

Nonbanks in the Payments System: Innovation, Competition, and Risk

2007 Payments Conference

Federal Reserve Bank of Kansas City

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Santa Fe, NM

Session 1: Nonbank Payment Activities: An Overview

Opening Remarks

Speaker: Richard K. Rasdall, Jr., First Vice President and Chief Operating Officer,
Federal Reserve Bank of Kansas City

Mr. Rasdall:

Good morning and welcome to this Conference on Nonbanks in the Payments System: Innovation, Competition, and Risk, sponsored by the Federal Reserve Bank of Kansas City. My name is Rich Rasdall and I am the First Vice President and Chief Operating Officer of the Bank. My role this morning is to chair the conference, which essentially means to keep us on time. I've already been informed that we are four minutes behind. So, we are going to make up that time by me being brief in my comments here this morning.

I hope not to offend any of our speakers, authors, or moderators by dispensing with any long introductions. But I will note that all biographical information on our authors, speakers, and moderators you will find included in your conference materials.

As Tom Hoenig noted last night, this is our second international conference on payments, hosted in what we think is one of the most interesting and unique locales in the Tenth Federal Reserve District. I

was approached three or four times last night at dinner and asked, “Why do you hold this conference in Santa Fe?”

And I said, “Well, because it is in our district. We have a number of beautiful spots in our District, but this certainly ranks near the top.” That is the reason for Santa Fe, New Mexico.

I hope you enjoyed the function last night – a wonderful dinner. Hopefully, you will have an opportunity to experience the scenery, the art, and the wonderful cuisine for which Santa Fe is known. For those of you who are returning this year for our second conference, you know that the setting and format offer opportunities for all participants – whether you find your way to the stage or as a member of the audience – to take part in this conference and to discuss and provide a variety and wide range of opinions and perspectives on the various issues that will come before us today and tomorrow.

To that end, we have built ample time into the program to voice your ideas, questions, concerns – whatever they might be. So please don’t hesitate to bring up ideas and issues that are on your mind. We will take brief breaks of the 10- to 15-minute variety after each session. So, we will have an opportunity to stretch our legs and share ideas and thoughts we may have with other conference attendees during those breaks.

Just a little bit about the motivation for and the flow of the conference. I certainly do not need to tell the experts assembled in this

audience that retail payments around the world are undergoing rapid and unprecedented change. One important aspect of that change is the increased prominence and the visibility of nonbanks.

The conference will open this morning with a summary of a joint project that was conducted by staff at the ECB and the Kansas City Fed over the past year. If you have had an opportunity to take a look at that paper, you know this study provides a broad picture of the relative importance of banks versus nonbanks in retail payments in both the United States and Europe. The evidence clearly shows the importance of nonbanks at almost every stage in the payments chain. The tremendous change in the payments arena is embodied in many significant innovations introduced by nonbanks and, in most cases, innovative payments services built on existing or traditional payment types, while in some other cases, they provide novel solutions.

Our second session this morning will examine issues surrounding nonbanks and innovation. Of course, banks have played a huge role in innovations as well and that will be part of that discussion.

For our luncheon address, we are honored to have Gertrude Tumpel-Gugerell from the European Central Bank. Ms. Tumpel-Gugerell will be speaking on “Modernizing Payments,” subtitled “No Pain, No Gain,” and we are certainly looking forward to her remarks.

Following lunch, we will turn to competition issues. Technological innovation can significantly alter market structure and

competition. This, along with the increasing importance of network effects in the payments industry and the growing prominence of nonbanks, raises several interesting issues. Two sessions of our conference will be devoted to these topics, specifically vertical and horizontal integration.

Changing technologies and changing market structures also have risk implications. The rising importance of nonbanks and the multiple roles they play, both at the front end and back end of the payments chain, have changed the traditional risk setting. Our first session tomorrow will address these issues.

Finally, the conference will conclude tomorrow with a discussion of central bank policy issues. Joining Tom Hoenig will be Philip Klopper from the Netherlands' central bank and Philip Lowe from the Reserve Bank of Australia. Issues to be addressed include: Should an increase in nonbank participation alter central bank payments policies? Do banks and nonbanks potentially require different regulatory approaches? And, finally, what incentives are in place for industry self-regulation?

We obviously have a lot of interesting topics and issues to cover in a day and a half. Without further delay, let's get started. In our first session, we hope to set a good foundation for the remaining sessions with a study of "Nonbanks in the Payments System." As I referred to earlier, this study was conducted jointly by staff from the European

Central Bank and our Payments System Research staff at the Federal Reserve Bank of Kansas City.

Please allow me to introduce Stu Weiner, vice president and director of our Payments System Research group in Kansas City, and Simonetta Rosati, senior market infrastructure expert from the ECB, to review the highlights of this study. Stu, if you will please.