DALLAS FED ROUNDUP

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Corrigan Explains Payments System Risk

The Federal Reserve should continue to play an active role, along with other members of the nation's financial system, in efforts to prevent elements of risk in the payments mechanism according to E. Gerald Corrigan, president of the Federal Reserve Bank of Minneapolis. Corrigan was one of several participants in a recent Payments System Symposium for senior bank executives sponsored by the North Texas Regional Clearing House Association.

Corrigan identified three areas which often lead to payments risk. These include mechanical or operational problems, fraud or mismanagement problems, and credit problems. He said payments risk will probably increase substantially in the future due to new technology, economic and financial interdependence in the worldwide financial system, aggressive funds management techniques, and widespread electronic banking. Therefore, the task of managing risk will become more difficult.

The Federal Reserve has a great amount of interest in reducing payments risk because of its responsibility for monetary policy, Corrigan stated. This is because the tools the Fed uses to conduct monetary policy—such as reserves—are part of the payments system. In addition, the Fed has a significant operational presence in the payments system, especially in the area of wire transfers of funds. The Federal Reserve, therefore, assumes a certain amount of payments risk and, as a matter of good business, attempts to prevent this risk wherever possible.

E. Gerald Corrigan

Corrigan suggested adapting computer systems for greater monitoring of the payments system and increasing efforts for internal auditing as two operational steps which can be taken to help prevent this type of risk. He emphasized, however, that the most basic aspect of risk management is self-regulation by individual banks because these types of decisions are a natural extension of credit decisions that are a part of a bank's business.

While self-regulation may be the essential cornerstone of the risk management process, Corrigan suggested that there exist certain constraints to its effectiveness. These include irresponsibility by some participants in the system and a conflict of interests resulting in natural competition. This is why the Federal Reserve's role in risk management is important.

In addition to Corrigan, symposium participants heard John D. Johnson, executive vice president of the Federal Reserve Bank of Philadelphia and chairman of the Federal Reserve System Subcommittee on Electronic Payments. Johnson outlined new developments in the Federal Reserve's wire transfer and automated clearinghouse service areas.

Other symposium participants included Elvis L. Mason of InterFirst Corporation, John F. Lee of the New York Clearing House Association, Frederick Heldring of Philadelphia National Corporation and Bank, J. D. Carreker of J. D. Carreker Associates, and Barry F. Sullivan of First Chicago Corporation.

Board Reduces Reserve Reporting

The Federal Reserve Board has approved a March proposal to amend Regulation D (Reserve Requirements of Depository Institutions) in order to reduce the deposit reporting burden for small depository institutions. This action is in compliance with the Garn-St Germain Depository Institutions Act of 1982 passed last October. Effective April 28, 1983, commercial banks and thrift institutions with $2.1 million or less in total reservable liabilities are now excused from reporting requirements (see chart).

In implementing the Act, the Board will preserve its responsibility for collecting data necessary for the monitoring and control of monetary and credit aggregates. This will affect small institutions' reporting requirements only if data are not available from other sources.

Reporting Requirements of Depository Institutions[1]

	Reservable Liabilities	
Total Deposits	**$2.1 Million or Less**	**More than $2.1 Million**
Less than $2 million	No reporting required unless data are not available from other sources	N/A
$2 million to less than $15 million	Annually	Quarterly
$15 million or more	Quarterly	Weekly

[1] Not applicable to Edge Act and agreement corporations or U.S. branches and agencies of foreign banks.

Cash Transportation Fee Adjusted

For institutions in the Eleventh Federal Reserve District, the subsidized portion of the Dallas Fed's cash transportation fee will be adjusted toward full cost recovery this year. On June 30, 1983, the present $100 subsidy cap will increase to $175, and on September 29, it will increase to $400.

Subsidy caps apply to charges for stops and liability for over-the-road transfers of cash. The Fed will absorb costs in excess of these caps for the remainder of the year, and the program will be eliminated December 29, 1983.

The Federal Reserve Bank of Dallas also has adopted a uniform accounting procedure for cash order and deposit entries. Effective July 1, 1983, the new procedure is designed to equalize credit availability for all cash shipments for all institutions.

Under the new procedure, a Reserve Bank will make debit entries to an institution's reserve or clearing account on the day a cash shipment is received by the institution. Those depository institutions which are exempt from reserve requirements, or whose vault cash exceeds reserve requirements, will receive credit for a cash deposit on the day the shipment is sent to the Reserve office.

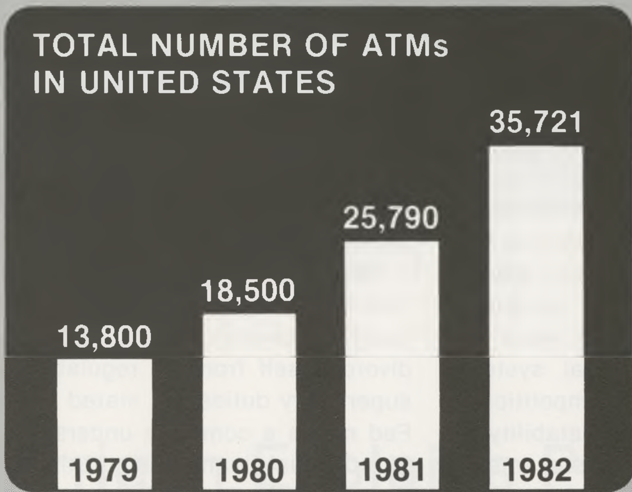
Under the existing policy, an institution's account is debited or credited when a shipment leaves, or is received by, the Fed.

New Rate Set for Savings Bonds

The second market-based rate for Series EE U.S. savings bonds has been set at 8.64 percent for May 1 through October 31, 1983, replacing the rate of 11.09 percent in effect since November 1, 1982. The market-based rate, which is changed every six months, is 85 percent of the rate on Treasury five-year securities during the previous six-month period.

The market-based rate system replaced a fixed rate of interest accrual system in use for the past 40 years. The new program, announced by President Reagan in October 1982, was designed to give purchasers of new savings bonds a competitive return regardless of market conditions and without penalizing holders of older bonds. All Series EE bonds purchased on and after November 1, 1982, and held at least five years—as well as some older bonds and savings notes—will yield, at maturity, either an average of all market-based rates for the five-year period or a guaranteed minimum rate of 7.5 percent. All other features and benefits of the savings bond program remain the same.

To date, public reception of market-based rates has been very positive according to Bay Buchanan, director of the Treasury's Savings Bond Division. Buchanan considers this an important step in federal efforts to encourage savings and economic growth and has stated that the bond program is returning to a solid, competitive position among savings instruments.



ATM Networks

Statistics Indicate Rapid Growth

They have appeared in airport terminals, on city streets, and, more recently, in supermarkets. Through them a person can transfer money from one bank account to another, make deposits or withdrawals, or check on a balance in a particular account. They are known as automated teller machines (ATMs) and their growth over the last few years is helping the banking industry accelerate the use of electronic banking.

Originally conceived as a means of reducing teller labor costs and offering extended service hours to customers, ATMs have also evolved as a marketing tool for financial institutions. Establishing an ATM network, or being linked to one, allows financial institutions to offer a customer service that provides 24-hour access to cash and account information.

In Texas, ATM networks such as MPACT and PULSE have expanded their operations across the state. MPACT is owned by Affiliated Computer Systems Inc., a subsidiary of Mercantile of Texas Corporation of Dallas. In March 1983, 1.5 million MPACT cardholders had access to 709 MPACT machines which handled about 2.7 million transactions at over 300 Texas banks. Recently, both RepublicBank Dallas' TELLER 24 and First Texas Savings Association's MONEY MAKER cardholders were also allowed access to MPACT machines. Houston-based PULSE, owned by Financial Interchange Inc., has 578 ATMs serving 4.2 million cardholders and approximately 490 financial institutions. InterFirst Service Corporation, a subsidiary of Dallas-based InterFirst Corporation, has 92 ATMs in Texas which handled about 670,000 transactions during the month of April.

Throughout the United States, as well as Texas, the use of ATMs has increased dramatically. At the end of 1982 there were 35,721 machines operating in the United States. Compared with the 13,800 machines operating in 1979, the figures show a 159 percent increase in four years. The chart accompanying this article outlines the rapid growth experienced since 1979.

Yearend 1982 data indicated an average 3.1 billion financial transactions (excluding balance inquiries) annually at ATMs in the United States. Of those, 76 percent were withdrawal transactions and 19 percent were deposit transactions. Withdrawals at ATMs amounted to $86.7 billion, while deposits totaled $154.7 billion. There were approximately 7,200 transactions per machine per month with an average deposit of $267 and an average withdrawal of $37.

The widespread use of ATMs is a major step toward implementation of other electronic banking innovations such as point-of-sale (POS) terminals, telephone bill paying, and home banking. Each of these is designed to provide convenience to consumers and an efficient network of payment for business and financial institutions. Although ATMs are the most widely accepted of the new electronic banking innovations, there is a growing interest in the others because of their potential efficiencies in the payments mechanism.

Volcker Recommends Banking Reform

Federal Reserve Board Chairman Paul A. Volcker urged Congress to re-examine permissible activities for banking and nonbanking organizations in light of current market conditions, technological changes, consumer needs, and the regulatory and economic environment. In recent testimony before the Committee on Banking, Housing, and Urban Affairs, Volcker also stated that there is a need for Congress to study actions allowing state-chartered financial institutions to engage in a wider range of activities than banks and thrifts chartered by federal authorities.

Volcker urged Congress to deal with some of the most obvious "distortions and loopholes" in the present regulatory structure and welcomed the Comptroller of Currency's moratorium on chartering new "nonbank" banks. "The new vocabulary springing up on 'nonbank banks', 'thrift banks', and money market fund 'checks' reflects the blurring of traditional institutional lines and function," he said. "Some of it is healthy, some is not."

Saying that much of the change in the financial system is a "constructive response" to market pressures, technological changes, and opportunities made possible by deregulation, Volcker stressed the need to maintain a stable financial system while allowing equitable competition.

In addition to the need for stability in the system, Volcker's statement touched on such areas as interstate branching, nonfinancial organizations offering traditional banking services such as "checking" accounts, and banks offering nontraditional services such as brokerage and data processing services.

Volcker further addressed the idea that proposed new financial activities of holding companies be limited to separate subsidiaries. While it is possible for a bank and its subsidiaries to be separated to a degree, he stated that he doubted whether the arrangement would effectively insulate a bank from trouble experienced by a nonbank subsidiary.

Volcker disagreed with suggestions that the Federal Reserve should limit itself to monetary policy functions and divorce itself from its regulatory and supervisory duties. He stated that the Fed needs a complete understanding of individual financial institutions and the system as a whole in order to effectively administer monetary policy. "The core responsibilities of a central bank for economic and financial stability entail concern over the strength and stability of the banking system. Those concerns are appropriately and necessarily reflected in an on-going presence in the regulation and supervision of the banking system," he said.

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