

Payments 2020 Outlook: Desired Outcomes and Alternative Paths Forward

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Discussion Outline

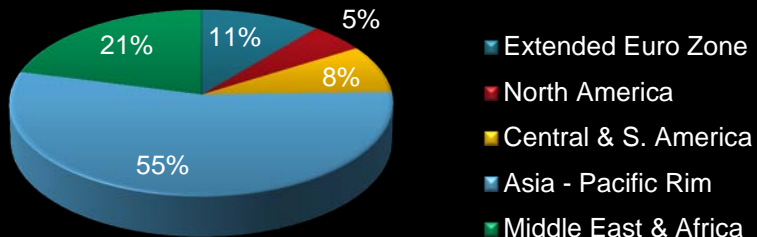
- Setting the Stage
- Desired Outcomes
- Alternative Paths Forward

Setting the Stage

- Population growth will drive significant changes to the payments system ...
- As will the expansion of mobile commerce ...
- But stresses on the domestic payments framework will limit broad-based innovation

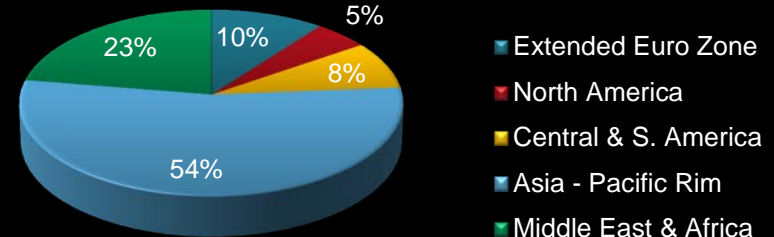
Population Growth will drive significant changes ...

Estimated World Population -- 2013 Top 100 Countries by Region



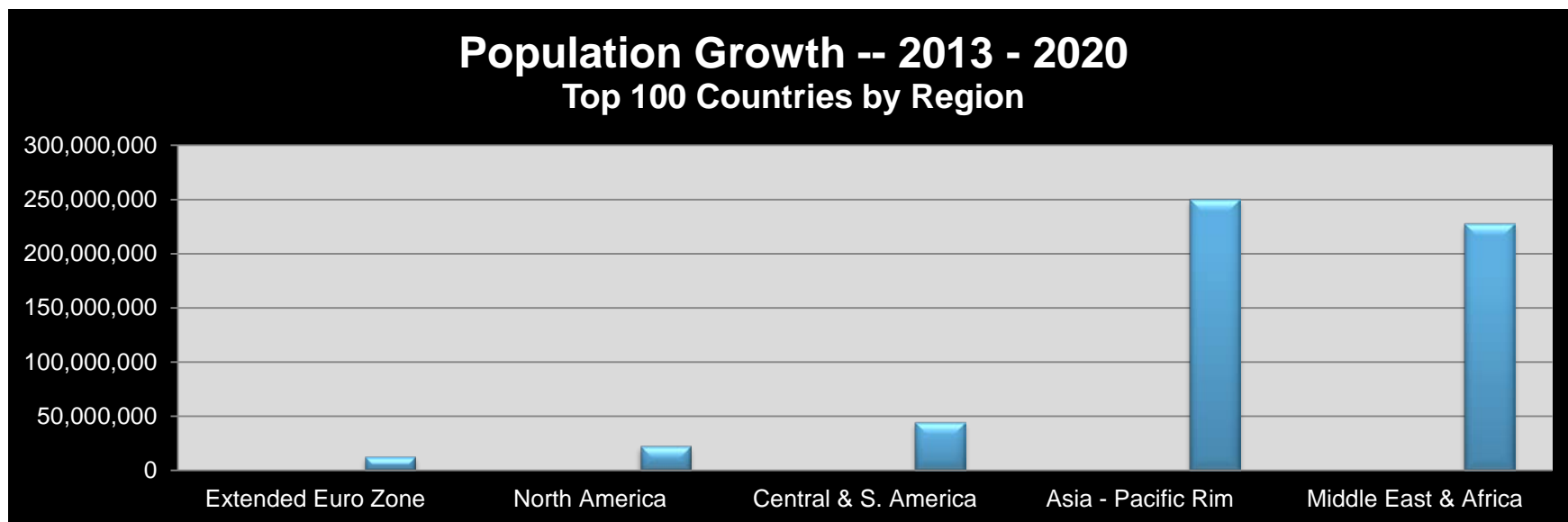
Source -- Central Intelligence Agency World Fact Book, 2013

Estimated World Population -- 2020 Top 100 Countries by Region



Source -- Central Intelligence Agency World Fact Book, 2013

Some interesting facts ...



- More people will be added to the world's population than exist in the US today
- In less than 10 years, Europe and the US will comprise less than 15% of the world's population
- Together, India and China will add more than 8 X the number of people as will be added to the US population

Expansion of mobile commerce ...

- ❖ Mobile payments and e-commerce will command an increasing share of payments volumes ...
 - Mobile payments forecasted to grow from \$10B to \$545B in 6 years ...
 - E-commerce expected to grow at 15% CAGR to reach \$3.4T by 2016 ...
 - From 2011 to 2015, the number of smartphone users is expected to more than double to 1.5B, worldwide ...
 - 5.2B people worldwide have access to mobile phones, more than have access to the internet or electricity!
 - Mobile phones can provide enhanced security ... knows who you are, where you are, and how you use its features

According to IBM, mobile is much more than a channel ... making many banks think “mobile first”

A system of components

- Touchscreen
- WiFi, cell, bluetooth
- Two output ports
- Four Input buttons
- Level, GPS, compass
- Two cameras
- Flash/light
- Two speakers
- Microphone
- Power system
- Data port
- Storage
- Compute platform
- Plus whatever is in the case, your pocket, your ear, your house, your client, ...



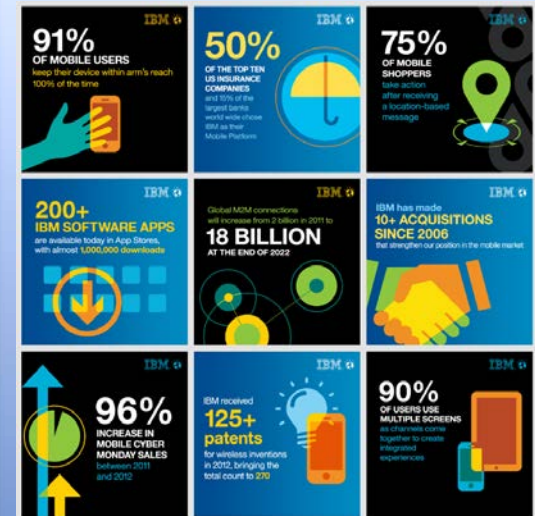
A platform for apps

- Retail transactions
- Commercial transactions
- Banking services
- Client tools
- Payment control point
- Education and advice
- Employee support
- Data collection



A cognitive prosthesis

- Communicate
- Search
- Learn
- Store
- Recall
- Protect
- Share
- Emote



But the payments framework is under extreme stress ...

- ❖ Challenges from virtually every front ...
 - Innovators ...
 - Merchants ...
 - Legislation ...
 - Regulation ...
 - Organized Crime ...
 - Nation State Cyber-attacks ...
- ❖ ... are constraining the industry's ability to effectively address system-wide payments evolution and modernization

So, what's next ... what path should we pursue?

- ❖ Welcoming the leadership of the Federal Reserve ...
- ❖ Broadly stated goals of “Payment System Improvement – Public Consultation Paper.” ...
 - Strategic Industry Engagement of ALL Participants
 - Ubiquitous Real-Time Retail Payments
 - Improved Payments System Efficiency
 - Improvements in Cross-Border Payments
 - Enhanced Payments Safety and Security

... but how about alternative path?

- ❖ Desired Outcome: a safe, open, standards-based electronic payment capability that ...
 - provides for timely and reliable value exchanges,
 - is inter-operable with worldwide payments networks,
 - facilitates both immediate and deferred value transfers by either mobile or on-line methods
 - where risks and value are balanced, and
 - enables innovators inside / outside the payment system to create new value opportunities

An Alternative View: a New Payment Platform (6th Rail)



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- A new American payments channel, built upon the following principles ...
 1. Standards-based, and thus OPEN to innovators and developers to produce new products and solve unmet needs
 2. Information-rich
 3. Internationally-capable ... particularly, compliant with ISO 20022
 4. Able to accommodate both credit push & demand pull payments in real-time, both high value & low value payments
 5. And thus, must embrace the fundamental tenet that credit is given ONLY upon receipt of good funds, and ...
 6. Compensation is provided to each participant in proportion to the value they contribute to the system
 7. Corollary: cost is charged to each user of the system in accordance with the speed, risk, and value they glean
 - Note: There was diverse discussion on points 5, 6 and 7 that highlights the potential need for follow-up discussions.
- Which will provide the following benefits ...
 1. Lower overall friction in the payments system
 2. Improved international growth prospects for American companies and FI's
 3. Improved risk management
 4. And much better information delivery which can be leveraged for further banking and commercial value