Cash, Coin and Check Innovations
FED INSTITUTES PROGRAM TO CUT COSTS—IMPROVE SERVICE

Commercial banks, the Federal Reserve System and the public all stand to gain from a new cost-effectiveness program instituted by the San Francisco Fed that streamlines the way cash, checks, securities and other essential Fed services are handled.

"What we are doing is employing new ideas to make old processes respond more efficiently to the needs of the public and the commercial banks," Senior Vice President Kent Sims said. "Our goal is to work creatively with commercial banks to achieve a community of interests that will benefit the banking system by improving services and cutting costs."

Sims, Vice President Angelo Carella, Vice President Richard Dunn and General Auditor John Carson comprise the senior management team spearheading the Fed's Productivity Enhancement Program. In conjunction with an outside consultant, the PEP team identified over 150 separate cost-saving projects. Approximately 125 identified opportunities apply to the internal operations of the bank. The remaining improvements will require the cooperation of member banks in order to achieve complete implementation.

"The improvements are realistically achievable," Carson said. "Many of them are obvious common-sense approaches that cut down on labor-intensive costs by eliminating superfluos steps. With the help of member banks, almost all the improvements can be achieved in the coming year. They should substantially reduce costs and enhance efficiency for both the Fed and the commercial banks while improving service to the public."

The immediate thrust of the program is directed at six primary areas—coin, currency, fiscal agency, reserve accounting, checks and communications.

In the coin, currency and fiscal areas the Fed is working to eliminate the needless processing and procedural steps that have escalated costs so greatly in an era of steep wage gains. Some time-honored but very costly manual procedures are being streamlined through modern technology and work-flow innovations.

"We are excising the waste that has become institutionalized in many of our procedures simply because they have been done that way for decades regardless of the improvements that have become available in the meantime," says Vice President Angelo Carella. "We've taken a fresh look at what we do. At each step along the way we've asked ourselves 'Is this necessary? Why are we doing this? Can it be accomplished in another manner?'"

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Fed Procedure Reform
* Modify coin-verification procedure
* Containerize coin shipments to central cash vaults
* Shrink-wrap currency in 10-strap bundles
* Ship currency in plastic bags with the invoice visible
* Require nine-digit ABA routing number on cash letters
* Use of boxes for incoming and outgoing checks.

What It Means For Members
* Reduces costs of entry processing; "in-tolerance" shortages absorbed by Fed
* Reduces coin handling costs
* Requires full-bundle ordering; simplifies custody of incoming currency shipments
* Expedites handling of currency receipts
* Reduces error in credits and adjustments
* Improves quality of incoming work and reduces preparation time for checks being dispatched.

COIN, CURRENCY AND CHECK IMPROVEMENTS

If you have questions or suggestions relating to currency, coin or check operations, please call or write the officer in charge of these areas in San Francisco for further information.

Currency and coin...Mr. William O'Donnell (415) 397-1137 X108
Assistant Vice President

Checks...Mr. Robert Colfelt (415) 397-1137 X251 Check Officer
Or contact the nearest Fed branch office.
This approach has paid dividends by creating more effective operations, meaningful standards, and tighter quality control.

The way the Fed has modified its coin-verification procedures is a case in point.

Previously when the Fed received a bag of coin from a depositing bank, it would credit the bank for the deposit subject to final piece-count verification. Entries covering errors found during the verification process were then processed against the depositing bank's account. Under revised procedures, all incoming coin is weighed and, if the weight is within an allowable tolerance, the Fed will absorb any minor differences that may occur within tolerance. Statistical records are maintained to ensure a random distribution of in-tolerance differences and to police any systematic attempt to profit from such differences.

The new procedure eliminates the clerical costs of functioning minor adjustments for both the Fed and commercial banks. Analysis has shown that these clerical costs are roughly five times the absolute value of the adjustments made for the Fed alone.

Numerous other innovations will save staff time and bank expense. If suitable for commercial bank use, the Fed will take advantage of containerization to make bulk coin shipments to the central cash vaults of commercial banks. Containerization of coin eliminates superfluous sacking and unsacking for large coin shipments destined for coin wrapping machines in those vaults. The loaded container will be moved by forklift from the Fed's vault to a waiting armored courier, and then into a commercial bank's vault in much the same manner as pallets stacked with bagged coin are handled at the present time. The containers will then be "recycled" in bulk shipments of coin back to the Fed. On both ends of the shipment, containerized handling offers significant time and manpower savings.

Another innovation is evident in currency operations. Currency will be packaged at the Fed just as meat is in a supermarket—in a sealed polyethylene wrapper. Since the polyethylene provides an unobstructed view of the contents, this "shrink-wrapped" currency will enable commercial banks to verify immediately the number of straps in each contained bundle in a shipment without breaking the shipping seal. The shrink wrap also keeps straps firmly in place, thereby reducing the chance of loose currency in the shipment which would have to be piece verified upon receipt. Shrink wrapped bundles of currency are placed in a second polyethylene package and heat-sealed, with the Federal Reserve code on the package, to insure the integrity of each shipment.

One of the greatest potential cost-saving concepts involves a Fed proposal for an experimental currency clearing house. Presently a bank that has extra fit currency on hand forwards its overage to the Fed instead of keeping it in its vault. This sometimes involves shipments of hundreds of miles, when another bank in the same community—perhaps just across the street—is ordering currency from the Fed because it is in short supply.

"We believe great cost savings could be made by balancing out the shipments from banks who have excess currency with those banks who are ordering currency from us," Carella said. "In many cases, the same bank may order currency in certain denominations while returning fit currency in the same denominations during the same week."

Check processing is another good target for innovation since the San Francisco Fed's costs in this function have been rising about 10 percent annually. Last year the bank processed over one billion checks, and the volume has been increasing constantly.

Vice President Richard Dunn indicated that improvements are being made in all areas of check operation, including receiving, processing, dispatch adjustments and return items.

"Simply making use of standard boxes for exchanging checks improves productivity in receiving and sending," Dunn said. "In addition the boxes keep the checks in better condition and reduce the number which will not pass through high-speed electronic equipment—something that is often not the case when checks are sent in unprotected bundles and are subject to folding and creasing. The improper bundling of checks creates bottlenecks for the Fed by forcing its staff members to remove clips from checks, and sometimes the crumpling or folding of checks make it impossible for them to be run on high-speed sorters."

Other cost-effective measures would require direct sending of all out-of-territory work above a certain volume—about 300 items per day—and establish more reasonable standards on incoming government-check cash letters. Reducing the number of cash letters would greatly facilitate reconciling adjustments to the Federal Reserve accounts of member banks. The Fed is urging that the nine-digit ABA routing number appear on all incoming cash letters. The use of any other extraneous numbers on such cash letters is being discouraged.

In summing up the program, Sims said that most of the cost-effectiveness opportunities can be acted on now or in the next several months.

"We realize that the banking system is not homogeneous, and that because of size, marketing and service-area considerations, these improvements impact on district banks in very different ways. There is no all-encompassing answer for all of us. The most important point, however, is that the Fed and the commercial banks are engaged in a constructive dialogue for mutually desirable goals. We think that all banks—small, medium and large—will benefit in some degree from this program, as will the general public."
FED HOSTS FIRST PACIFIC BASIN CONFERENCE

An unprecedented three-day conference for Pacific Basin central-bank economists will be hosted this month by the Federal Reserve Bank of San Francisco, President John J. Balles announced.

"This will be the first time that economic research staffs from the central banks of the Pacific Basin countries join in a technical conference to discuss topics of common interest and consider ways of promoting future research cooperation," Balles said. "This conference is a logical extension of the initiatives we took last year on a major fact-finding mission to the Far East."

Balles' 25,000-mile trip last spring took him to nine Far East countries in 35 days to meet with central-bank leaders, government officials, commercial bankers and businessmen. The mission established regular channels of communication between the San Francisco Fed and central banks in each of the nine nations, and inaugurated discussions concerning banking and investment developments both here and abroad.

The upcoming Pacific Basin Central Bank Conference will be held at the San Francisco Fed from May 27-29. Monetary authorities from 13 Pacific Basin countries including Australia, Canada, the Republic of China, Hong Kong, Indonesia, Japan, Korea, Malaysia, New Zealand, the Philippines, Singapore, Thailand, and the United States will attend.

"One of our primary objectives during the conference will be to review the current state of the art in macroeconometric model-building as it relates to the making of economic policy," Balles said. "We are especially interested in exploring these concepts in relationship to the current environment of world inflation and economic stagnation. Each central bank will report on its model-building activities and assess the usefulness of such models for central-bank policy purposes."

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D. Kline

FED NAMES TWO AVPs

Donald Kline and LaMar Pugh have been appointed Assistant Vice Presidents by the Federal Reserve Bank of San Francisco.

Kline was named Examining Officer for the Salt Lake City Branch. He is responsible for the supervision and examination of all member banks in that branch zone. He previously served as Senior Vice President at the Central Bank in Oakland, California. Kline attended Chaffey Junior College in Ontario, California, and is a graduate of the Pacific Coast Banking School.

Pugh has direct supervision of the Data Processing and Computer Operations for the bank. He is responsible for applying information technology to the operating functions at the bank and improving services to Fed member banks, the United States Treasury and the public.

He previously served as Manager of Computer Operations for Blue Cross of Northern California. Pugh received a B.S. degree from the University of Utah.

L. Pugh

SAN FRANCISCO FCA PROGRAM RANKS NO. 1

Member banks in the San Francisco Federal Reserve District participated more heavily in the Fed's Functional Cost Analysis program than did those in any other district in the nation.

About 46 percent of Twelfth District member banks enlisted in the program this year. The previous record was achieved in 1965, when 44 percent of the Boston District's member banks participated in that bank's FCA program.

FCA is a cooperative effort of the Federal Reserve Banks and member banks across the nation to sustain a uniform bank cost-accounting system. It aids individual banks in developing functional income-and-cost data so that they can compare their performance with other banks each year, as well as with their own previous performance. FCA is a managerial audit, training and budgetary tool.

Only member banks are eligible to participate in the program. Each participating bank has a specially prepared document for its own confidential figures, and a report that lists averages from all other banks.

This year 64 Twelfth District member banks participated in the program compared with 50 in 1973. The 1974 total includes 41 banks with deposits under $50 million, 8 banks with deposits between $50 and $200 million, and 15 with deposits over $200 million.
A further conference purpose is to explore the feasibility of a joint central-bank econometric research project. The project would study the process of the international transmission of inflation and recession among Pacific Basin countries.

In addition to the central-bank representatives, a limited number of economists from government agencies, international organizations and universities with special interest in macro-economic model-building or the Pacific Basin economies will also participate.

GOVERNOR COLDWELL ON TOUR

Federal Reserve Governor Philip E. Coldwell spent a busy two days at the San Francisco Fed meeting with officers here and touring headquarters facilities. The San Francisco Fed is implementing a productivity enhancement program to improve efficiency and reduce expenditures while maintaining a high level of services to member banks, the Treasury and the public. In the photo at left Governor Coldwell (right) is shown reviewing the program with President Balles. First Vice President John Williams (left) and Vice President James Brundy explain recent innovations in the Data Processing area as Governor Coldwell looks on.