

MEMORANDUM TO  
GOVERNORS' CONFERENCE

from

FEDERAL RESERVE BOARD'S  
COMMITTEE ON ECONOMY & EFFICIENCY

The Federal Reserve Board's Committee on Economy and Efficiency desires to refer the following matters to the Governors for their consideration and for such action as they may desire to take.

1. Recommendation for the appointment of an operating committee to standardize the principal supplies used, and in all cases where savings can be effected by so doing, to arrange for joint purchasing of such supplies.

In connection with the study of the Currency and Coin functions, this Committee investigated the variety and cost of the principal supplies used. The information obtained clearly indicates that there is opportunity for substantial savings through standardization of sizes and quality, and in some instances, through joint purchasing.

In the case of money bands, of which the system uses about 20,000,000 annually, there was found to be a great variety of sizes and a wide range in the quality of paper with prices ranging from 33 cents to \$4.00 per thousand, most of the banks paying from \$1.00 to \$1.50, the prices bearing very slight, if any, relation to the quality of paper.

A similar situation exists with respect to money bags, of which the System uses about 750,000 per annum.

There was also found to be a wide variation in the prices paid for some standard products such as lead seals, on which prices ranged from \$6.25

to \$13.76 per thousand, most of the banks purchasing the product of but two manufacturers.

With respect to supplies the first necessary step toward economy is to standardize both quality and size, after which probably with respect to most items, one bank can purchase as cheaply as another. On some few items, however, lower prices can be obtained through joint purchasing. There should also be some arrangement for the exchange of information concerning prices etc.

It is Recommended that the Governors designate a committee with power to standardize and to obtain the use of such standardized supplies by all banks, and also to arrange for the joint purchase of supplies in all cases where substantial economies can be effected by such standardization or purchase.

## 2. Recommendations concerning Insurance.

At the request of the Federal Reserve Board the Committee has investigated the Insurance carried by all banks. There has been noted a considerable variation in the amount and kinds of insurance carried, and especially in the "limits" specified for the various types of liability insurance, but the conditions under which the several banks are operating vary so greatly that the Committee considers it advisable to defer any recommendation with respect to this type of insurance until the banks are in their new buildings.

There are, however, two classes of insurance concerning which the Committee makes recommendations as follows:

(a) Employees Group Life Insurance.

The Committee has obtained considerable data on this subject. Six of the banks have practically identical policies issued by the same company, The Equitable Life Assurance Society, a mutual company issuing participating policies under which the real cost is determined by the size of the annual dividend. Four of the banks have policies issued by the Aetna Insurance Company, a stock company issuing non-participating policies where the cost is fixed by the premium rate, the rate being adjusted from time to time in line with the "experience of the group". The remaining two banks have policies in separate companies, one a stock and the other a mutual company.

The cost of group life insurance is in part determined by the experience of each separate group. The weight given the "experience" varies greatly with the size and age of the group, small groups receiving practically no benefit from a favorable experience, but the benefits gradually increase until with groups of 10,000 employees or more which have been in existence for from ten to fifteen years the cost is determined almost entirely by the year to year "experience" of the group.

It is the aim of the companies to ultimately write this insurance for large groups at a margin of about 15% above cost, that is losses.

As against this theoretical cost the cost to the twelve reserve banks has, during the past three years, averaged about 65% above losses, due to the fact that none of the groups are large enough to get the full benefit of their favorable experience, and in part to the length of time the groups have been in operation. The cost to the System is about \$100,000 per annum.

Had arrangements been made in the beginning so that the twelve banks could have been considered as one group, the cost to the banks up to this time would have been very much less than it has been.

There are two possible ways of reducing the cost of this insurance:

By placing all the insurance with one company with an arrangement under which the rate will be determined on the basis of the experience of all banks considered as one group, thus establishing a group of 12,000 lives.

By self insurance.

This Committee thinks favorably of self insurance for this risk, and, therefore, Recommends that the matter be referred to the Insurance Committee of the Governors' Conference for thorough investigation and report with a plan of operation.

(b) Automobile Insurance.

This item of insurance is costing the System approximately \$10,000 per annum. The rates vary greatly with the size of the city where the car or truck is operated.

The only way in which the cost can be reduced appears to be by placing the business entirely through one company.

If all banks will agree to place this particular insurance through one company it is believed that a saving of approximately 20% can be effected from the local manual rates now being paid by all banks.

This reduction would be obtained in part because of the amount of the insurance to be written and in part on the ground that the banks represent a preferred risk.

Each bank would of course be at liberty to fix its own limits and to come into the arrangement with the expiration of its present insurance.

This Committee Recommends the acceptance of the plan by all banks.

In the event of favorable action on the above recommendation the details can be completed either by this Committee or by the Insurance Committee of the Governors' Conference.

3. Recommendation for the Investigation of the Cost of securing Credit Information.

In connection with the study by the Committee of the "Loans, Rediscounts and Investment" functions of the banks it was noted that there is a wide variation in the cost of operating the several Credit Departments.

This Committee obtained from each bank a statement of its policy in securing credit information, and from this data it would appear that either some of the banks are doing too much in this respect, or others are not doing enough.

The Committee does not consider that it can make any definite suggestions on this subject and Recommends therefore that the matter be referred by the Governors to a Committee of Federal Reserve Credit men for investigation and report.

4. Recommendations concerning cost of free services and other activities carried on as a matter of policy.

The Committee has found upon an analysis of the cost of the free services and other activities carried on as a matter of policy that there is a wide variation in the policies of the several banks with respect to these expenses, some banks expending much more than others on certain items and near-

ly every bank expending a comparatively large sum on at least one item.

This condition leads to the conclusion that eventually, as these services are more uniformly used in all districts, every bank will, with respect to each separate item, level up proportionately to the high bank, in which case the expenses coming under these heads will increase very materially in every bank.

It is not the province of this Committee to make recommendations for the reduction of present activities of the banks in this connection. It does believe it is its duty, however, to point out that a continuance of the present policy is bound to result in a very great increase in these expenses over a period of years and that the banks should know how much they are likely to be ultimately obliged to expend, so that if it is considered necessary, steps may be taken to control these items.

It is therefore Recommended that the Governors take steps to determine for each bank and for the System as a whole, what may be the approximate ultimate total cost of each free service now being given, assuming each service is used to the fullest extent by all banks.

With this information available it should be possible to determine whether or not the total for any item is more than the System would be warranted in expending for the purpose, and in the event that the total for any item is considered excessive, steps could at once be taken to control it.

November 12, 1923.