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Payments Quarterly

Winter 1999

News and Views
on Eighth District
Financial Services

Look Before You Leap

Just when you thought the century date change was behind you, it's time to prepare for another critical date: Feb. 29, 2000. Just like the lack of foresight that resulted in the "Y2K Bug," it seems that computer programmers may also not have considered that the Year 2000 would be a leap year, lasting 366 days, rather than 365.

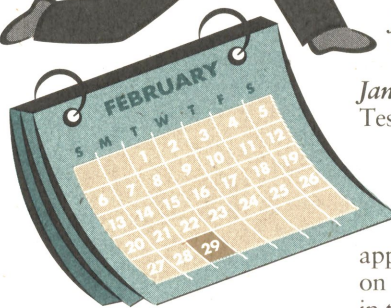
There are two rules governing the determination of leap years:

1. A year evenly divisible by four is a leap year, except for years ending in 00.
2. A year ending in 00 is a leap year only if it is divisible by 400.

Thus, 1900 was not a leap year, but 2000 is.

The potential for the leap year error is greatest in embedded systems, such as those found in card readers or stoplights. But the problem may also exist in software applications. The good news is that the public is generally unaware of the potential for problems, and therefore, the Fed does not expect to experience increases in cash demand.

Financial institutions have had opportunities to test with the Fed for the 2000 leap year date since June 1998, and many District institutions



Jan. 20/Feb. 15
Testing for Feb. 28, 2000

Jan. 21/Feb. 16
Testing for Feb. 29, 2000

Jan. 22/Feb. 17
Testing for March 1, 2000

Other dates are available for some applications.

Details on which applications can be tested on any of these dates are in the test schedule sent to you in mid-November. To register, contact Electronic Access Support at 1-800-333-0861.

have already tested with us. If you have not tested, however, or would like to retest, a majority of Fed applications will be available for testing on the following dates:

And the Survey Says...

In 1999, the Federal Reserve System conducted a nationwide customer satisfaction survey to explore financial institutions' perceptions of the Fed's products and services.

The results revealed which components of our financial services are most important to you, including the quality of check processing and check adjustments, ease of use of monthly billing statements, and all aspects of customer service and FedLine® software. This feedback will help the Fed

System and the Eighth District identify strategic initiatives that will improve our products and services.

While responses varied slightly by District, customer service remained a principal factor in overall satisfaction. We plan to compare the Eighth District survey results to the consolidated nationwide results to identify best practices and better meet customer needs.

This survey is unique because it is the first time we interviewed customers throughout the nation

simultaneously. More than 2,500 telephone interviews were completed to ensure a statistically valid response rate.

We appreciate your feedback and are taking steps to address your concerns. The St. Louis Fed will collaborate with the other Reserve Banks to address the areas most important to customers and will monitor progress through internal reporting mechanisms and future surveys.

Three New Applications Improve Customer Service

The Eighth District recognizes the value of integrating technology into customer service. In 1999, we implemented three innovative software applications to improve the level of service we provide.

1) ACSIS—Last October, the St. Louis Fed began using the Automated Customer Service Information System (AC SIS), an application that enables Fed staff to document customer questions and problems.

This software provides online access to customer data, giving Fed support staff a comprehensive picture of a financial institution's service requests throughout the Bank. ACSIS also helps our staff monitor the status of any outstanding issues and analyze the steps being taken to resolve them.

AC SIS will be fully implemented throughout the Eighth District by mid-2000.

2) FACTS—Another electronic tool designed to improve customer service is the new Fed Access Customer Tracking System (FACTS). FACTS is a database containing informa-

tion on the FedLine® and Computer Interface (CI) connections for each financial institution in the Fed System.

This application enables Fed staff to more efficiently manage customers' electronic connections, set up new connections and update information online. FACTS also automates our internal communications, which translates into more accurate and timely responses to your electronic service requests.

3) CSIS—In 1999, the St. Louis Fed began using the Check Services Information System (CSIS), a PC-based application that captures debit and credit information pertaining to our check services.

Our account executives and customer service representatives use CSIS to analyze a customer's deposit in detail and recommend how that institution can more efficiently and eco-

nomically deposit checks with the Fed. Internally, the system's ability to evaluate volume and deposit patterns provides valuable information used in developing new check collection products for the District.

CSIS also enables us to examine our sort patterns and outgoing volumes to ensure we are processing deposited items efficiently. Increasing our operating efficiency reduces our expenses, which, in the long run, leads to competitively priced services for our customers. All Eighth District offices should be using CSIS by the second quarter of 2000.

All three applications are internal management tools; customers will not notice any changes in their FedLine software or CI connection. The benefits of these applications will be reflected in the improved quality of our customer service.

District Shifts Coupon Processing to Dallas

Perfect Time to Start TreasuryDirect

Federal Reserve Bank
of Dallas
Coupon Processing
P.O. Box 660656
Dallas, TX 75266-0656

On Jan. 1, 2000, the redemption of all semi-annual interest coupons for U.S. Treasury securities was consolidated at the Federal Reserve Bank of Dallas. No other Reserve Bank or Branch will process Treasury coupons.

Please send all Treasury coupons you receive to the Dallas Fed at the address in the box at left. If your financial institution does not offer redemption services, customers should mail their coupons directly to Dallas.

The Dallas Fed will pay coupons within one business day of receipt, but no earlier than the interest due date. Payments to financial institutions will be made by crediting the

institution's reserve account; individuals will be paid with a fiscal agency check.

This announcement arrives on the heels of another Treasury securities change that took place last August, when the Fed discontinued processing definitive securities and providing walk-in services. Eventually all *TreasuryDirect* services will be consolidated at three customer service centers across the country instead of the current 37 sites throughout the Fed System.

If you have customers who purchase government securities through brokers, now is an ideal time to encourage them to try *TreasuryDirect*, a program through which investors

can electronically purchase Treasury securities directly from the government and hold them in an account with the U.S. Treasury.

Using *TreasuryDirect* is simple. Investors can initiate transactions by phone, mail or computer without paying broker fees. Unlike paper securities, there is no chance they can be lost, stolen or destroyed. And instead of clipping coupons, investors receive interest payments electronically through Direct Deposit.

For more information on the consolidation or *TreasuryDirect*, contact Mary Sanders in St. Louis at (314) 444-8509.

Weigh Your Options: Piles of Paper or One CD?

When the clock struck midnight on Dec. 31, 1999, we entered the new millennium still using traditional payment methods. Contrary to many analysts' predictions, check and cash transactions did not virtually disappear by the Year 2000. Although the nation is definitely making progress toward becoming a checkless society, we are still years away from eliminating paper transactions as payment options.

Even though many Americans are not ready to give up the check, there are several ways to cut back on paper. For example, many businesses must keep boxes of cleared checks for audit purposes—some dating back as many as seven years. Your institution can provide an alternative to this tedious process by offering the Fed's image-enhanced corporate cash management service.

Put the Fed to Work for You

How does image-enhanced corporate cash management work? At the end of a corporate customer's statement cycle, an institution sends the customer's checks to the Fed. We capture an image of each item and store these images on a CD-ROM. The corporate customer then receives a CD containing digitized images of its checks, which can be viewed on any PC loaded with an image-viewing software program, at least 16 megabytes of RAM, a Windows® operating system and a CD-ROM drive.

Image-enhanced cash management can benefit any of your customers,

especially those who receive large statements. These organizations devote substantial resources to storing, filing and retrieving checks—processes that can be cumbersome, time-consuming and expensive.

The greatest advantage of image-enhanced cash management is the storage space it saves. One CD can hold between 15,000 and 20,000 check images.

viewing software. Each CD comes with a customized label that enables the user to identify its contents.

Finally, corporate customers will find that image-enhanced cash management is helpful when it comes time to reconcile their bank statements. Because the service stores check information electronically, customers can easily

strengthen customer relationships. By offering services that help customers conserve resources, you earn their trust and encourage them to try other services. The more services your customers use, the less likely they are to switch financial institutions. Offering image-enhanced cash management can also show customers that your financial institution is progressive and a technology leader.

Even if you do not choose to offer image-enhanced cash management to your corporate customers, your institution can use it to save storage space and improve the item retrieval process for your own official checks.

To learn more about image-enhanced corporate cash management, contact your local account executive.



It takes between six to nine standard check boxes to retain this many items. Furthermore, check imaging can prove to be a cost-saving alternative for businesses that currently contract with off-site storage facilities to transport and store their checks.

Image-enhanced cash management also makes it easier for corporate customers to retrieve individual items. Instead of rummaging through boxes of checks or reels of microfilm to find a particular check, they can simply look up the item on a CD using image-

organize the data to meet their needs. For example, if your account statement lists items in order by check number, customers can view items in this manner on screen, rather than sorting the checks by hand.

Tip the Scale in Your Favor

Image-enhanced cash management is more than just a great service for your customers—it can also serve as an additional source of revenue for your institution. The product can also be used to

FinancialPage



Retail Payments: Fact or Fiction?

In the Spring 1999 issue of *Payments Quarterly*, we announced that the Federal Reserve System is in the midst of an extensive market research project exploring payment usage rates and attitudes toward a variety of traditional and emerging retail payment methods.

The first phase of the project—a comprehensive search for public and proprietary studies on retail payments—has recently been completed. While work on the next phase of research has already begun, some of the conclusions reached in the first phase provide useful insight into the retail payments industry.

What Did We Learn?

One of the most notable conclusions derived from the literature search is that the total number of retail payments is growing. Each payment mechanism explored in the literature—including checks, ACH transactions, credit cards, debit cards, stored value cards and electronic cash—has grown over the last five years.

Another finding confirmed what many already suspected: the use of electronic payment options is growing rapidly. Even though the base, or total, number of electronic payments made in a year remains significantly less than the total number of checks written, electronic payment growth rates are impressive.

For example, credit card payments grew 48 percent between 1992 and 1997; offline debit card transactions grew almost 30 percent between 1994 and 1998; and electronic data interchange (EDI) and financial EDI transactions have grown 40 percent since 1997.

Furthermore, studies seem to show that while the number of electronic payments is growing, most checks are moving out of the payment stream at the point of sale. Strong growth in both credit and debit card transactions appears to be responsible for the decline of point-of-sale check use; however, no studies have been conducted to prove this assumption.

The conversion to electronic payments may be a slow progression. One study showed that although many consumers are using electronic payment options more often, individuals who prefer to write checks are not likely to change their payment behavior. Another study revealed that consumers have concerns about the safety of making payments on the Internet. And despite projections for strong growth in electronic bill presentment and payment, some data indicate that widespread consumer acceptance does not yet exist.

More Work to Do

The literature search produced volumes of useful information; however,

researchers also found several gaps in the data. For example, there is little information available on the cost of various retail payment transactions or consumer attitudes toward these payment options. And because few retailers monitor or track cash transactions, it was difficult to determine the number of these transactions conducted at the point of sale or elsewhere.

According to Hank Bourgaux, senior vice president of the St. Louis Fed's Operations Division and coordinator of the research project, these gaps will be addressed in the second phase of the project.

"We're going to try to break down the composition of retail payments at the point of sale, and cash represents a large portion of these transactions," said Bourgaux. "It's very difficult to have a clear vision of the aggregate retail payments market unless you have an understanding of how cash fits into the picture."

The next phase of the project, which will involve written surveys of businesses and financial institutions, is expected to begin in the first quarter of 2000. Results of that project will be made available to the industry, so stay tuned for more information.

ReserveNotes

Phone Line Delivers Check Information to Little Rock Bankers

Now Arkansas customers have a direct communication link to the Little Rock Check Department. We have added a special phone line to give you immediate access to the check information you need. To connect, call (501) 324-8300 or 1-800-482-9463. Dial 1 for the check menu and then press the number that corresponds with the service you want to request:

- 1 for dispatch time
- 2 for adjustments
- 3 for return items
- 4 for check manager
- 5 for account executive
- 0 for customer service representative

Pick Up Latest ACH Rule Book

NACHA's 2000 ACH Rules publication is now available. We strongly encourage all ACH participants to keep a copy on hand to reference the most current rules and regulations governing the ACH network.

MPX and SFE members will receive a complimentary copy in early January. Other institutions can order the publication from their regional ACH association, or through NACHA by calling 1-800-487-9180.

New Currency for the New Year

On Nov. 16, the U.S. Treasury unveiled new designs for the \$10 and \$5 bills. Like the changes made to the \$20, \$50 and \$100 bills, the new designs incorporate security features intended to deter counterfeiting.

The Fed will begin circulating the redesigned notes

in mid-2000. In the meantime, the Treasury, the Fed and other agencies will distribute materials to educate tellers and other cash handlers. They will also work with vending machine manufacturers and distributors to ensure their equipment accepts the new bills.

The older currency will retain its full face value as the new bills are gradually introduced. No decision has been made whether to redesign the \$1 bill.

Sharing the spotlight in 2000 is the new one dollar coin, called the Golden Dollar. Its gold color, wide border and smooth edge distinguish this coin from the Susan B. Anthony dollar coin, which will be discontinued once the Golden Dollar is circulated. The U.S. Mint will begin shipping these coins to Reserve Banks during the first quarter.

Get a Hold of the Latest National Average Report

The results of the Federal Reserve's Functional Cost and Profit Analysis (FCA) program for 1998 are now available in the National Average Report (NAV). The NAV provides nationally averaged income and expense information based upon aggregate data from institutions that participated in the FCA program.

If you would like to know the average cost to make a loan, process a withdrawal, accept a deposit, or even the ratio of non-interest income to interest income, the NAV can help. Many financial institutions have used information contained in the NAV to measure performance and price products.

FCA participants receive a free copy of the NAV. Banks and credit unions can purchase a NAV for \$150 per report. To order the NAV or find out more about the FCA program, visit the FCA web site at www.frbfca.org, or call our FCA coordinator, Dan Horton, at (314) 444-8629.

Quicker Response Time for EDITH Users

The Eighth District Interactive Telephone Helpline (EDITH), our voice response system for financial services, recently received a major hardware and software upgrade. Although EDITH customers will not notice any changes in the system's functionality, they will enjoy a faster rate of response when retrieving check totals and processing ACH returns and NOCs, TT&L advices of credit and cash orders.

This upgrade will provide better customer service as we cross the threshold into the new millennium. If you have any questions or would like to request access to EDITH services, call the EDITH Help Desk at (314) 444-8999 or 1-800-333-0871.

Reminder for Canadian Item Depositors

As a reminder, Canadian checks and Postal Money Orders should *not* be deposited in a mixed cash letter. Instead, items should be presented as non-cash collection items through a correspondent bank that has an international department.

If you regularly have a high volume of these items, you may want to consider depositing them via con-

solidated shipment to the Helena Branch of the Minneapolis Fed. This method is less cumbersome than other alternatives because it does not require you to make your own transportation arrangements.

For more information on the consolidated shipment deposit option, contact your local account executive or customer service representative, or see Page 8 of the *Check Deposit Guide*.

Calendar

TIP and PATAK Seminars

This one-day training seminar explains the features and functions of TIP and PATAK, two new applications that will enhance the TT&L program in late 2000.

St. Louis—Feb. 15 & 16

Memphis—Feb. 23

Little Rock and Louisville customers are encouraged to attend one of these sessions.

Memphis Check Adjustments Workshops

Each half-day workshop covers all aspects of check adjustments, from completing request forms to understanding how cases are researched and resolved. Further information will be sent to Memphis customers as the date approaches.

March 9

Morning session—
8:30 a.m. to 11:30 a.m.

Afternoon session—
1 p.m. to 4 p.m.

Get Up to Speed on TT&L Enhancements

This winter, the St. Louis Fed will conduct educational seminars on the Treasury Investment Program (TIP) and Paper Tax System (PATAX), two new systems that will enhance the current Treasury Tax and Loan (TT&L) application in the third quarter of 2000.

Like the current TT&L program, these systems are designed to enable qualified financial institutions to collect and retain a portion of the nearly \$1.4 trillion in federal tax

deposits that the Treasury collects annually.

In February, TT&L Note Option institutions will be invited to attend a one-day session on TIP and PATAX at the St. Louis or Memphis office (see *Calendar* section for dates). Cash managers and operations staff members will be invited to learn more about the applications' features and enhancements, which include a new investment option, enhanced reporting and the ability to initiate account changes online. The seminar also will cover improvements in collateral monitoring, customer support and electronic access.

TT&L Remittance Option institutions will receive educational materials describing the new systems, which

will have a minimal effect on their operations. In addition, both Note and Remittance Option institutions will receive a desktop reference guide, a FedLine® tutorial and a brochure containing information on reducing IRS adjustments.

Watch for more information about TIP and PATAX in the upcoming months. If you have any questions about the new enhancements, call John Hussey in St. Louis at (314) 444-4672, or check our web site at www.frbstlouis.org under the Treasury/Government section.

A Phone Call Away

If you have questions or comments, let us pay for the call. Our toll-free phone numbers and customer service representatives are:

St. Louis Office

1-800-333-0810

Bobbi Antoff

(314) 444-4259

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

Butch White

(502) 568-9224

Memphis Office

(in Tennessee)

1-800-552-5132

(outside Tennessee)

1-800-626-4507

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(901) 579-2435



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