

A NEW LOOK IN FEDERAL RESERVE SERVICES

Remarks by

Monroe Kimbrel  
President  
Federal Reserve Bank of Atlanta

Presented at

Opening ceremonies for the  
Miami Office  
Miamarina, Miami, Florida

October 1, 1971

## A NEW LOOK IN FEDERAL RESERVE SERVICES

We are witnessing today a period of accelerating change in the manner we as a people make payments for goods and services. Our new Miami Office is a part of this changing world of financial practice; and the services being introduced here may lead to a partial solution of some of our short-run problems.

### The Reason We Came to South Florida

Why, you might ask, has the Sixth Federal Reserve District opened an office in South Florida, the first of such magnitude anywhere within the Federal Reserve System since 1927. The reason, of course, is people -- coupled with their need for basic financial services. The population of this 13-county area has mushroomed during the last 25 years. Other economic measures have kept pace. In 1970, the area accounted for 40 percent of the state's population, 44 percent of its personal income, 50 percent of its currency and coin use. Clearly, the region has matured. Because of the great distance involved, our Jacksonville Branch has become more and more hard-pressed to provide an adequate level of service to the area.

Specifically, we have been unable to provide currency and coin service to the same degree that is offered by some of our other offices. Banks in the area, moreover, have made little use of our check collection services because of the delays inherent in getting checks to Jacksonville and the somewhat unique financial practices that have evolved here.

After a comprehensive study involving interviews with almost every bank in the area, we concluded early last year that a new office in South Florida was the only way in which the level of services could be significantly upgraded. We are pleased to be on the verge of triggering that office into operation.

#### More Efficient Check Collection Procedures

Having made the decision to open an office, our immediate problem was to develop a check collection and currency and coin plan that would serve South Florida's needs adequately and efficiently. While South Florida's economy was expanding, the nation's check payment system was showing signs of a breakdown. The growth in volume of checks was outstripping the rate of real economic growth.

Despite high speed computers and check sorters, the paper problem was getting worse as the number of checks written escalated year after year. An estimated 62 million checks are written each day in the United States, 22 billion a year. The scope of the problem of collecting these checks emerges when you consider that the average check is handled 10 times as it passes through the clearing process.

As our check specialists began to grapple with the problem of designing a suitable check plan for South Florida, they attempted to make the plan as efficient as possible. They were able to build on concepts that were appearing elsewhere in the country: in Washington-Baltimore, for example, where a so-called regional clearing arrangement went into effect in 1969; in several other cities around the country where the traditional clearing houses were being expanded to include banks in a wide radius around the central city. In each case the concept involved payment for checks on the day they were presented.

The elements of our check plan for South Florida have already been presented to each of the 187 banks in the new zone. It is, therefore, unnecessary to retrace for the bankers present the details of the plan. For the benefit of our non-bankers, however,

let me summarize the main features:

Summary of Miami's Check Plan

Banks in the area are expected to pay for checks drawn on them on the day of presentment by the Miami Office. Under this plan, checks drawn on South Florida banks are collected at least one day faster than they would be under conventional Federal Reserve check procedures. Bank customers, therefore, have earlier use of the deposits made to their accounts. They also benefit by knowing about any bad checks earlier than at present. Furthermore, earlier collection of checks reduces the opportunity for check "kiting" schemes which depend on delayed collection for their success.

Checks of all kinds (regular checks, Treasury checks, postal money orders, Federal Reserve drafts, etc.) are accepted from all banks in the zone. Normally, Federal Reserve offices accept checks from member banks only, while nonmember banks are required to send checks to a city correspondent bank which, in turn, might send them through the Federal Reserve check collection system. Non-members will be allowed to deposit all checks directly with the Miami

Office, since they are expected to pay for their own checks on the day they are presented. Accepting directly from nonmembers reduces the number of times a check is handled, thus contributing to a more efficient check collection system.

Several "pickup stations" will be maintained by the Miami Office to make it convenient for banks to use its check collection service. These stations are points at which banks may drop checks for pickup by a motor courier who will speed them to the Miami Office. Timely deposits of checks at a pickup station will be considered as meeting the 7:00 p. m. deadline just as if they had been deposited at the Miami Office itself. Stations are presently being considered in Fort Lauderdale, West Palm Beach, Fort Pierce, Fort Myers, Naples, Belle Glade, North Dade, South Dade and the Florida Keys.

A mixed deposit of checks from any bank with daily average of fewer than 5,000 items will be accepted by the Miami Office. Under traditional check procedures, the Federal Reserve would require that the various kinds of checks be sorted and presented separately.

We decided to accept mixed cash letters from small and medium-sized banks which normally would not have equipment to sort checks efficiently. In our opinion, this is another reason why banks should agree to pay for checks drawn on them the same day they are presented.

Several benefits of the expanded check services accrue to banks, businesses, and the general public. Since most checks in this area will be handled fewer times, they will be processed faster and at less overall cost. When checks are collected more quickly, they will tend to become more generally acceptable as a means of payment. Banks and bank customers will have use of funds earlier, and unpaid items will be discovered quicker. "Float," the amount of checks credited before they are actually collected, will be materially reduced. The reduction of float is a major objective of present Federal Reserve check collection policy.

This is our check plan for South Florida. It is modern without being experimental; it is oriented toward serving the general public without imposing a burden on the banks in the area; it seeks to stimulate the acceptability of checks as a means of payment without risking loss by nonpayment. It has many features that we believe will be adopted in future systems in other parts of the country.

In fact, the Federal Reserve Bank of Atlanta is now developing plans to establish similar regional centers in each of the cities in which it has offices. I look for a proliferation in regional clearing centers around the country.

The check plan adopted for the Miami Office and planned for other principal cities in the Sixth District is consistent with the nationwide policy recently announced by the Board of Governors encouraging the creation of such regional check clearing centers.

#### Expanded Money Service

Perhaps I have taken too much time in discussing our check collection services, thereby detracting from our plans for improvements in currency and coin services. These services also support our policy of contributing to improvements in the payments mechanism.

The Miami Office will serve, by pickups and deliveries of currency and coin, all member and nonmember banks on a semi-weekly basis using armored carrier, and even more frequent service may be arranged at the expense of the bank involved. This twice-a-week service is offered free to member banks; nonmember banks are assessed a charge to cover handling and transportation.



Free service has been available in the past only to member banks located outside the city limits of the Federal Reserve Office cities. We are pleased to be able to offer now such service to city member banks as well.

Since bills unfit for further circulation are separated as the money is processed in our office, we believe that we shall assure a higher quality of circulating currency. Citizens in the rest of the state will benefit also, as our Jacksonville Branch will be able to serve more effectively banks in the smaller area for which it now will have check and cash service responsibility.

Another development of far-reaching significance is the enormous attraction South Florida now enjoys for international trade. The banking industry has recognized this in an effort to follow its customers. Accordingly, major firms and major banks serving international interests are intensifying their activities in Miami and South Florida. Puerto Rico, the entire Caribbean, Central and South America all will have an important bearing on our functions here.

Ladies and gentlemen, these are our immediate plans. We hope you are pleased with the expansion in our services. As to the

-9- (Mr. Kimbrel)

future -- we don't intend to let you down! We still have the matter of full branch status for the Miami Office on our docket. Thank you.