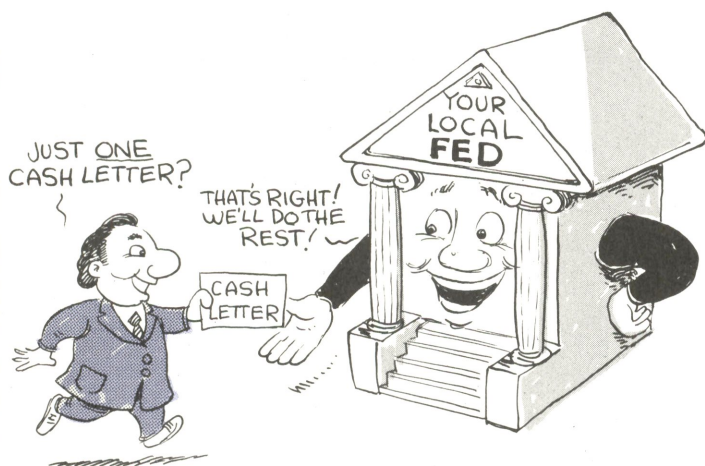


Payments Quarterly

Summer 1996

News and Views
on
Eighth District
Financial Services

Save Time and Money with Nationwide City Sort



This past May, all Federal Reserve offices introduced Nationwide City Sort (NCS), a new check product that saves you the effort of preparing separate city cash letters for each Reserve Bank. Specifically, it enables you to deposit, with your local Fed office, items drawn on any other Federal Reserve city institution throughout the country in a single cash letter.

"NCS can provide financial institutions with significant cost savings," says Bill Leslie, vice president of Retail Operations at the St. Louis Fed. "Instead of paying for several cash letters to multiple Feds, depositors pay a single fee of \$4 for one cash letter. In addition

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Goodbye Government Checks; Hello Electronic Payments

The omnibus budget agreement signed by President Clinton on April 25 will dramatically improve the way millions of Americans receive payments from the federal government.

The Electronic Funds Transfer Expansion Act, a provision in the budget bill, will virtually eliminate the use of checks as a federal payment instrument by the turn of the century. This act requires that all federal payments, except Internal Revenue Service tax refunds, be issued via electronic funds transfer (EFT) by Jan. 1, 1999.

EFT is a payment method that electronically transfers funds using the Automated Clearing House (ACH) network.

"EFT is a safer, more reliable and less expensive payment method than the check," said Russell D. Morris, commissioner of the Financial Management Service (FMS), the Treasury's payment disbursing agency. "The FMS is able to issue an electronic payment for less than 2 cents, compared with an average cost of 43 cents per check."

EFT is expected to prevent more than 100,000 crimes a

year, such as mail theft and check forgery; eliminate most of the 1.7 million annual inquiries from recipients whose checks have been lost, stolen, damaged or delayed; and should save taxpayers roughly \$500 million in postage and check production costs. The Treasury and FMS are currently assessing the effects of this legislation on their operations and the payments they handle, so stay tuned for more information.

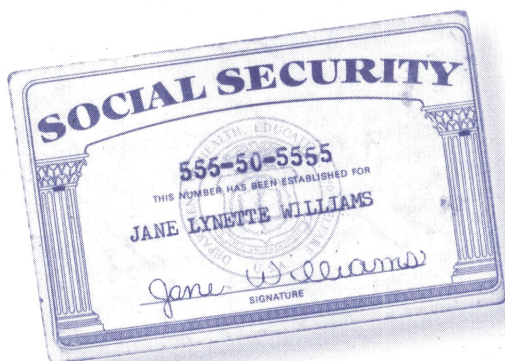
This act goes into effect July 26, 1996, after which all new benefit recipients, vendors and employees must receive their

payments via ACH. All current check recipients will need to convert by 1999. Consequently, you could sign up more customers for direct deposit, experience increased ACH volume, and process fewer Treasury checks.

If you'd like ACH origination assistance to help prepare for this legislation, contact Langston Scott in St. Louis at (314) 444-8461 or at our toll-free number listed on the back.

SSA Launches Payment Cycling Initiative

Next year, the Social Security Administration (SSA) and the Department of the Treasury's Financial Management Service will add



three new benefit payment dates for Social Security recipients. In addition to the third of the month, payments will be distributed on the second, third and fourth Wednesdays.

This initiative, called payment cycling, will go into effect for all *new* Social

Security recipients who apply for benefits on or after Dec. 1, 1996. *Payment dates for the current 50 million beneficiaries will not change.* SSA established payment cycling so it could continue providing high-quality service to an increasing number of beneficiaries, predicted to exceed 70 million by the year 2020.

Payment cycling also helps financial institutions provide better customer service. Due to reduced early-month workload peaks, customer inquiries and the number of teller staff needed to process Social Security checks will be spread more evenly throughout the month. Even fewer staff will be needed for check processing when electronic funds transfer (EFT) becomes mandatory for all federal government payments in 1999 (see article on front page).

To assist SSA in educating financial institutions on this initiative, the Federal Reserve Bank of St. Louis distributed informational kits to all Eighth District financial institutions in April. These kits provide detailed information on the specifics of payment cycling and how it will affect the financial and business communities. If you would like additional copies of this kit or more information on payment cycling, please contact Cheryl McCarthy in St. Louis at (314) 444-8459 or at our toll-free number listed on the back.

Nationwide City Sort

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to cost benefits, NCS simplifies the deposit process and provides consistency across all 12 Federal Reserve Districts."

By using this new product, your financial institution could:

- **Free staff time:** You would have fewer Fed city cash letters to prepare.
- **Increase the number of available reader-sorter pockets:** You could consolidate all "Other Fed City" cash letters into one reader-sorter pocket.
- **Enjoy consistent per-item fees:** An endpoint-based two-tier fee structure of either \$0.022 or \$0.032

per item is standard at all Fed offices.

- **Simplify adjustments:**

Decreasing the number of cash letters you prepare would reduce mistakes and, subsequently, adjustments.

- **Take advantage of quick availability:**

Next-day availability can be obtained for most Fed offices—check with your local Fed office for specific deadline deposit times.

- **Increase settlement**

reliability: Fewer cash letters would reduce the chance of settlement errors.

NCS was developed in response to customers' requests for an

easier method of depositing all non-local city items across the nation. It's one of 32 products in the National Check Services Program—a set of check services with consistent names and definitions across the Federal Reserve System.

For more information on NCS or any other Federal Reserve check product, please contact your account executive or Frank Blacharczyk in St. Louis at (314) 444-8960 or at our toll-free number listed on the back.

Missouri Prepares to Distribute Benefits Electronically

Following in the footsteps of the federal government, Missouri is taking the initiative to convert from a paper to an electronic benefit delivery system.

Contingent upon a successful pilot this fall, the Missouri Department of Social Services plans to disburse Aid to Families with Dependent Children (AFDC) and food stamp benefits electronically, starting in 1997.

This initiative will affect approximately 220,000 food stamp and 85,000 AFDC households. Currently, out of those that receive AFDC, only about 1,400, or 1.6 percent, receive their benefits electronically.

There are two primary delivery methods available for receiving benefits electronically: direct deposit and electronic benefits transfer (EBT). Financial institutions in Missouri can participate in the state's initiative by assisting with the delivery of benefit payments. Following is a brief description of the two electronic delivery options and the methods bankers can use to capture benefit deposits.

Direct Deposit

Recipients who have a checking or savings account established at a financial institution can have their cash benefits directly deposited into their account through the Automated Clearing House

(ACH) network. If recipients do not have a bank account, they will be required to use EBT and receive their payments through a government-designated issuer, or GDI. In Missouri, the GDI will

or federal benefits deposited electronically via the ACH.

EBT

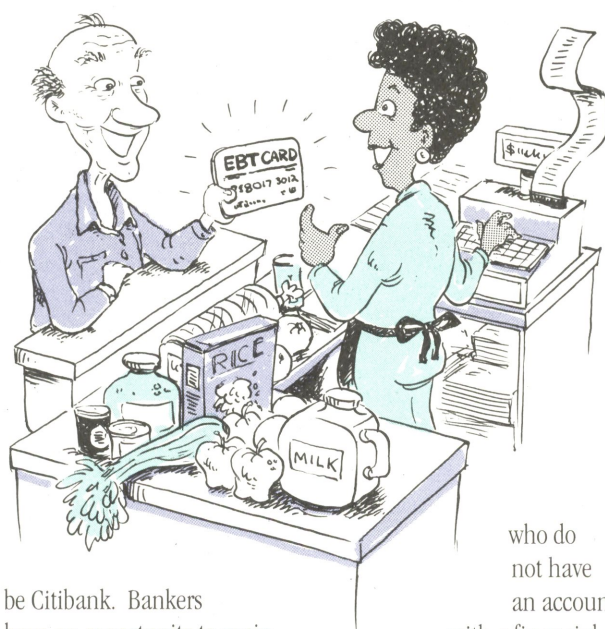
In 1997, Missouri will implement EBT, a payment system that enables benefit recipients

respond to inquiries; process government deposits and recipient withdrawals; issue EBT debit cards; and teach recipients how to use the cards.

Recipients will be able to use their EBT cards to withdraw benefits at ATM machines or to purchase items at the point of sale (POS) with retailers authorized to accept food stamps. Missouri's EBT program will use existing telecommunications networks and settlement processes for authorizing and settling commercial ATM and POS transactions.

The federal government and the state of Missouri have determined that direct deposit and EBT are the most cost-effective benefit payment methods. Currently, the Missouri State Treasurer's Office (STO) is working with the Missouri Department of Social Services and the U.S. Treasury to promote the direct deposit of government benefits in advance of the implementation of the state's EBT program next year. This summer, the STO will send Missouri financial institutions more information on this initiative.

If you have questions on Missouri's electronic benefit delivery system, contact Ellen Carter at the STO at (573) 751-4975.



who do not have an account with a financial

be Citibank. Bankers have an opportunity to maintain benefit deposits by signing up recipients for direct deposit in advance of EBT.

Also, financial institutions interested in providing service to beneficiaries *without* bank accounts may want to encourage recipients to set up a lifeline or deposit-only account. This would eliminate your customers' need to stand in your teller line to cash their check. By offering these types of accounts, you can attract additional deposits and provide a way for people to receive benefits using direct deposit if they neither have nor want a full-service account. If desired, you can even tailor these accounts to accept only state

institution to establish a deposit-only account exclusively for state and federal benefits. EBT will be the only method used to distribute food stamp benefits.

With EBT, benefits are accessed using a debit card, and settlement occurs electronically through the ACH network. Recipients in Missouri will be required to establish their EBT account with Citibank, Missouri's GDI. Citibank will maintain a "bookkeeping account" for all recipients and keep track of the authorized amount of benefits to which each is entitled. On behalf of the state, Citibank also will:

ReserveNotes

New NACHA Rule Changes

On Sept. 20, 1996, several amendments to the 1996 National Automated Clearing House Association (NACHA) Operating Rules will become effective. These amendments affect ENR, CTP, dishonored and contested dishonored return times, EDI transaction sets, ODFI exposure limits and prenotes.

We encourage you to thoroughly review the changes and ensure that your institution has a copy of *1996 ACH Rules: A Complete Guide to Rules & Regulations Governing the ACH Network*. To purchase this guide, please contact your local ACH Association (approximate territories listed below):

• St. Louis and Little Rock Zones

Mid-America Payment Exchange at (816) 474-5630

• Louisville Zone

Kentuckiana ACH Association at (502) 447-6663

• Memphis Zone

Southern Financial Exchange at (504) 561-1341

Fed ACH, Fedline and EDITH will all be updated to conform to the new rules. For more information on rule changes, call Langston Scott in St. Louis at (314) 444-8461 or at our toll-free number listed on the back.

EFTPS Reminder

This summer, the IRS will notify approximately 1.3 million corporations of the Treasury's mandate to begin paying taxes electronically through the Electronic Federal Tax Payment System (EFTPS) in January 1997.

Consequently, more of your retail customers may have questions or ask you to originate their tax payment via the ACH. For additional information on EFTPS and its effect on your financial institution, please refer to the recently distributed *Electronic Federal*

Tax Payments booklet. If you have not received this booklet or would like additional copies, please contact Nancy Klages in St. Louis at (314) 444-8707 or at our toll-free number listed on the back.

Fedline Soon Available on Windows 95

Coming this fall, Fedline will be capable of running on Windows 95. You simply download a special file to your computer and add Fedline to the Windows 95 start menu. All Fedline screens and DOS functions will be the same. If you're interested in having this file installed, please call the Customer Access Support Department at 1-800-333-0861 and press "1."

Annual Report Spotlights Payments Technology

The Federal Reserve Bank of St. Louis has recently pub-

Calendar

Check Image Seminars

June 25 Springfield, Mo.

July 9 St. Louis

For more information, call Frank Blacharczyk in St. Louis at (314) 444-8960 or at our toll-free number listed on the back.

lished its 1995 Annual Report. Indicative of the Fed's role in the payments system, the report focuses on many technological issues, such as the emergence of smart cards, electronic cash and cyberbanking.

To obtain a copy of the annual report, contact Debbie Dawe in St. Louis at (314) 444-8809 or at our toll-free number listed on the back.

NACHA Study Finds Consumers Receptive to Truncation

Recent research conducted by the National Automated Clearing House Association's Electronic Check Council finds that consumers are generally ready and willing to take part in check truncation.

Using focus groups, the nationwide study explored consumers' attitudes and expectations toward truncation, and it gauged their reactions to the conversion of check data to electronic forms at the point of sale (POS) and in remittance

processing. Given the choice of the retailer keeping the check or handing it back, consumers prefer to receive the canceled check back at the POS.

In addition, the study found that consumers who are already using electronic banking for other purposes are more receptive to the electronic check concept. Those who use safekeeping services readily accept the idea, particularly in the lockbox environment.

Rick Burke, Electronic

Check Council Chair and senior vice president at CoreStates, said that "collecting banks in areas with high safekeeping rates have a significant opportunity in supporting the electronic check processing needs of lockbox customers. Paying banks around the country also hold a significant key to the success of electronic check programs by convincing consumers of the advantages of check safekeeping."

The Electronic Check Council is evaluating the research results and using them to develop electronic check applications. For more information on check truncation, contact your account executive or Frank Blacharczyk in St. Louis at (314) 444-8960 or at our toll-free number listed on the back.

Branching Out

Cashing In with New Processing Machines

CASH FACTS

- There currently are 91 BPS 3000 machines—with a total of 133 eventually to be installed—in operation throughout the Federal Reserve System.
- The BPS 3000 can process 72,000 bills per hour, whereas the old CVCS machines processed about 65,000 bills per hour.
- During an average month, the Eighth District: processes nearly 72 million notes; detects about 200 counterfeit bills; and shreds about 26 million notes for a total of more than \$300 million.
- In 1946, the Treasury Department stopped printing \$500, \$1,000, \$5,000 and \$10,000 notes. Many of these notes, however, remain in circulation.

An important weapon in detecting counterfeiting now resides in each Eighth District Federal Reserve office. Last month, an improved cash processing system spread across the entire District when the Louisville Branch received a Banknote Processing System 3000 (BPS 3000) machine.

The implementation of the BPS 3000 is just one of several recent initiatives the Fed has undertaken to detect and deter counterfeiting. Over the last several years, representatives from the Federal Reserve System have worked with the Treasury Department to help redesign the U.S. currency and make it less susceptible to counterfeiting.

The Fed is also helping bankers become more aware of what they can do to detect counterfeit bills. All Eighth District offices held educational seminars earlier this year to discuss both the enhanced capability of the BPS 3000 machines and the redesigned currency. The Secret Service also gave presentations on common methods used to counterfeit U.S. currency and how financial institutions can detect phony bills.

In addition to having enhanced counterfeit-detecting capabilities, the BPS 3000 is much faster and more sophisticated than its predecessor, the Currency Verification Counting and Sorting System (CVCS) machine, and it will assist in processing cash deposits

How Are We Doing?

An update of the Eighth District's quality measure goals

Measure: Timely Currency Deposit Piece-Verification

Our Goal: The Fed piece-verifies currency deposits within the following time frames (excluding imported currency):

Denomination	Business Days
\$1	30
\$5, \$10 and \$20	12
\$50 and \$100	7

Current Performance: 100 percent

earlier. To help us operate at peak efficiency, please review the procedures for depositing currency, described in Operating Letter No. 10.

If you have any questions or would like some educational materials for your staff on cash policies and procedures, please call the appropriate Federal Reserve representative listed below or call one of our toll-free numbers listed on the back.

St. Louis

Sharon Bragg
(314) 444-8325

Little Rock

John Denny
(501) 324-8271

Louisville

Jack Ditsler
(502) 568-9222

Memphis

Netra Fitzgerald
(901) 579-2429

The St. Louis Fed also has information available to describe

changes in the newly redesigned \$100 bills. You may request packets, brochures, videos and posters to explain the notes' counterfeit-detering features to consumers, businesses, school groups and more. To order, call Joe Elstner in St. Louis at (314) 444-8902.

Automated Benefit Enrollment Ready to Roll

This fall, signing up customers for the direct deposit of government benefits will become much easier. Automated enrollment will become a reality with a new Standard Entry Class Code—ENR—created in the National Automated Clearing House Association (NACHA) ACH Operating Rules. By using ENR, financial institutions can electronically transmit direct deposit enrollment information using the ACH network to federal government agencies.

Although several federal agencies plan on using ENR, the Social Security Administration (SSA) and the Railroad Retirement Board are the only ones that will be ready to accept ENR enrollment transactions when the process begins on Sept. 20. Financial institutions will be notified as additional agencies begin using ENR.

With Fedline, an ACH link or a third-party processor, you can initiate ENR entries and sign

up consumers for direct deposit without mailing a form or making a telephone call. This will improve your customer service, increase the accuracy of direct deposit account information, reduce processing costs (ACH deposits are cheaper to process than checks) and enrollment expenses (eliminating the postage needed to mail forms), and enable multiple enrollments to be sent in a single transmission.

SSA has developed an informational kit for financial institutions on Quick\$tart™, its ENR system. If you would like a copy of this kit, call Tammy Kirchhoff in St. Louis at (314) 444-8458 or at our toll-free number listed to the right. To order tent cards or posters with the Quick\$tart logo, contact Rick Rosen at SSA at (410) 965-0390.

It's On Us



If you have questions or comments about any of the Federal Reserve's products or services, let us pay for the call. Our toll-free phone numbers are listed below.

St. Louis Office

1-800-333-0810

Little Rock Office

(in Arkansas)

1-800-482-9463

(outside Arkansas)

1-800-332-0813

Louisville Office

(in Kentucky)

1-800-292-3596

(outside Kentucky)

1-800-626-4507

Memphis Office

(in Tennessee)

1-800-552-5132

(outside Tennessee)

1-800-238-5293



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