

OLIVER WYMAN



FEDERAL RESERVE BANK OF PHILADELPHIA

Financial Services

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**Government acceptance
of payment cards**

The consumer's perspective

Tim Spence

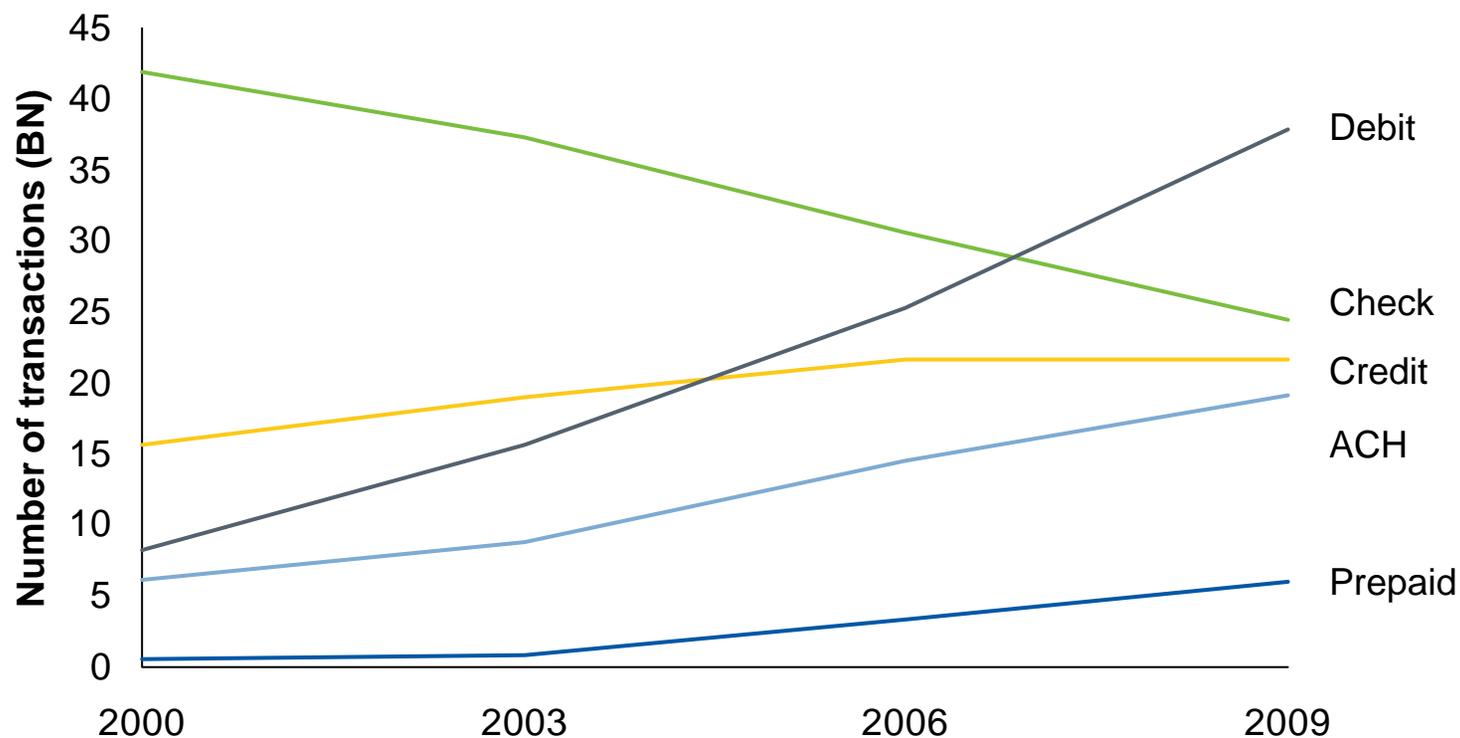


Summary comments

- From inception, government acceptance of payment cards has been a boon for consumers
- Based on recent research, over 75% of consumers already use or would consider using cards to pay for government services
- However – with few exceptions – empirical uptake significantly lags nearly all private sector categories
- While demographic and cultural shifts will provide a tailwind, increasing government payment card volume will require addressing underlying consumer needs and concerns

Credit and debit cards have come to dominate U.S. consumer non-cash transactions

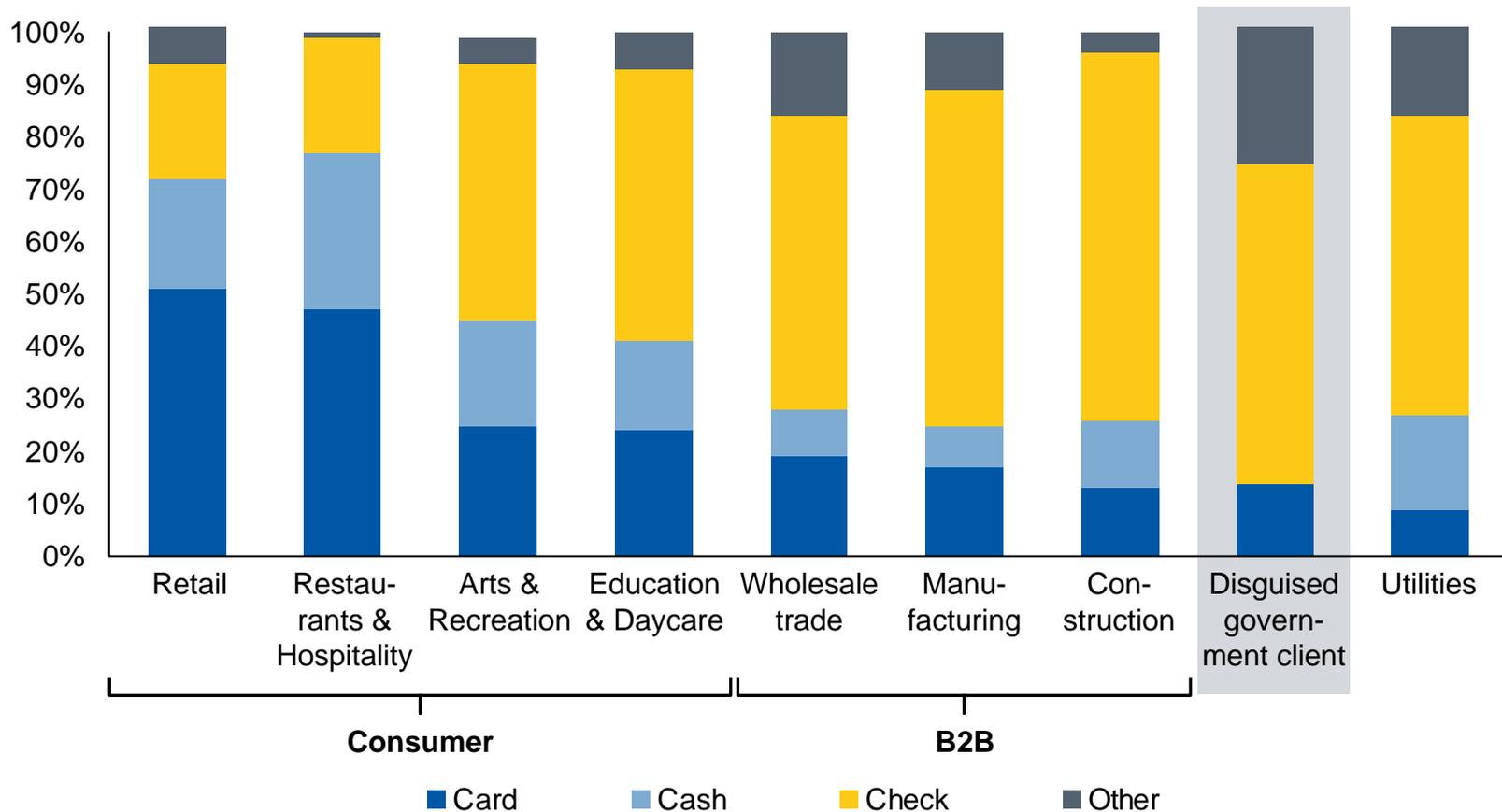
Number of annual US non-cash transactions¹



1. 2000, 2003, 2006, and 2009 data are presented as these are the most recent data available from the Federal Reserve, the definitive source of payments information. Studies are conducted every three years
2. Check transactions represent number of checks paid (the number of checks written declined less rapidly than the number paid)
3. Debit transactions include both Signature and PIN based debit
4. ACH stands for Automated Clearing House, an electronic network for financial transactions
5. In 2000 and 2003, only prepaid EBT was counted. The 2006 Studies count prepaid as EBT, one-time use gift cards and general purpose open-loop prepaid cards

...and yet card payments for most government agencies lag other consumer and B2B sectors

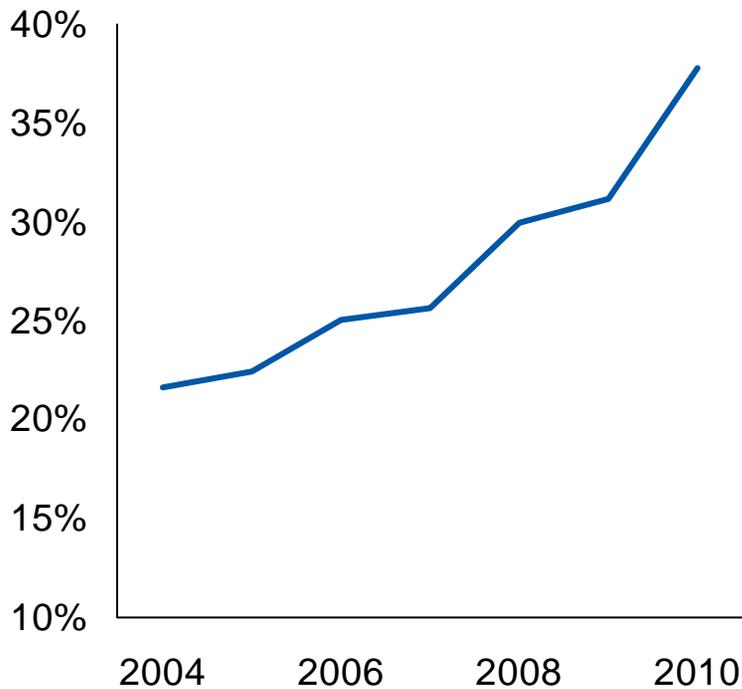
Payments mix by sector



Source: Oliver Wyman 2011 Business Finances Survey Analysis, client experience

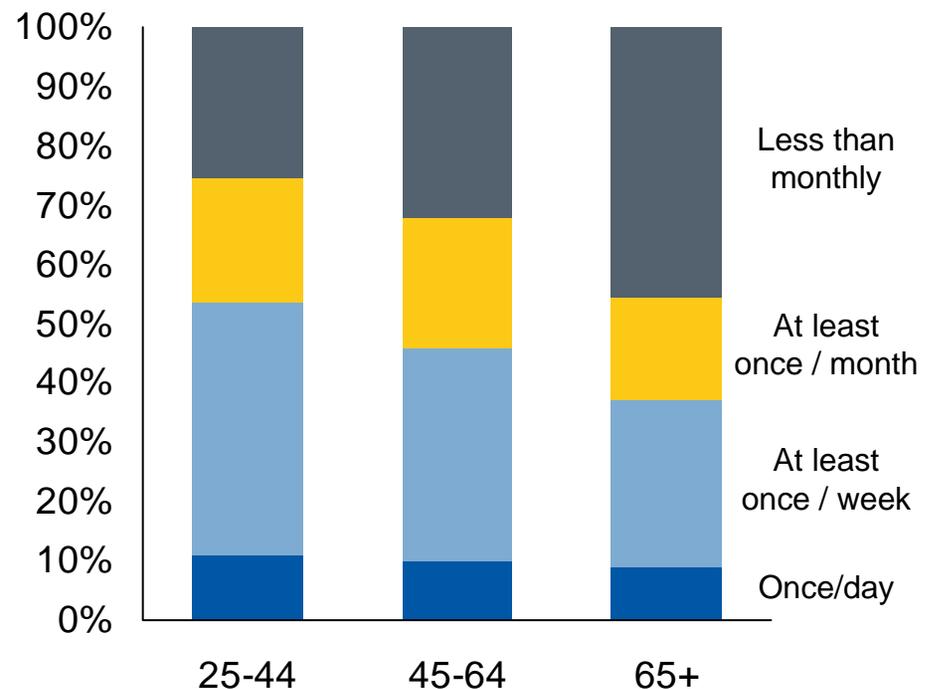
Continued adoption of the internet as a tool for managing finances should provide positive momentum...

Use of online tax filing
 % of individual income tax returns filed online



Note: Includes the Form 1040 series. Online filing defined as an individual using a home computer via filling out a form on a website or through personal tax software
 Source: IRS.gov TaxStats

Use of online banking
 Frequency of online banking usage by age (2008)



Source: Oliver Wyman proprietary consumer preference survey (n=3,700)

Stimulating more rapid growth will require addressing underlying consumer needs and concerns

Key categories of consumer concerns

Security and ease of use

- General distrust/concern over electronic payments
- May wane with continued demographic shift toward Gens X and Y

Timing and control

- Inability to control when payment is debited from checking account or applied to revolving balance

Government access

- Concern over how the government may use its access to the individual's debit or credit card number

Cost

- Typical range is 1.5-2.5% of the transaction value
- Final Durbin rules for debit may help create a lower-cost alternative and put pressure on credit convenience fees





For any questions, please contact

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