



THE Payments *advisor*

Helping You Build Your Business and Better Your Bottom Line

A Snapshot of the U.S. Payments Landscape

In 2001 the Federal Reserve System attempted for the first time in more than 20 years to directly estimate the volume and value of checks and other retail payments in the United States. The purpose? To document the size of the U.S. retail payments system and quantify the opportunity for migrating paper check payments to electronic instruments.

49.6 Billion Checks

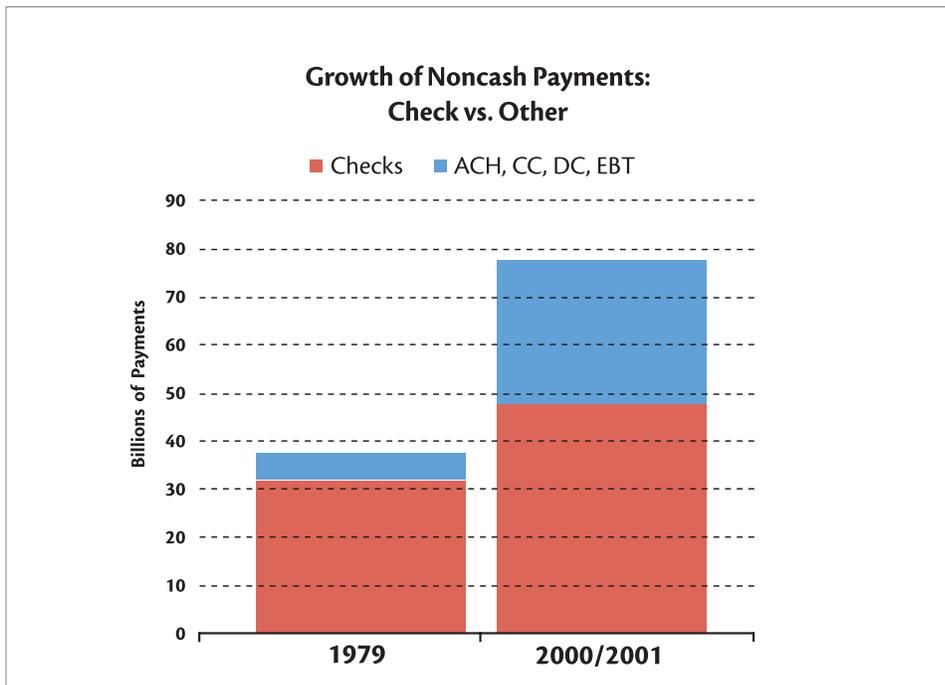
The study was undertaken in three parts. The *Depository Financial Institution (DFI) Check Study* estimates the total annual volume and value of check payments in the United States. The estimate was constructed using data on paid checks collected from 1,293 institutions over a two-month sample period. From this effort we learned that Americans wrote 49.6 billion checks in 2001. A 1979 study estimated that 32 billion checks were written that year, which tells us that check usage grew at an annual rate of 2 percent between 1979 and 2001.

Checks written in 2001 represent \$47.7 trillion in payments. Interestingly, the average value per check, adjusted for inflation, has dropped since 1979.

The DFI Check Study also gathered data on the methods used to clear and settle checks. Findings reveal that about 30 percent of checks are “on-us,” meaning the bank of first deposit for these items is also the institution on which they are drawn. Of the remaining checks cleared and settled between financial institutions, more than half are cleared through the Federal Reserve. About one-quarter are cleared in clearinghouses, with the balance cleared through other methods.

Consumers Write the Most Checks

The second part of the study, the *Check Sample Study*, complemented the DFI



Check Study by characterizing check payments according to payer, payee and purpose. Specifically, the results identify who (consumer, business or government) writes checks to whom (consumer, business or government) and why (remittance, point-of-sale, income or casual payments). The project collected data on 28,877 randomly selected checks deposited at 149 institutions that were randomly selected within categories based on size and charter. The participating institutions answered a 21-question survey for each check selected.

The Check Sample Study found that consumers are the predominant check writers and businesses receive the majority of checks. However, consumer-written checks account for only a small portion (19 percent) of the total dollar value of check payments. By value, businesses are both the biggest writers and receivers of check payments. Checks written by businesses represent 62 percent of total check

dollar value. In fact, taken alone, business-to-business checks account for more than 40 percent of the total value of check payments.

Electronic Payments Use Growing

The third major part of the retail payments research project is the *Electronic Payment Instruments Study*. This effort estimated the total transaction volume and dollar value of payments for credit

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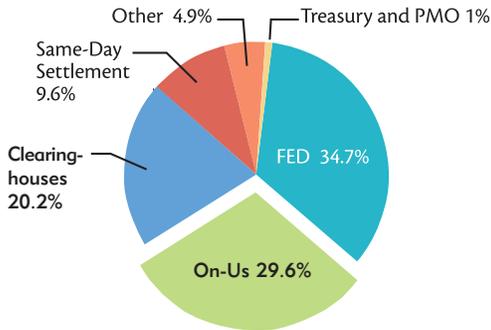
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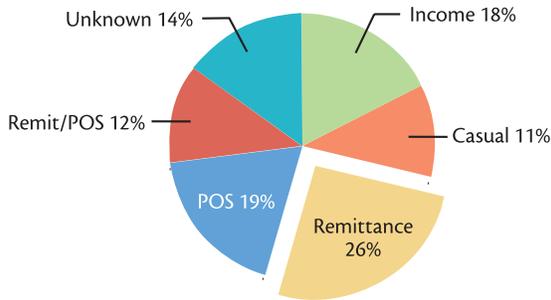
Payments Landscape continued

Distribution of Volume by Presentment Method

Total Check Volume: 49.6 billion



Check Volume by Purpose



cards, debit cards, ACH payments and Electronic Benefits Transfer (EBT) payments for the year 2000. Based on data gathered from leading electronic payments processors, it is calculated that nearly 29.5 billion electronic payments were originated in the United States during the year 2000, with a value of \$7.3 trillion. Credit cards

represent the most common form of electronic payments, accounting for 15 billion transactions, or 51 percent. Debit cards are second, followed by ACH transactions. Although ACH is third in terms of number of transactions, ACH transactions account for more than three-quarters of all retail electronic payment value.

Implications

Where do opportunities exist for migrating paper check payments to electronics? Research data show remittance and point-of-sale payments written by consumers offer the most significant opportunities for substitution, as these are the largest categories of checks written today. This implies that usage of ACH, credit cards and debit cards is likely to grow in the near future.

Given the large number of checks still being written in the United States and the increased use of electronic payments, businesses and financial institutions must maintain multiple payment channels for the foreseeable future. Even though check use will diminish, it will continue for some time to come.

Despite the nearly 50 billion checks written in 2001, it appears that Americans are truly changing their historically conservative use of payment methods. The fact that 29.5 billion electronic payments were initiated in 2000 indicates clear acceptance by consumers and businesses. Use of credit and debit cards and ACH transactions has grown exponentially in the last 20 years, by some 500 percent since 1979. This trend demonstrates that electronic forms of payment will become more prevalent and

You made it possible

Thanks to all the Ninth District financial institutions that contributed to this effort! Your willingness to participate in data collection has led to this enlightening snapshot of the payments system. We plan to repeat this research at a later date and build a trend line that will enable both industry stakeholders and the Federal Reserve to track changes in how Americans choose payment instruments and support an evolution to greater efficiency.

Claudia S. Swendseid
Senior Vice President

increasingly will be a requirement of doing business for U.S. companies and financial institutions.

To Obtain Copies

We invite you to learn more about this important research study. Details are available on our Web site at www.frbsecurities.org. If you would like a hard copy of the results, contact Betsy Freeman at 612-204-6942 or betsy.freeman@mpls.frb.org.



Cost-Benefit of Availability: Getting Your Money's Worth

BY LEIGH BOHN
Sales Manager

Permanently lowering costs is almost always an objective for our businesses. This is true even more so today when it seems we're asked to squeeze each dime a little harder!

Lower costs or better availability?

Does choosing lower costs or better availability have to be a tradeoff? Do you feel forced to choose between the two now that lower interest rates have put pressure on your operating margins and cost reduction is a driving force?

Why not take a look at the items you send to your correspondent banker and ask, "Can I achieve higher overall cost savings through the Federal Reserve?" In many cases Federal Reserve check services offer both the lowest costs as well as the best availability on the majority of your items. By looking at overall value, including adjustments and settlement clearing costs, you can probably enjoy a more cost-effective solution by relying on the Fed's check deposit and return services.

Consider the following tips for getting the best use of your operating dollar.

Leverage Work Types

At first, you may decide to send the Fed only certain checks, perhaps items that get a better price in a group sort or a fine sort, while keeping the rest of your items with your correspondent. You may be able to leverage specific work types at the Fed and maintain your correspondent relationship, while cutting costs and improving availability.

Save Time and Money With Electronic Presentment

At the same time you are managing costs, why not position your bank for the future by using electronic check services to further lower your internal operating expenses?

Our customers are always impressed with the amount of time and internal cost savings derived from using MICR Presentment and Truncation. If your in-



clearings volume is substantial, your opportunity for reducing ongoing expenses is great.

Using electronic check presentment services lets your staff accomplish other priorities in the time they save, such as enhancing service to your customers. In fact, we've found financial institutions save anywhere from 15 minutes to two hours per day in labor costs when they subscribe to electronic presentment services.

Another way to achieve cost savings is to eliminate some, or all, of your processing equipment by using the Fed's MICR Presentment or Truncation services. This may be an excellent solution for your business, especially if your equipment is old, unreliable or inefficient, and you're faced with expensive replacements and growing maintenance costs.

With MICR Presentment you can post your customers' accounts from the electronic file you receive from us, allowing you the flexibility to run the physical items at your convenience. With Truncation, you won't need to process the physical items at all because the Fed will hold them for 60 days and the images of those items for seven years. As a result, you not only save on hardware maintenance fees, usage charges, supplies and repairs, you also realize cost savings on postage when sending your customer statements.

These are some of the ways to improve your operating margin when times are tight. By lowering check processing expenses for the long term and improving availability of your current transit work, you leverage each operating dollar to the maximum. Call your account manager to learn more about how we've helped other financial institutions cut costs and how we might help you. 

From Our Customers...

"The Fed has a very prompt process for resolving and communicating about adjustments, and it rarely makes errors in processing our cash letters. In the total picture, we find the Federal Reserve is cost-effective and provides very high quality service when compared to other alternatives in the Twin Cities marketplace."

FRED HOLZAPFEL
Vice President
Anchor Bancorp
Apple Valley, Minnesota

"It is hard to imagine doing business without the Minneapolis Fed or FedLine. Their check deposit and return services work great for us. We receive our deposit credits timely, and our early morning MICR file enables us to memo-post our cash letter before we receive the actual customer checks."

ELLEN THOMPSON
Vice President of Operations
United Bank
Osseo, Wisconsin

Return Item Services Are Not All the Same

BY KEN THEISEN

Assistant Vice President, Check Services

BONNIE SIZER

Check Operations Support

Selecting the right return item processor has important implications for your bottom line. Speedy and accurate handling of check returns will minimize potential losses by avoiding delays in getting a dishonored check back to the bank of first deposit. This not only saves you money, but makes the most efficient use of your operations staff as well.

Consider the following issues when evaluating your return item service.

Delivery Network and Deposit Options

Can your processor ensure that your return items are received by the bank of first deposit in accordance with Regulation CC 229.30 (a)(1)? This requires a large delivery network that is consistently on time. If your returns are being presented late, you're not getting the service you need to minimize risk to your institution.

Speedy return service is enhanced by multiple deposit deadlines. How many deadlines per day does your processor offer and how many days per week is the service available? Remember, when it comes to returns, risk increases with every hour and every day. More deadlines means faster service.

Your options for sorting and depositing

return items should also be considered when evaluating processors, since these options affect your processing costs and internal operations. Does your processor accept qualified and unqualified return items?

How many sorting options are available and at what prices? You should have the opportunity to buy as much or as little service as you need, taking full advantage of your internal resources to achieve lower costs, if desired.

Accurate Delivery

When an item is not returned to the proper location, it creates headaches for your staff because the return has to be processed again. Minimize your loss from late return items by assuring that your service provider is moving your return items in a timely fashion and in accordance with Regulation CC.

Competitive Availability

Consider more than per-item fees when evaluating a return item service provider. Sacrificing an extra day of credit availability impacts your bottom line, too. Not all processors offer the same availability when it comes to returns. Better availability is money in your pocket. Besides, willingness to offer better availability probably reflects a commitment to fast and accurate processing, right?

Customer Service

Quality of customer service is always an important consideration when choosing a service provider. What are the provider's

service hours? How knowledgeable and experienced is the staff? Ask your provider for processing and customer service statistics, even for references.

Other Returns Services

The "extras" are where many processors differentiate themselves. What special services does the processor offer and do they meet your organization's special needs? Some services to look for include:

- Large-dollar return notification to fulfill your requirement of providing notice of nonpayment for return checks of \$2,500.00 or more.
- Electronic access for efficiently sending return item notices.
- Returns reclear, which speeds the re-deposit service and eliminates work for your staff.

The Federal Reserve has been providing check return services for over 40 years. We have a proven track record for timely and accurate processing of return items at competitive prices. In addition, we offer a wide variety of deposit options as well as service extras. If you're not satisfied with your return item service, give us a call. Let us show you how top-notch returns service can improve your bottom line. 📞

More From Our Customers...

"We clear our check adjustments via FedLine. When there is a problem, the staff at Fed Adjustments is very helpful and easy to work with. The turnaround time is fantastic, usually within 24 hours."

MARY JO KLICK

Assistant Vice President, Operations
American Heritage National Bank
Long Prairie, Minnesota

"We enjoy a strong business relationship with the Helena Fed and are appreciative of their willingness and ability to go above and beyond the call of duty to assist us on a multitude of issues. The ultimate benefit is the resulting service and delivery to our customer."

JERRY ANDERSON

Vice President and Senior Accounting Officer
Stockman Bank
Miles City, Montana

"A few years ago, Annandale State Bank left the Fed to use another provider for check deposit and return services. After a couple years we returned to the Fed. The other provider was not able to provide timely returns; sometimes there was a four- to six-month delay. Since returning to the Fed we find that the Check Adjustments Department is very dependable."

PAUL W. GANDRUD

Vice President, Annandale State Bank
Annandale, Minnesota

A Consultative Approach to Building Your Business

Are you interested in obtaining image CDs of items drawn on corporate checking accounts? Would you like to provide images of your customers' checks on your Internet banking site? Perhaps you'd like to explore which sorting and deposit options are most cost-effective for your financial institution?

Your Federal Reserve account manager can help. The sales staff at the Federal Reserve Bank of Minneapolis and its Helena Branch represent over 100 years of industry experience. The Federal Reserve uses a consultative approach to sales. We listen to your vision, evaluate your needs, and help weigh the various solutions available to your financial institution.

What Stands Out About Our Check Services?

You don't pay additional settlement or accounting fees to the Federal Reserve. Adjustments are resolved quickly and accurately. You receive immediate availability on encoding errors. The Fed provides reliable presentment of your items. And we offer availability that is notably better than the competitors.

In addition, our customers told us in a recent survey that it's "easier" to submit cash letters, pricing is lower than with correspondents, and the information the Fed provides is accurate and more timely.

Our Serious Commitment to High Quality Service

Federal Reserve commitment to high quality service begins when you contact



your account manager and continues through the ongoing delivery of services to you. If it's been awhile since you've talked with us, pick up the phone and call. We're here to help you build your business and we've got many exciting new services to do just that! ☎

Your Account Manager Can Help



IN MINNEAPOLIS

(back row)

Rama Ramaswamy, Senior Account Manager

Bill Hubbard, Sales Support Representative

Marilyn Coleman, Account Manager

Dick Kuxhausen, Vice President

Nancy Nordlund, Associate Account Manager

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Julie Munson, Lead Customer Service Representative

Debbie Wood, Help Desk Specialist II

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Exploring Check Sorting Options

BY MARILYN COLEMAN AND
RAMA RAMASWAMY
Account Managers

Pre-sorting check deposits may reduce fees and improve availability. How can you determine if it is worthwhile to sort your checks? The answer lies in the size of your check volumes, the destination of your deposits, and your check sorting capabilities.

Should I Use the “Mixed Sort” Option?

Mixed deposits contain checks drawn on any institution in the United States. These deposits may contain all types of machinable checks including postal money orders, savings bonds or Treasury checks. Credit availability for mixed cash letters is calculated on a dynamic basis, using the actual mix of City, Country, RCPC, and Other Fed (payers in other Federal Reserve Districts) checks. The Mixed program, designed primarily for institutions with limited sorting capabilities, provides quick processing of unsorted items. So if your proof machine has a limited number of pockets or you have a small volume of items drawn on a wide variety of routing numbers, a mixed deposit may be the best option for you.

General Sorts

The purpose of sorting is to group checks according to the location of the paying institution and lower your costs by reducing the number of times your checks must pass through Federal Reserve sorters. General Sorts, the simplest option for sorting checks before you deposit at the Fed, reflect the general location of the endpoints: City, RCPC, Country and Other Fed.

How do you determine if you should deposit General Sort cash letters? If you have sufficient volume drawn on one or more of the general sort categories, for instance City and Other Fed, you may save money by sorting to these categories before depositing with the Fed. Of course, sorting into these categories requires an in-house sorter with enough pockets.

Beyond General Sort

Institutions with many items drawn on one specific endpoint should consider Fine Sort, a deposit in which the cash letter contains only items drawn on a single routing number. This option is very inexpensive, as the Fed does not need to sort this deposit at all before sending it on to the endpoint. Yet another option is Group Sort in which a cash letter contains items drawn on a group of selected routing numbers.



Meeting the Deposit Deadline

In addition to looking at the mix of your items and your ability to sort, you need to look at the deposit deadline. Can your courier meet the specified deposit deadline at the Federal Reserve for you to receive the best availability?

Your Account Manager Can “Sort Out” Your Options

Your Federal Reserve account manager can work closely with your operations staff to analyze your needs and recommend the most cost-effective deposit program. We'll show you how changing your deposits could reduce costs and/or improve availability. Call today to schedule a consultation. ☎

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Bulk Rate
U.S. Postage
Paid
Permit No. 100
Minneapolis, MN

F E D E R A L
R E S E R V E



F I N A N C I A L
S E R V I C E S