

SLEEPING AND DREAMING OF ELECTRONIC PAYMENTS

by [Steve Brown](#)

It is exactly 4:03am and we are staring at a blank sheet of paper as we prepare to write the Banc Investment Daily. Thoughts swirl in the mind from conversations held with bankers, articles read on planes and data picked up at regulatory roundtables we attended. As we think about what to write, we close our eyes, lean forward and plop headfirst onto the keyboard - so, the day begins.

From time to time, the Federal Reserve will study trends in noncash payments, including estimates and trends in the use of noncash payment instruments by consumers and businesses. Such a study is underway right now and results are due later this year. In the meantime, it remains interesting to look back at the prior study, released just a few years ago to see what the future might bring.

As every banker knows, electronic payments are being used more frequently in transactions, where checks or cash once dominated the landscape. The question is - what issues should community bankers be monitoring?

Over the 3Y period analyzed, the total number of noncash payments in the country climbed 4.6% per year, rising to 93.3B transactions with a total value of about \$76T. Breaking things down further into major buckets, we find that while the numbers are dropping quickly (down 6.4% annually), checks paid electronically held the top spot at 33% of all noncash payments. That was followed in order by debit cards (27% of all noncash payments); credit cards (23%); automated clearing house "ACH" (16%) and electronic benefits transfer "EBT" or food stamps (1%). Of interesting note here, PIN transactions (a subset of debit card) were the fastest growing on an annual basis, surging 20.6%. Rounding out the rest of the top 3 were ACH at 18.6% and signature debit at 15.8%.

Taking a closer look at checks in particular, we note that the study found the number of checks paid fell 6.4% annually, while the number of checks written dropped 4.1%. Buried within the data above, the reason for the difference between these two data points is due to increased use of ACH to convert checks by billers and merchants to ACH payments instead.

Debit card analysis is also interesting. People still use their credit cards for larger ticket items, as the value of debit card payments is about 50% less than the value of the typical credit card payment. Whether that is because people feel safer using a credit card on more expensive items, or people just don't have enough cash in the bank to use a debit card, the jury is still out.

Going even deeper into the analysis, in addition to the strong growth of electronic payments, it is also instructive to understand where and how this growth occurs. For instance, the analysis shows that while payments made by debit, credit or EBT cards made up nearly 52% of all noncash payments, they only amounted to about 4% of the value. In contrast, while ACH payments were only about 16% of noncash payments, they made up nearly 41% of value. Clearly, the flow of money through ACH is a fire hose, while debit, credit and other cards look more like a garden hose. By example, there were nearly 22B payments made on credit cards for a total of just over \$2T, compared to roughly 15B payments made through ACH for a total of \$31T.

As we wind things up today, we note that business-to-business activity now accounts for about 93% of e-commerce transactions. Business focused banks know that to stay ahead in the electronic payments world, the first goal is to try and stay awake. While we are at it, sleeping on one's keyboard also tends to embed the alphabet on your face like a tattoo, so be careful.

BANK NEWS

1Q Earnings

US Bank reported that earnings jumped 26%, as credit loss provisions decreased, costs were reduced and revenue increased. Despite an increase in mortgage activity helping revenues, Regions Financial posted a \$196mm loss, compared to a profit of \$77mm last qtr. Part of the loss was a result of an 81% ALLL increase to 3.7% of loans. M&T Bank reported profits were up 10.3%, to \$151mm, due to lower credit costs, higher net margins and improving credit quality. Zions reported a loss of \$87mm, from \$852mm. The lower loss was a result of slower charge-offs and loan loss provisions. First Horizons reported a loss of \$12.7mm, compared with a prior-year loss of \$67.8mm. Despite higher restructuring charges and a decrease in revenue, ALLL abatement helped earnings.

Housing

Fannie Mae reports that while the housing market is stabilizing, excess inventory continues to hinder a recovery. FNMA projects economic growth of 3.1% for 2010.

Branch M&A

Hebron Savings Bank (\$446mm, MD) will purchase a branch from Bay National Bank (\$293mm, MD), including \$13.5mm in deposits (excluding CDs) for a 3% premium and some loans.

Payment Mall

In an odd twist, MasterCard will open an online shopping site. While perplexing, the plan is to use predictive analytics based on card purchases to specifically target customers in almost a customized shopping experience.

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