

Payments Executive Brief: New Driver of Payments Growth: Fed Study Shows Debit Transactions As Opportunity for Community Banks

Payments is a \$100 trillion industry—and growing, according to the [2019 Federal Reserve Payments Study](#). The latest iteration of the Fed's triennial study showed that in 2018, noncash payments¹ amounted to \$97 trillion, with transaction volume reaching more than 174 billion. That kind of market opens new opportunities for community banks, the details of which shine through in a deeper dive into the data.

An Unlikely Payments Driver

While it might not be surprising that payments continue to rise in value and number given inflation and the ease with which we can now make payments as a result of e-commerce, digital wallets and payments apps, what is fueling the upturn may be. For years, an accelerated growth rate around credit card purchases and credit-based transactions fueled payments progress. And even now, with the advent of real-time payments, which leverage credit-based payment models, credit transactions stand to potentially power the acceleration of payments. But the latest Fed study figures reveal valuable insights. The data shows that debit is influencing much of the recent payments growth.

Debit Cards are Now the Largest Segment of Payments

According to the latest statistics, debit card payments now make up 50 percent of all noncash payments, with credit card payments coming in second at 26 percent. That equates to a total of 86 billion debit card transactions, an increase of 18.6 billion (8.9 percent per year) since 2015 and 30 billion since 2012. Overall, debit cards were used almost twice as often as credit cards in 2018.

According to research, consumers overwhelmingly prefer easy and convenient transactions. More than 65 percent of consumers cite these as the main drivers behind their choice in payment method. With the expanding use of debit cards, it is clear this payment option is providing the ease of use and convenience consumers expect with their transactions.



Remote Payments (Often Supported by Debit Cards) Now Rival In-Person Payments

Ease and convenience are also driving another payment option: remote payments. They are skyrocketing in popularity, and volume grew 20.5 percent per year from 2015 to 2018, compared to 5.8 percent per year for in-person payments. And the value of these transactions, \$3.3 trillion, is now equal to the value of in-person transactions.

Behind that escalation lies e-commerce transactions and recurring bill payments. E-commerce transactions climbed more than 21 percent per year from 2015 to 2018, and recurring bill payments added almost 20 percent per year over that same time period. And today, the preferred payment instrument for these online transactions is debit cards. It is the preferred payment method for all consumers, including Millennials and Gen Z, who make up 25 and 27 percent of the U.S. population, respectively.

At roughly 162 million people, Millennials and Gen Z serve as a potent economic force, and with their love for debit cards and digital/online transactions, the heightened use of debit cards for remote payments is sure to continue.

ACH Debits Surpass Check Payments

As digital payments increase, check payments will continue to decrease. Although the decline has been relatively steady over the past decade, the volume of these payments has always outpaced ACH debits—until now. For the first time, ACH debits outnumbered check payments in 2018, with recurring bill payments and bill pay at biller sites driving much of the growth.

In 2018, ACH debit transfers reached nearly 17 billion, while check payments amounted to 14.5 billion. To put this into perspective, there were 2.1 billion ACH debit transfers in 2000 compared to 42.6 billion check payments. With steady boosts year over year—4.8 percent from 2012 to 2015 and 6.1 percent from 2015 to 2018—the trend towards expanding ACH debit use is likely to continue.

The Debit Opportunity for Community Banks

Debits are a force within payments, but how can community banks best leverage this information? To take advantage of debit opportunities at the point-of-sale and online, community banks should:

- Provide customers with debit card products that meet their needs. The fact that debit card transactions account for the largest portion of noncash payments means there is significant opportunity to garner a greater share of that revenue pot.
- Ensure debit cards are compatible with the latest technologies like Apple Pay and Google Pay so consumers can add your cards to their mobile wallets for convenient online transactions. An estimated six in 10 Gen Z and Millennials report using a mobile wallet, with almost half using the technology at least a few times per month. Having your card products compatible with the most popular mobile wallets will help you earn a spot in wallets of the most impactful consumer segments.
- Consider enhancing loyalty and reward programs to encourage top-of-the-wallet placement. Many consumer segments are motivated by rewards programs, so consider offering programs that provide choice and flexibility to gain a competitive advantage over other programs that may be limited in their offerings.
- Integrate self-service cardholder controls—including transaction geography restrictions, blocks, alerts, and limits—to enable customers to manage their payments and reduce fraudulent activity.
- Enable ACH payments as part of your mobile/online banking platforms. ACH debit use continues to increase as consumers move away from checks. Allowing customers to pay via ACH affords them the ease, convenience and security they seek when making payments.



The payments industry is growing every year, as evidenced by the results of the Federal Reserve's new triennial study—and debit is playing a large part in that. Position your bank to take advantage of the significant opportunity these new findings present.

Whether it's through new or enhanced debit card products, expanded payment options within online banking platforms or enriched loyalty programs, ICBA and ICBA Bancard can help. To learn more or for resources to support your payments strategy, visit [icba.org/payments](https://www.icba.org/payments).

¹ Noncash payments are defined as credit cards, prepaid and non-prepaid debit cards, the automated clearinghouse (ACH) system and checks.