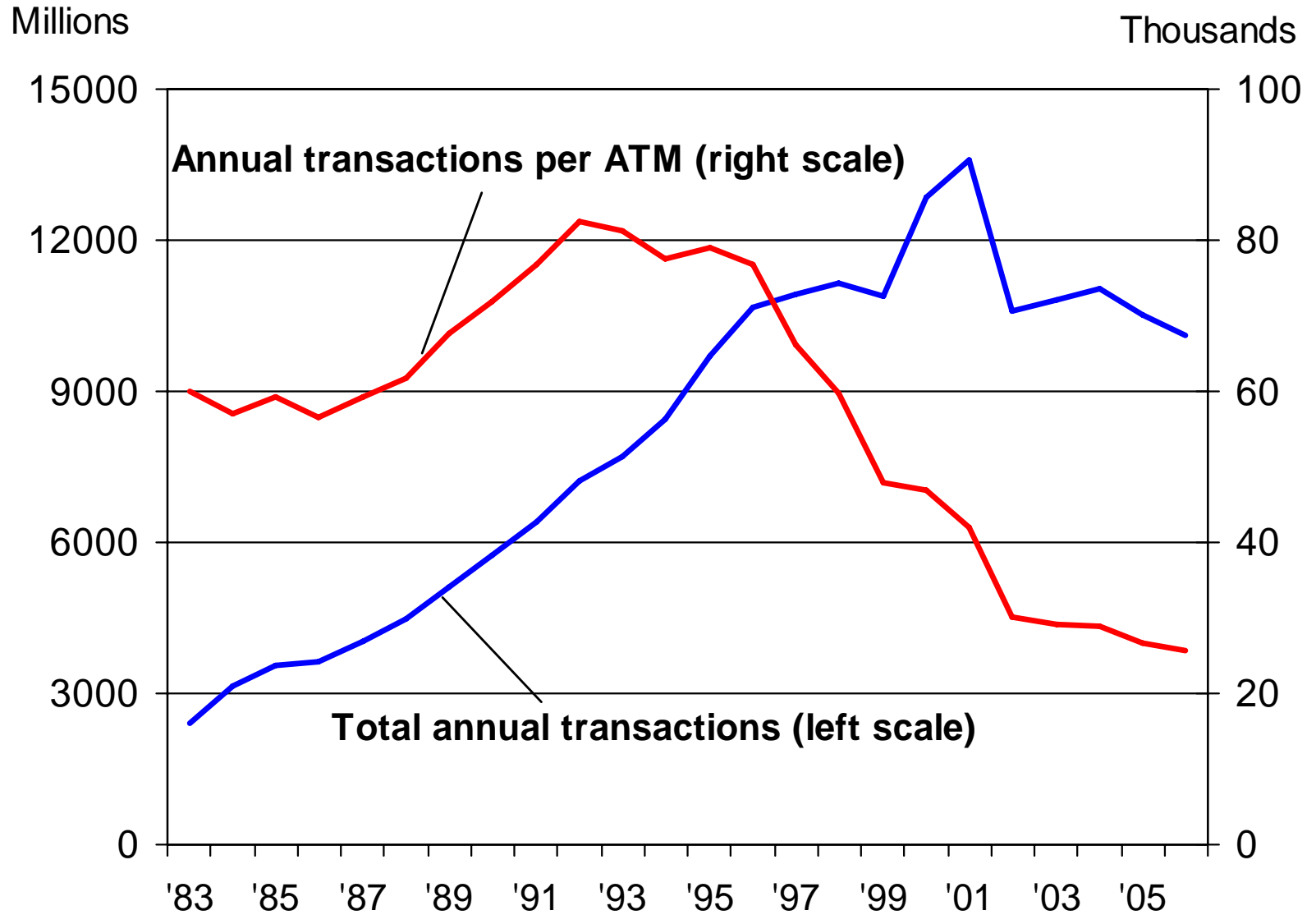
- Developments in the ATM market
 - Impact of surcharging
- Developments in the Debit market
 - Competitive battlegrounds
- A look ahead
 - Data security issues
 - ATM issues: Industry adjustments
 - Debit issues: PIN-signature scenarios; interchange conflict
- Federal Reserve perspective



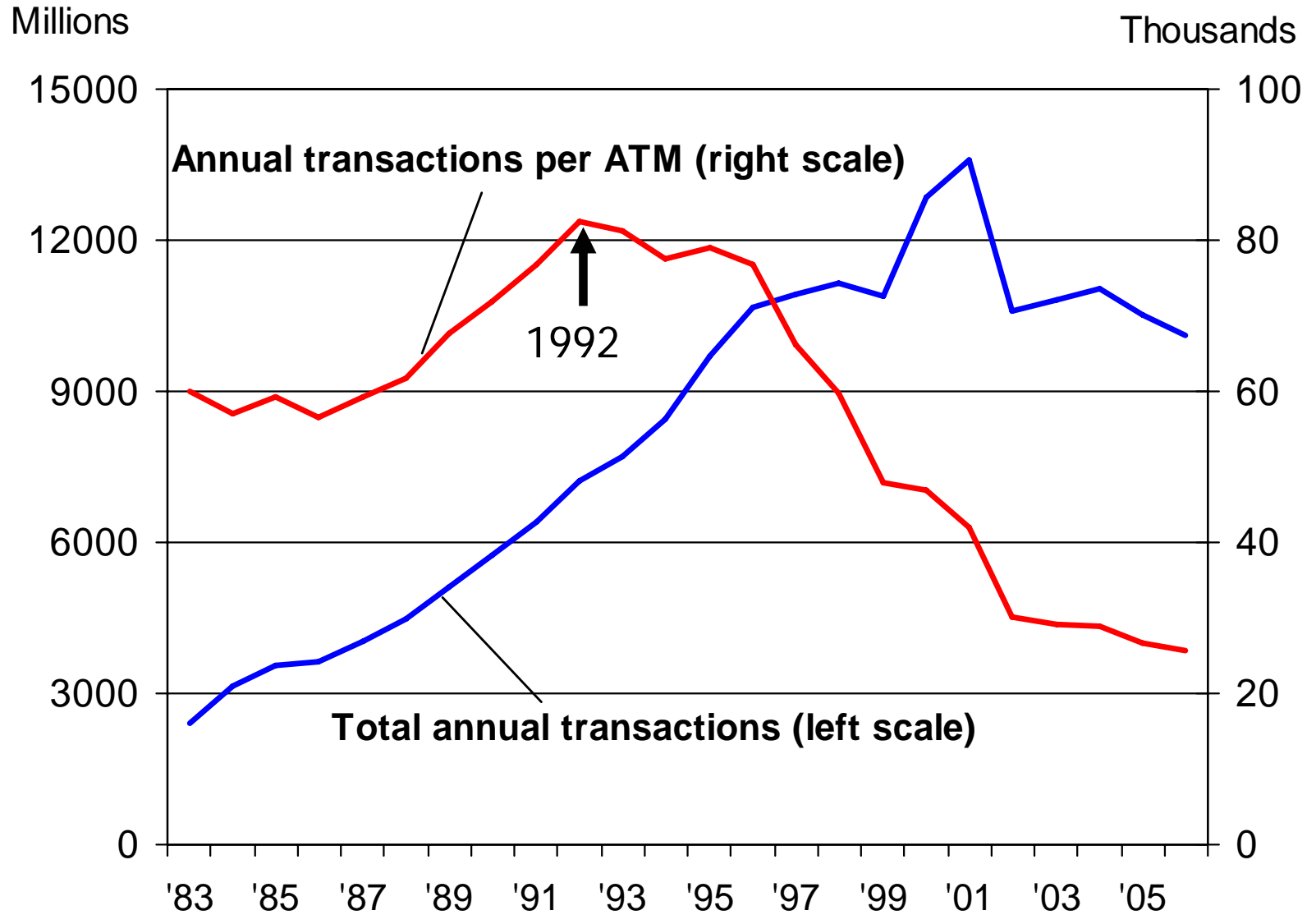
The ATM Market – Industry Recap

- Activity levels and trends indicate a mature industry
 - Measures of activity that have peaked:
 - Total ATM transactions
 - Transactions per ATM
 - ATM deployment

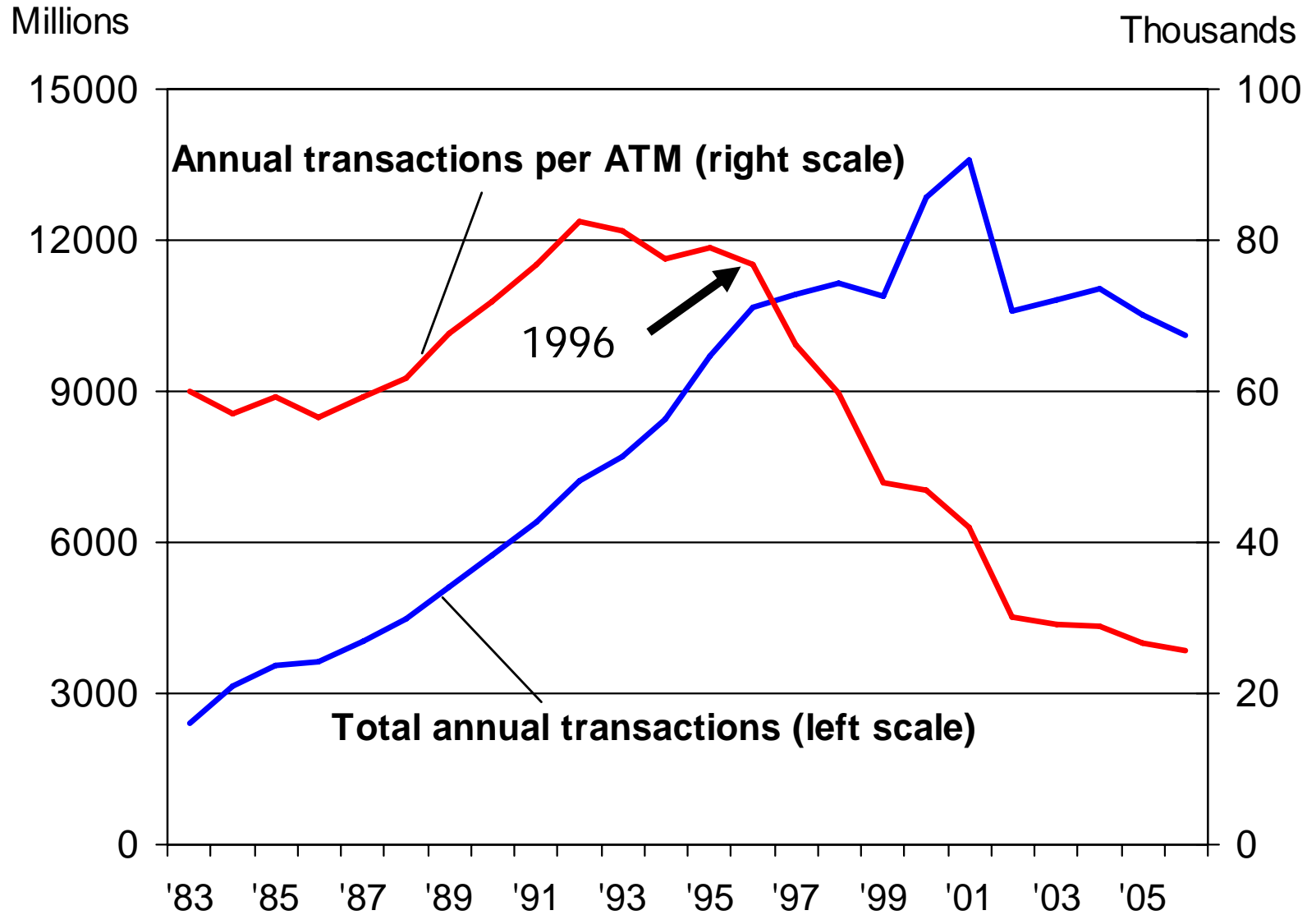
ATM Transactions



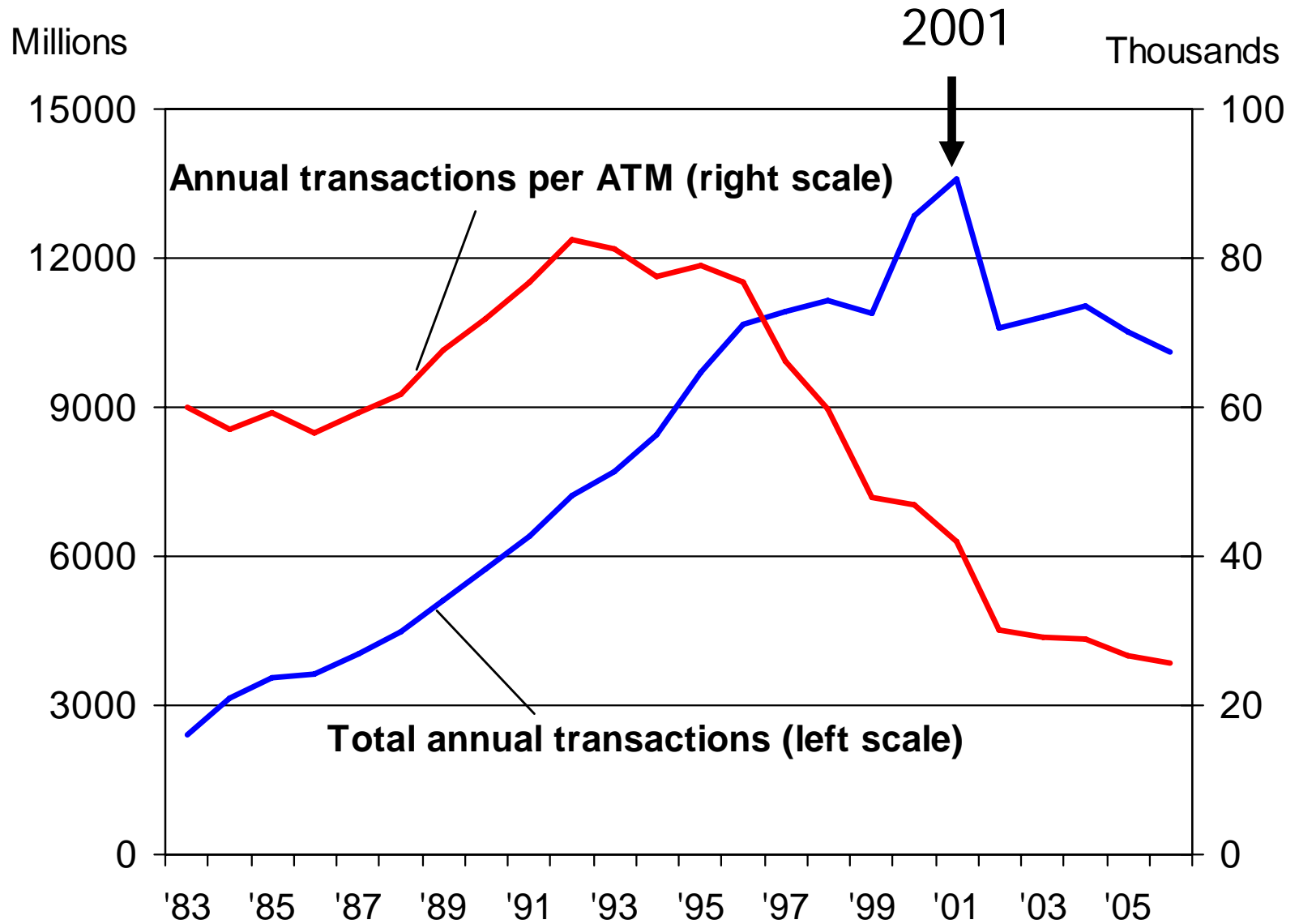
ATM Transactions



ATM Transactions

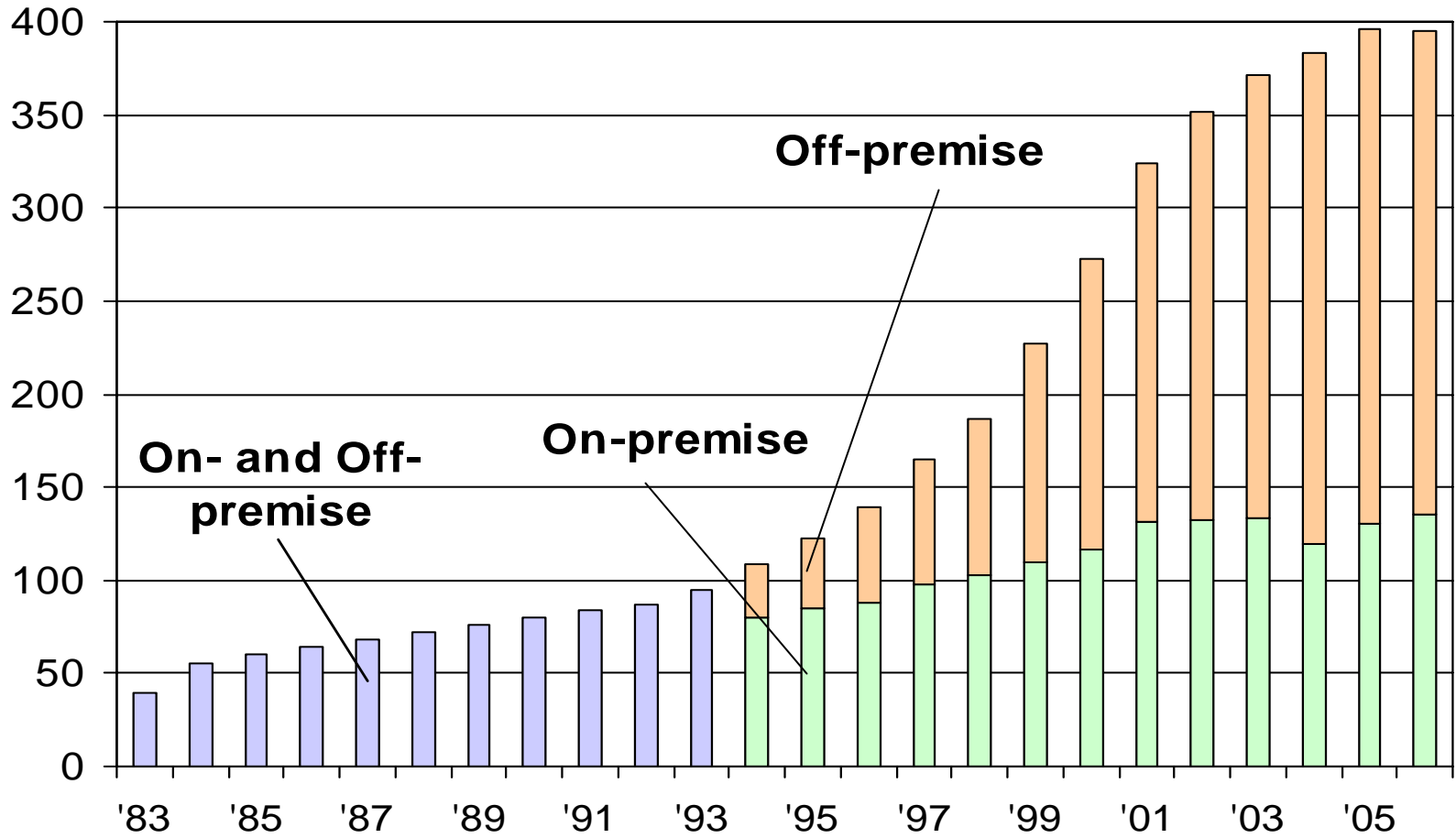


ATM Transactions



ATM Deployment

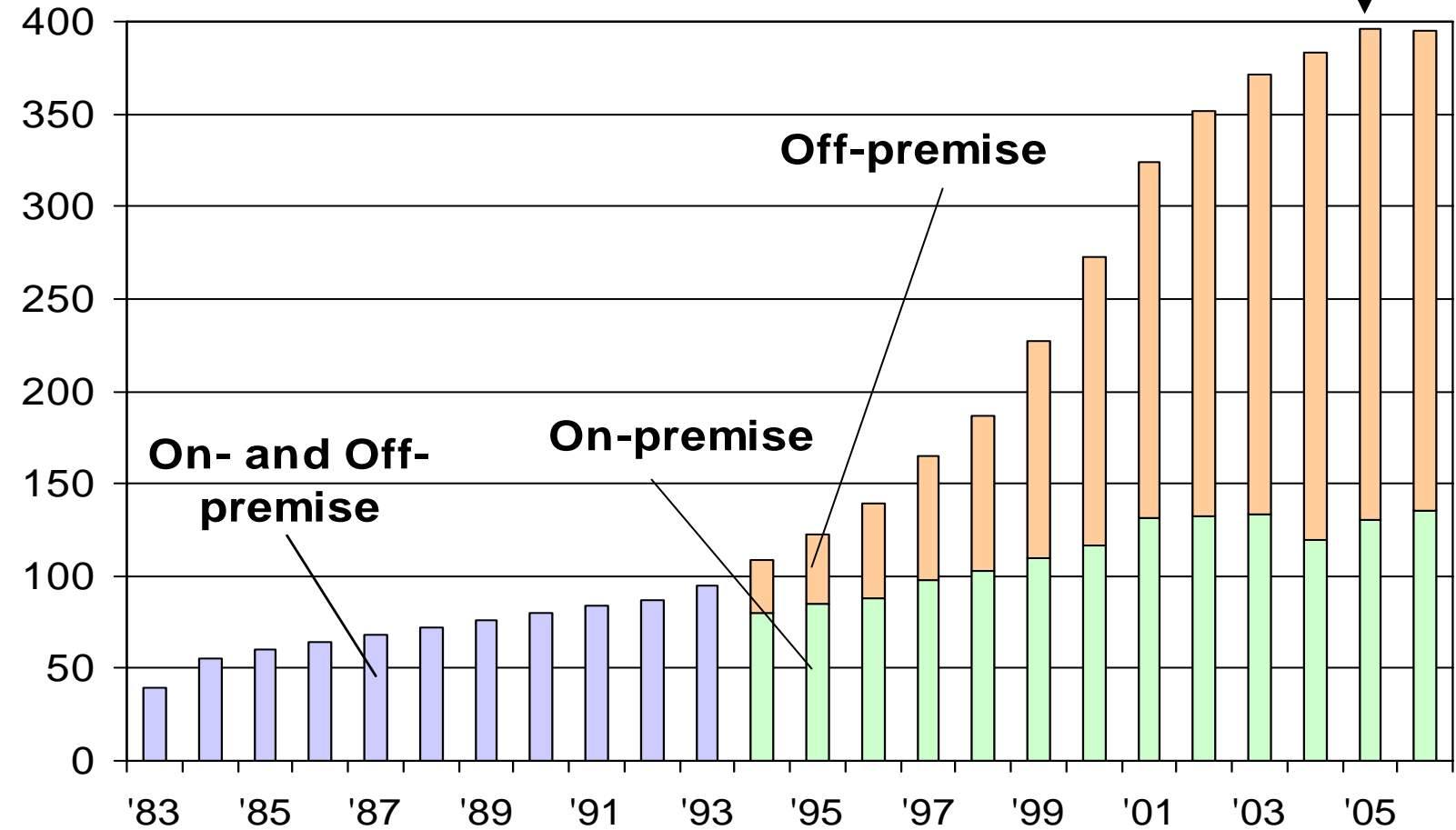
Thousand



ATM Deployment

2005

Thousand





The ATM Market – Industry Recap

- Concentration of top networks is stable
- Other segments of ATM industry—ATM drivers and ISO's—showing increased concentration
- Wholesale prices are stable
- Surcharges continue to rise



The ATM Market – Discussion

- Surcharging
 - Both supply and demand responses evident after surcharging became widespread in 1996
 - Supply: banks and ISO's install ATMs
 - Demand: consumers adjust ATM usage
 - Second supply response: slowdown and decline in ATM deployment



The ATM Market – Discussion

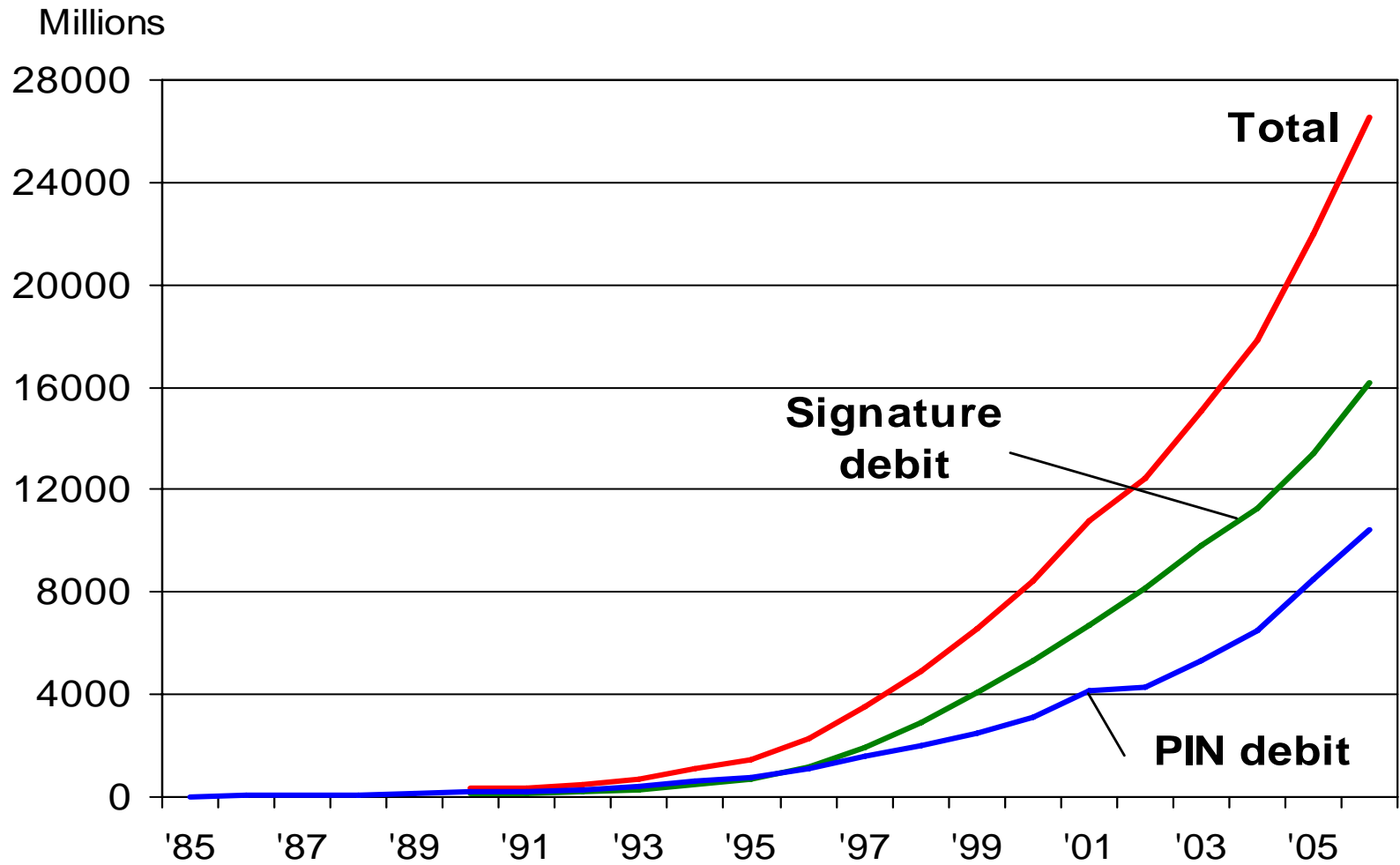
- Surcharging
 - Today's situation
 - Lower ATM revenues and profits
 - Some ISO's exiting from the market
 - Industry adjustments



The Debit Market – Industry Recap

- Activity levels show strong growth
 - Number of transactions
 - Number of cards
 - Transactions per card
 - Number of POS terminals
- Both signature and PIN growing rapidly

Debit Transactions

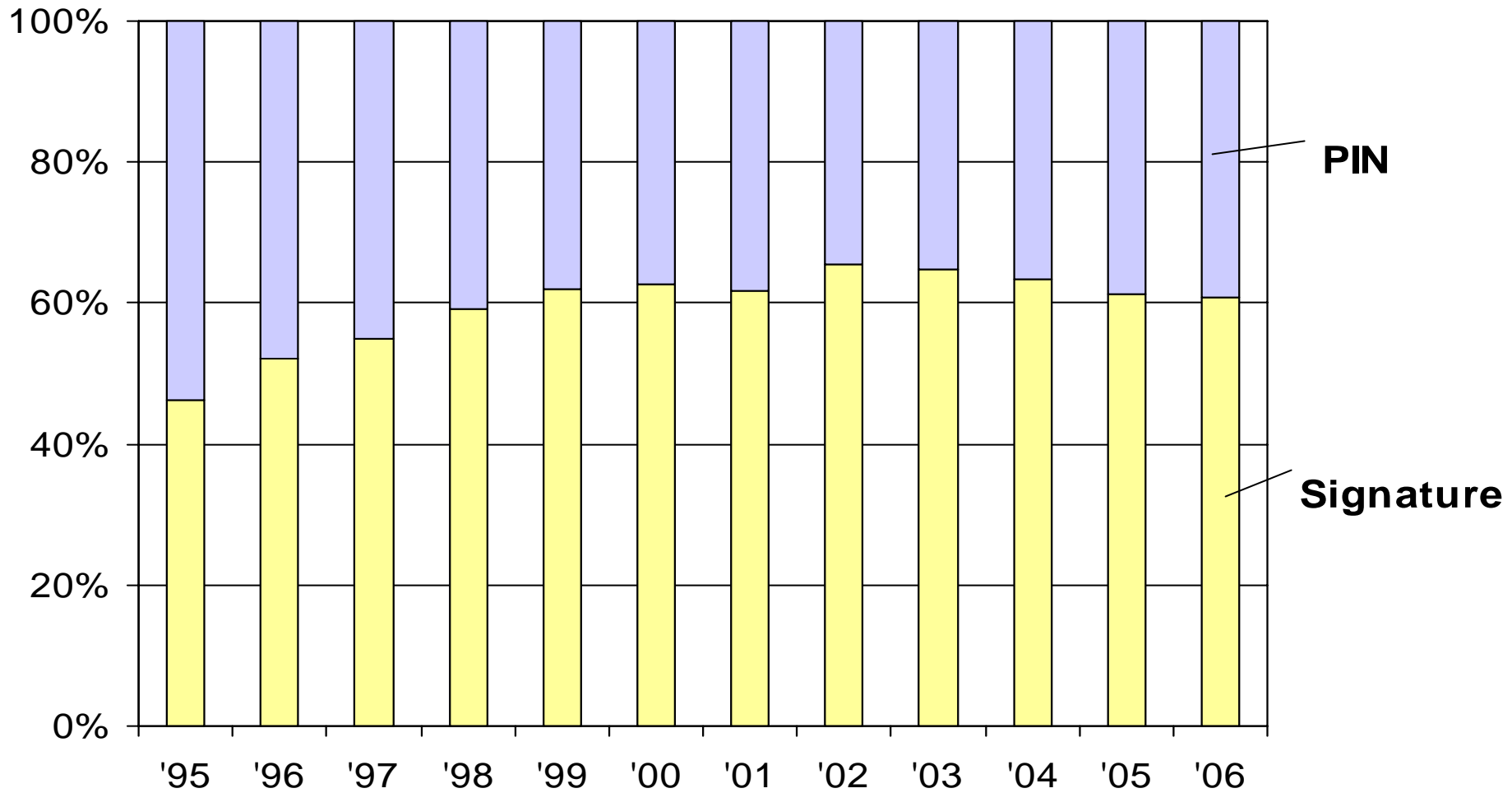




The Debit Market – Industry Recap

- Movement in the market
 - PIN share of total PIN plus signature market has increased somewhat
 - Dramatic shift in market shares among networks
 - VISA's market share of overall market now over 60 percent

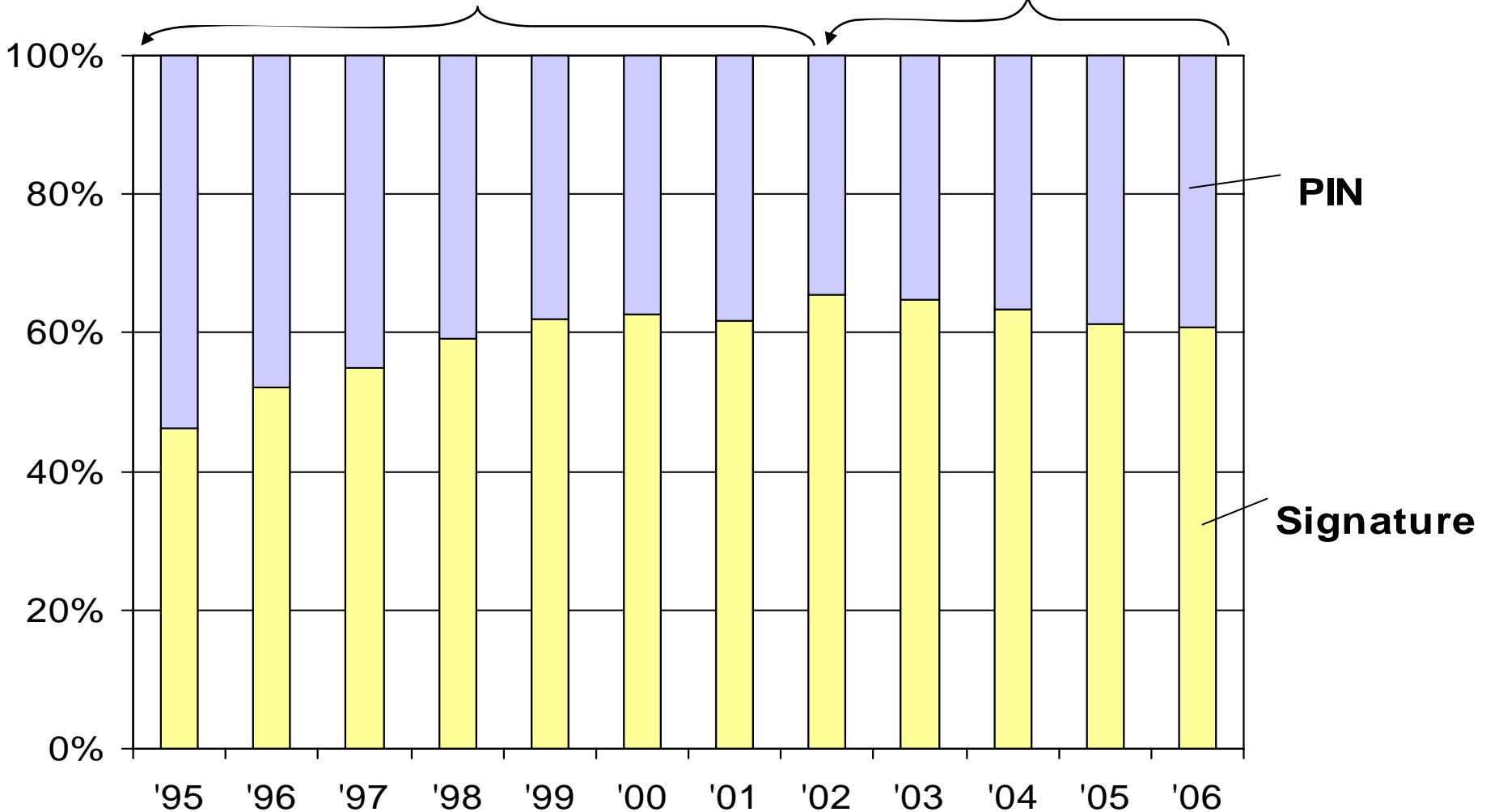
Market Share for PIN and Signature Debit



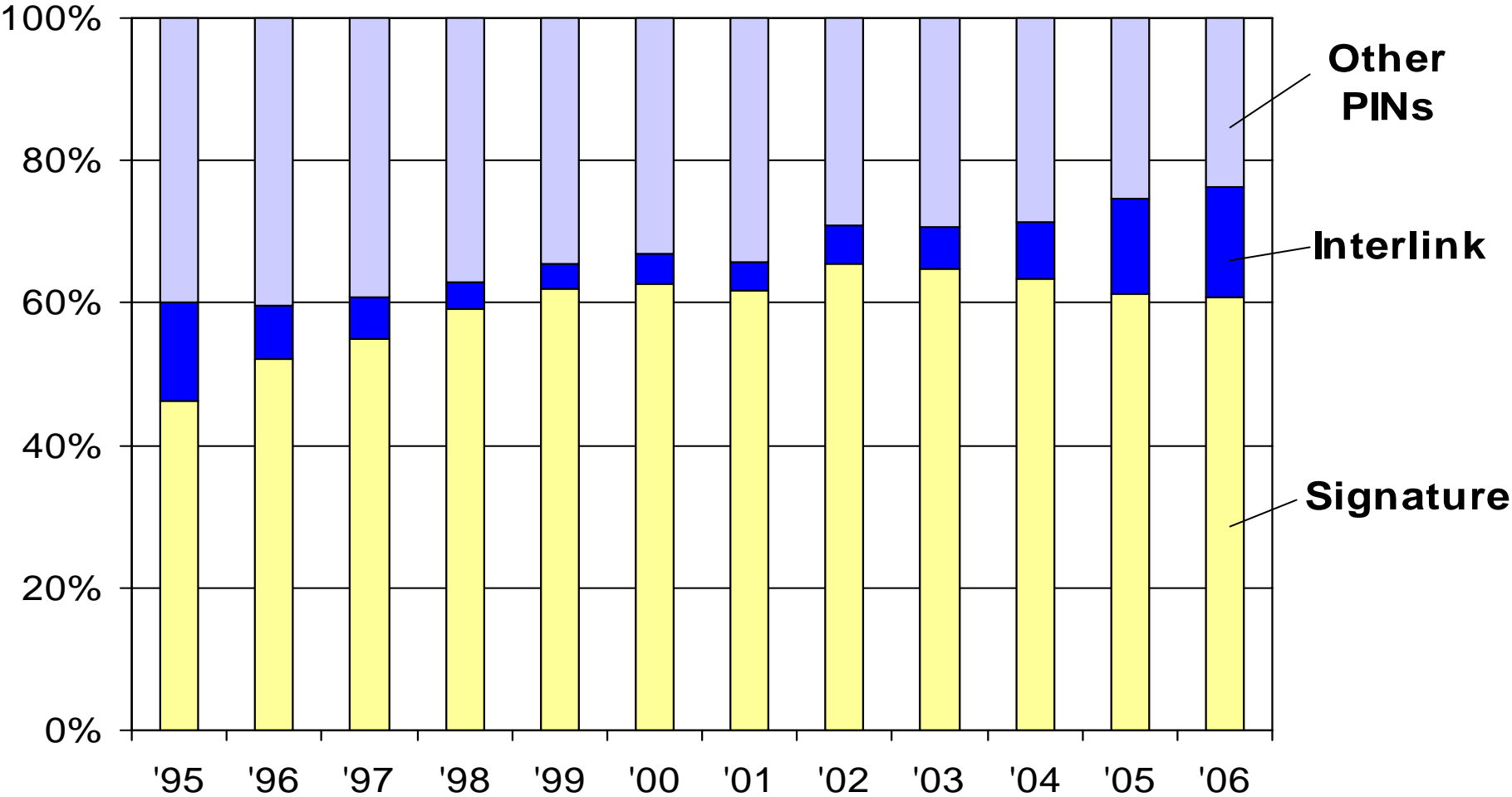
Market Share for PIN and Signature Debit

'95-'02: Signature gains relative to PIN

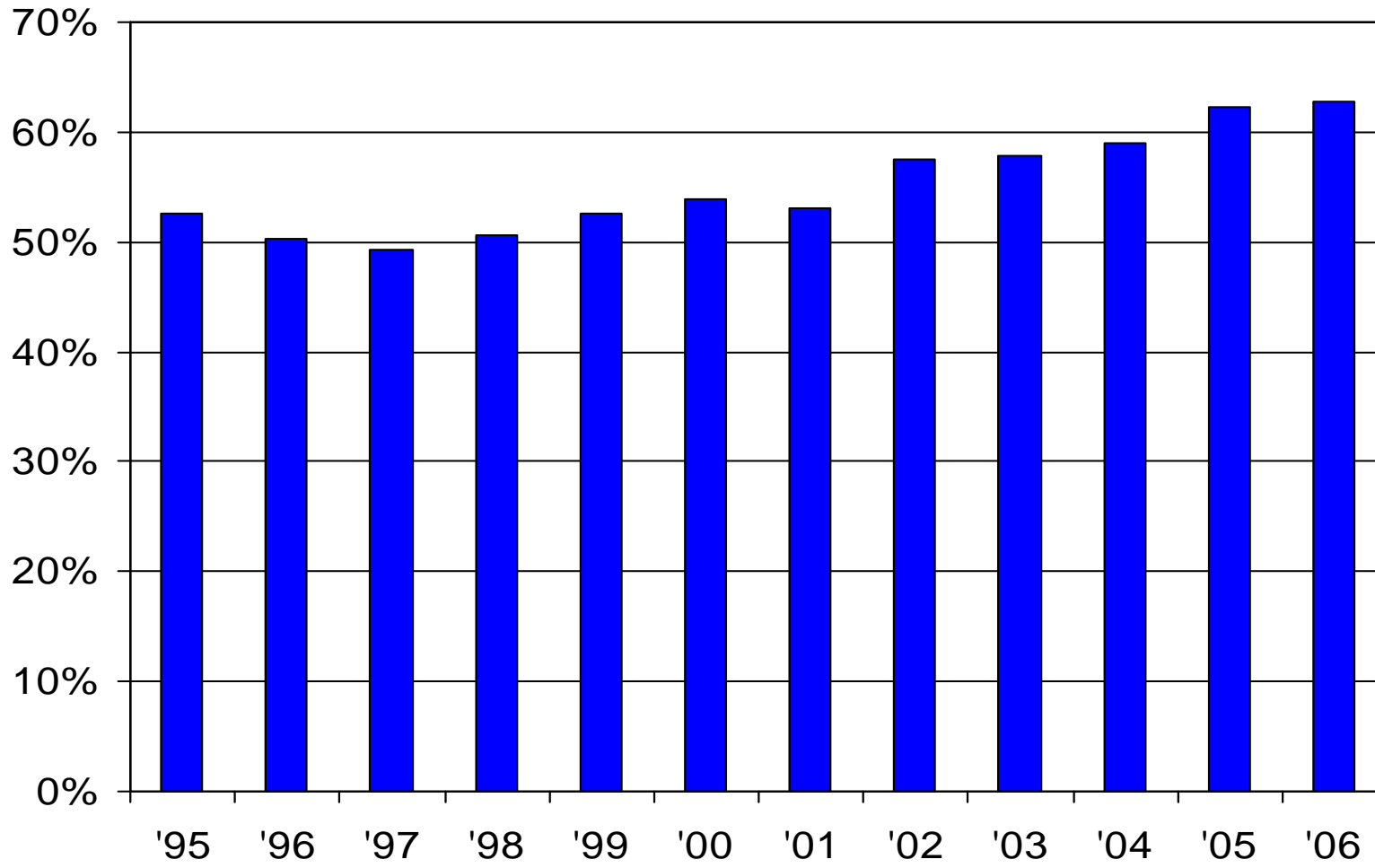
'02-'06: PIN makes a comeback



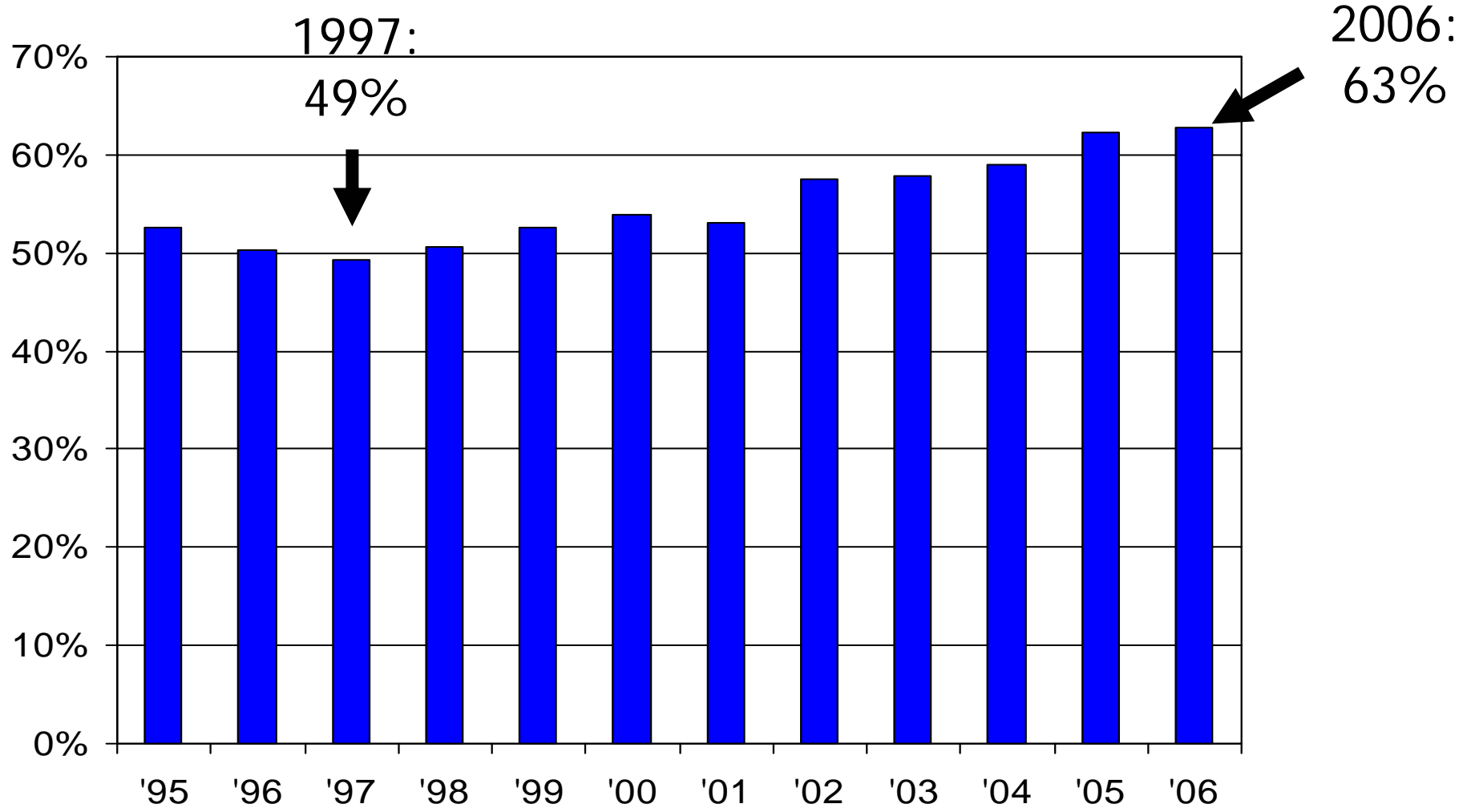
Market Share for Interlink, Other PIN Networks, and Signature Debit



Visa's Total Debit Share



Visa's Total Debit Share





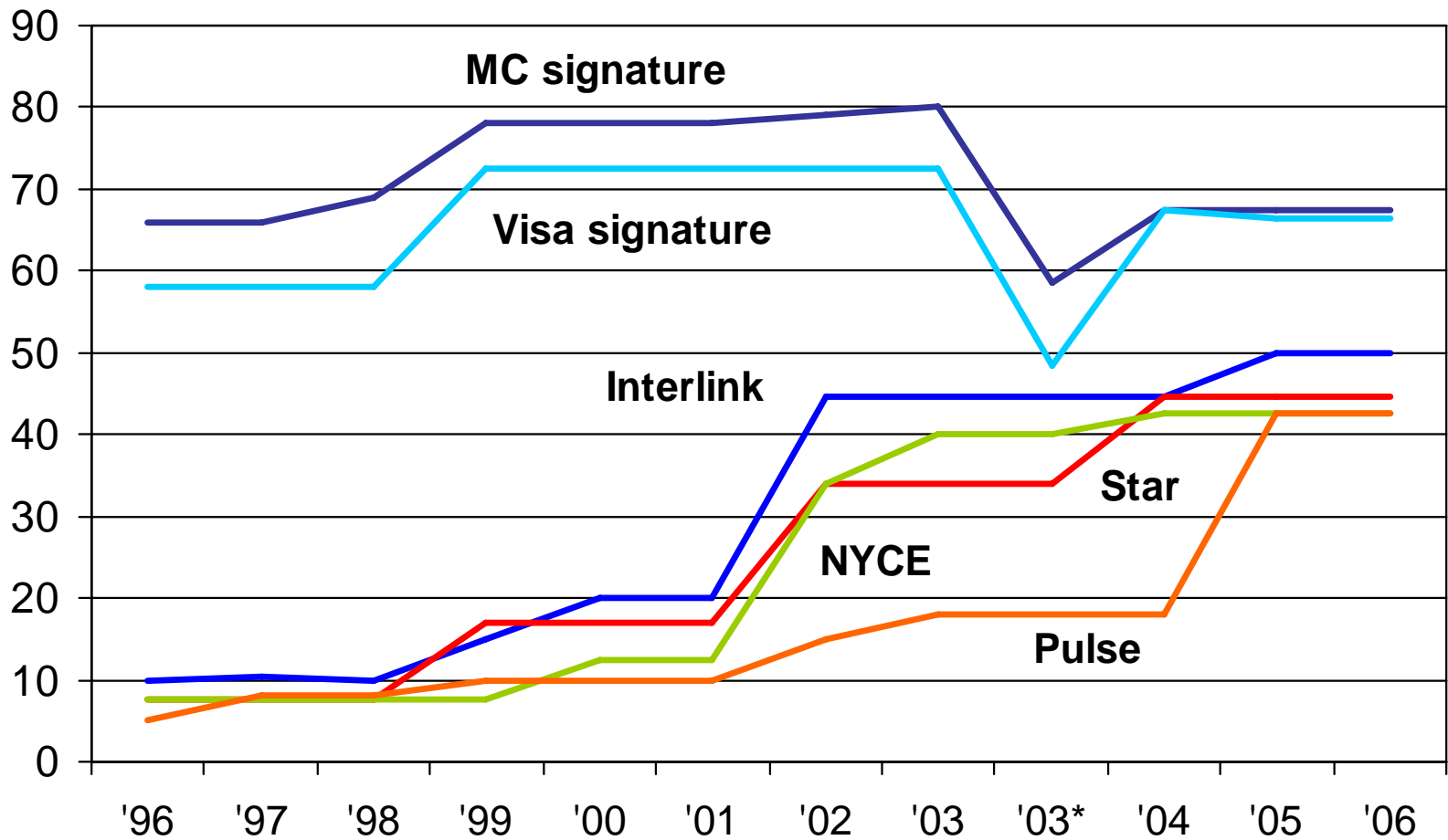
The Debit Market – Industry Recap

- Some signs of convergence of PIN and signature interchange fees
- Interchange fees a contentious topic
 - Kansas City Fed payments conference, Santa Fe, NM, May 2005 – proceedings available

Debit Card Interchange Fees

\$50 Transaction (Non-Supermarket) Default Rate

Cents





The Debit Market – Discussion

- Strong growth driven by:
 - Consumer acceptance
 - Merchant acceptance
 - Heavy promotion
 - Development of new markets



The Debit Market – Discussion

- Network competition: three competitive battlegrounds
 - Among regional PIN networks
 - Between regional and national PIN networks
 - Between PIN and signature networks



The Debit Market – Discussion

- Also, competition:
 - Among issuers
 - Among processors
 - From the ACH network



A Look Ahead – Data Security Issues

- Data breaches and fraud on the rise
 - U.S. as a target
 - Disturbing PIN debit breaches
- But the industry has advantages and is mobilizing



A Look Ahead – ATM Issues

- Industry adjustments
 - Networks: strategies to increase volume
 - Large FI's: high surcharges
 - Mid-tier and small FI's: surcharge-free alliances and networks
 - ISO's: economies of scale through consolidation
 - FI's and ISO's: expand ATM capabilities



A Look Ahead – Debit Issues

- Possible scenarios for the PIN-signature rivalry
 - PIN and signature maintain differentiated products and sizeable market shares
 - PIN and signature functions converge, making them essentially indistinguishable to consumers
 - PIN continues to gain on signature
 - Signature comes to dominate market



A Look Ahead – Debit Issues

- How might the interchange conflict be resolved?
 - Litigation
 - Legislation
 - Regulation
 - Industry Change



Federal Reserve Perspective

- Regarding interchange
 - Alan Greenspan: “The Board’s regulatory authority does not currently encompass regulating the interchange fees established by payments networks for off-line and on-line debit and credit card transactions.”
 - Tom Hoenig: “It is my experience in the United States...that we are very reluctant to intervene in terms of regulating prices, unless there is an overwhelming case to be made for doing so.”



Federal Reserve Perspective

- An safe, efficient, and accessible payments system is crucial for a smoothly functioning economy and, hence, is one of the primary missions of the Federal Reserve
- The Federal Reserve has promoted these objectives in multiple ways: through regulation, as a service provider, and through research and monitoring
- The U.S. retail payments system is in the midst of a transformation. The Federal Reserve must remain informed and involved.



Forthcoming Publication

- A Guide to the ATM and Debit Card Industry: 2006 Update
- Web downloads and hard copies will be available



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