

This includes a few changes suggested by Ned.

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Payments Symposium -- 2000 and Beyond

June 6-7, 2000

Federal Reserve Bank of Cleveland

Welcome and Symposium Overview

Jerry L. Jordan

8:30 a.m. to 9:00 a.m.

Wednesday, June 7, 2000

FEDERAL RESERVE BANK OF CLEVELAND

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JERRY L. JORDAN PRESIDENT

[Ned Richardson will introduce Jerry Jordan]

I. WELCOME

Thank you, Ned, and good morning everyone. I'm very pleased to welcome you to the Federal Reserve Bank of Cleveland, and ~~to what is going to be~~ ^{this} a very stimulating event. ~~I should say continue to be a stimulating event, because~~ I understand that many of you had the pleasure last night of hearing Mark Johnson, Vice Chairman of CheckFree Corporation, give his thought-provoking view of how the payments system might evolve.

This program - Payments Symposium... 2000 and Beyond -- is co-sponsored by the Federal Reserve Bank of Cleveland and the three automated clearinghouse associations that serve the financial institutions of the Fourth Federal Reserve District. We are very pleased to be collaborating with them -- the Central Regional Automated Funds Transfer System (CRATFS); the MidAmerica Automated Payments System (MAPS); and the TRI-States Automated Clearinghouse Association (TRISACH) -- not only for this specific event, but day in and day out to increase the efficiency of the ACH network, broaden its uses, and help the nation capture more of the benefits that are there for the taking from greater use of electronic payments.

This symposium brings together a group of nationally-recognized payments industry experts, corporations, and the leaders of financial institutions from throughout

this Federal Reserve District. ~~Thank you for being here to participate in this important dialogue.~~

~~And,~~ on behalf of my colleagues in the Federal Reserve Bank of Cleveland, I want to thank you for being our customers. We appreciate your business, and you can rest assured that we will continue to work hard to meet your needs and provide excellent customer service.

II. THE FRBC'S MISSION, GOALS, AND FOCUS ON CHANGE AND MARKETPLACE EFFICIENCIES

Let me turn now to the Federal Reserve's goal and role in the ongoing evolution of the retail payments system. The overall mission of the Federal Reserve Bank of Cleveland is "To enable the economy to achieve maximum sustainable growth...." We contribute to economic growth and efficiency in three broad ways. First, our monetary policy activities contribute to that goal by focusing on "preserving the purchasing power of the dollar." Second, our work in banking supervision and regulation contributes to efficiency and growth by "promoting a strong financial system." And third, our payments system activities are aimed at "providing efficient and innovative payment solutions to financial institutions, the U.S. Treasury and the public."

I want to focus my remarks on a portion of that third area of activity, specifically, on the Cleveland Fed's activities and philosophy about the retail payments system. ^{Questions I want to address are:} What is the Cleveland Fed doing to innovate and to facilitate change in the retail payments system that will lead to greater efficiencies? And what role should marketplace forces play in bringing about those changes and efficiencies?

I'm sure that all of us here agree that having an efficient and reliable payments system is extremely important for ongoing prosperity. Each of you, in your own organization, is working to provide your customers with payments services that are convenient, reliable, and as low-cost as possible. Similarly, our Bank is active on many fronts to improve the retail payments system.

For example, the Cleveland Fed, in collaboration with the Atlanta Fed, is leading the Retail Payments Product Office for the Federal Reserve System. The purpose of that Office is to coordinate the activities of the twelve Reserve Banks so that our product development activities are more efficient and so that we can provide uniform and seamless service to financial institutions that operate across district boundaries.

~~For another example, we have an~~ ^{is the} electronic bill presentment and payment initiative. It proposes to greatly expand the role of the ACH and community banks as the conduit for delivering billing information and payments between billers and consumers. When this idea was discussed last month at a meeting of our Community Bank Advisory Council, we found there was a lot of interest in pursuing such a joint approach. You will hear much more about electronic bill presentment and payment during this symposium.

In addition, the Cleveland Fed has taken a major leadership role in the Federal Reserve System's check modernization project. Although electronic payments are on the ascendency, we know that the use of paper checks is still growing and that paper is going to be with us for many years to come. So, while we continue to vigorously promote electronic payments, we are also initiating this four-pronged, multi-year effort to modernize several aspects of the paper check system. You will have the opportunity to learn much more about this major initiative from Sandy Pianalto later today.

A little over three years ago, the Cleveland Fed had a major leadership position in a national study on the appropriate future role of the Federal Reserve in the payments mechanism. We were instrumental in managing the Rivlin Committee's fundamental review of the payments services the Federal Reserve provides to depository institutions.

That study reached two general conclusions: First, the Federal Reserve should remain a provider of both check collection and ACH services with the explicit goal of enhancing the efficiency, effectiveness, and convenience of both systems, while ensuring access for all depository institutions. Second, the Federal Reserve should work closely and collaboratively with providers and users of retail payment systems to enhance the efficiency of check and ACH services, and to help evolve strategies for moving to the next generation of payment instruments.

In creating the Federal Reserve System, Congress made the Reserve Banks a part of the private banking sector, in contrast to the Federal Reserve Board of Governors in Washington which is a federal government agency. This arrangement is unique; other central banks around the world are government banks, and in many countries, the commercial banks themselves are government banks. The private nature of the twelve Reserve Banks is apparent in the facts that each has ^{our} its own stockholders, ^{our} its own board of directors, and ^{are} its self-supporting, receiving no appropriations from Congress.

A key role of a Reserve Bank is to provide financial services in collaboration with depository institutions. Throughout the 86 years since the Reserve Banks were incorporated and opened for business, the specific nature of these services and collaborations has varied as the payments system has evolved. For example, Reserve Banks played a very active role in the establishment of the ACH network, but practically

no role in the development of credit cards. ~~It is clear that the vast majority of depository institutions want the Reserve Banks to continue to be active participants, collaborators, and innovators in the retail payments system.~~

Regarding the development of the next generation of payments instruments, we believe that the private sector, that is, the Reserve Banks, depository institutions, and other financial and non financial firms, will be the source of that development. ~~The Reserve Banks and the other parts of the private sector, through collaboration and~~ *Together, we* ~~competition,~~ will be the wellspring of the innovations that yield increases in convenience, reliability, confidence and efficiency in retail payments.

Ultimately, it is consumers who will decide which payment methods will be popular in the future and how quickly these alternatives will be adopted. It is not the Federal Reserve's role to dictate or mandate payment alternatives. Rather, the Fed wants to be a facilitator and enabler as firms apply their ingenuity and business judgement to developing better payment alternatives that consumers will embrace. In addition, individual Reserve Banks will continue to develop new products and services for our depository institution customers. And, rather than mandate that our new products be used, we want our innovations to be judged in the marketplace on their benefits and prices.

Of course, providers of retail payment services face several significant challenges in gaining widespread acceptance for emerging retail payment methods. Uncertainty about the future direction of technology, multiple and competing ventures to introduce new electronic payment methods, and inter-operability problems have made many depository institutions reluctant to embrace these new payment methods. In addition,

there is uncertainty among consumers and businesses regarding the risks and liabilities associated with any new payment method.

Check, cash, direct deposit, ATMs, credit cards, and debit cards all have a supporting infrastructure comprised of technical standards, protocols, and legal rights and responsibilities that are clearly stated and understood. Before innovative new payment methods can gain widespread consumer acceptance, appropriate standards and protocols must be agreed upon, legal rights and responsibilities established and clarified, and any inadvertent legal and regulatory barriers removed.

We see one of our roles at the Federal Reserve as helping the financial services industry resolve many of these issues. The Fed wants to foster cooperation and information-sharing directed toward finding solutions to the challenges and impediments that can hamper the transition to a more efficient payments system. The Fed also wants to facilitate cooperation that is geared toward educating consumers about new payments media.

One focal point for this effort is the Fed's Payments System Development Committee, which was established recently as a follow-on to the Rivlin Committee. Co-chaired by Federal Reserve Governor Roger Ferguson and Boston Fed President Cathy Minehan, the Committee is focusing on medium- and long-term public policy issues surrounding the development of the retail payments system. Their mandate is to identify barriers to future development of the payments system, and to recommend solutions to the Board of Governors and other authorities.

This year, the Payments System Development Committee is focusing on three related items: 1) identifying barriers to greater use of electronic technologies to collect

checks; 2) assessing gaps in standards that may be inhibiting payments system innovation; and 3) reviewing the legal underpinnings for converting checks to electronic payments.

Next, I want to say a few words about the Cleveland Fed's Vision, which is to become "the best example of a private enterprise serving the public interest." Our Vision has three aspects. First, we want to be an effective leader and change agent in areas of the financial industry where we add value. Most of our activities that I have been describing fall into that category.

Second, we strive to conduct our payments system activities efficiently, while charging prices that cover costs and return a reasonable profit. Over the last several years, we have been changing our mind-set from that of a government ^{ad-type} bureaucracy to that of a business that must continuously strive for greater efficiency. And, we have made great progress in doing more with less, faster, and more reliably. We have moved from well back in the pack to being first or second every year among the twelve Reserve Banks in terms of cost efficiency.

The third aspect of our Vision is that we work to develop business processes that are aligned with our corporate goals and that support the needs of the financial institutions that are our customers. Improving customer service is a primary focus. For example, we have four user groups, one at each of our offices, that meet twice a year. In those meetings, we seek to learn such things as how our customer service can be improved and what our customers think about emerging technologies, and discuss topics of industry interest, such as check fraud.

III. SYMPOSIUM OVERVIEW

Let me turn now to this Payments Symposium...2000 and Beyond, which is part of our effort to be an effective leader and change agent. ~~Those of you who know me~~ *see others in the Fed,* ~~know that~~ I believe fervently that markets and free enterprise comprise the best route to prosperity. But more, much more, is needed to achieve prosperity than just the freedoms to go into business, to buy in markets, and to sell in markets. Crucially important to prosperity is a spirit of cooperation and mutual assistance. That spirit is what animates what we -- all of us -- are doing here today. We are all here voluntarily, to reason together and to learn from each other, so that we and our customers and all of society can have a retail payments system that is more convenient, more reliable, and more efficient.

Today's symposium provides a smorgasbord of ideas, information, and topics for discussion. Included are sessions focused on payments industry trends and what you can expect from the Federal Reserve ~~[Oliver]~~; the evolution of electronic payments ~~[Simmons]~~; the needs of ACH customers ~~[Burns]~~; an Ohio community bank's successful conversion to imaging ~~[Romey]~~; the collaboration between the Minneapolis Fed and some Ninth District banks on electronic presentment image check ~~[Umhoefer]~~; a software vendor's perspective on electronic bill presentment and payment ~~[Kudva]~~; a panel of billers' views on that same topic ~~[panel discussion]~~; and the Fed's check modernization project ~~[Pianalto]~~.

The symposium will conclude with a give-and-take wrap-up session that epitomizes the cooperative spirit and multi-sector involvement that are crucial for the successful evolution of the payments system.

IV. CONCLUDING COMMENTS

Before I conclude my remarks, I'm going to take advantage of this opportunity ~~to~~ *to* extending ~~ing~~ two invitations. First, I hope that those of you who haven't visited this Federal Reserve Bank in the last two years will ~~take advantage of the opportunity to~~ *have the time to take a* tour our facility after this symposium ends. This building ~~in which we are meeting, which~~ *and* was constructed in 1923 *is* listed in the National Register of Historic Places. It is indeed an architectural treasure of which we are extremely proud.

Two years ago, on the building's 75th anniversary, we celebrated the completion of a multi-year renovation and modernization of the entire structure and all of its internal utilities. Perhaps more important is that all of the building's architectural and artistic treasures were thoroughly restored to their original condition. At the same time, we constructed next door a state-of -the-art operations center where we conduct our check, currency, and electronic payments activities.

We are extremely proud of both facilities and we enjoy showing them off, especially to you, our primary constituents. If you go on the tour, you will understand that our pride is well-founded.

My second invitation is to you and your boards of directors. I want you to know that you are most welcome to bring your directors here for a board meeting. You can use our board room for your meeting, have a luncheon in our executive dining room and, if you want, have a presentation by one of our economists. And of course, we would be delighted to give your directors a tour of our facility.

And now to conclude, I want to reiterate that we value you as customers, we appreciate your business, and we thank you for participating in this symposium. I

encourage you to actively engage in today's interactive sessions by asking ~~tough~~ questions and by sharing your opinions, your experiences, and your visions. Such an open exchange of views is a crucial ingredient in the process of moving the payments system toward its highest potential.

Now, let me turn the program back over to Ned Richardson.

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