

Cash counts: Taking stock of FedCash Services today

The Federal Reserve Banks are upgrading technical processes and bringing standardization to FedCash Services that are designed to streamline service delivery, enhance security and provide customers with better risk management and decision making tools. This evolution allows institutions to *cash in on the future* with a more seamless ordering, fulfillment and deposit processing experience.

Clearly, the payments landscape has changed dramatically in recent years. In step with these changes, the Federal Reserve Banks have modified their FedCash Services over the past few years to:

- Drive efficiency and provide a consistent customer experience with increasingly standardized platforms across the country
- Enhance security to help mitigate risk
- Improve applications/tools for customer self-sufficiency and choice
- Provide timely accounting information
- Enable the implementation of new payments technologies and enhancements

The Federal Reserve Banks recognize the need to continually review and proactively offer effective and efficient cash services. In order to keep depository institutions up to date about operational changes, a two-part

series on FedCash Services will be featured in *FedFocus*. In this first installment, we will review a range of recent enhancements and resulting customer benefits that include:

- Equipment upgrades to increase productivity and improve service
- Inducements to increase ordering efficiency
- Ordering channel enhancements to create a more consistent customer experience
- Improved risk mitigation tools for better control

Equipment upgrades to increase productivity and improve service

In 2008, the Federal Reserve Banks will be rolling out modernized cash processing equipment to increase productivity. The Reserve Banks currently own 133 high-speed cash processing machines that count notes and detect worn and counterfeit currency. In 2007, the Federal Reserve Banks processed approximately 36 billion pieces of currency on those machines. The modernized machines will be deployed throughout 2008 and 2009. Early indications suggest that the upgraded machines can increase processing productivity by at least eight to 10 percent, and perhaps substantially more for certain denominations. Increased productivity should reduce operating costs over time and improve response time for verifying deposits, detecting differences and providing notifications.

As part of this upgrade, the Federal Reserve Banks are investing in digital imaging technology to capture information from currency straps when differences are detected. Once the upgraded machines are deployed, the Reserve Banks will be in a position to deliver difference advices and strap images electronically. Not only will this streamline operations, it will also deliver critical information to customers on a more real-time basis, helping them to manage their risks more effectively.

Inducements to increase ordering efficiency

In July 2007, the Federal Reserve Banks began enforcing the Federal Reserve Board of Governors' new Currency Recirculation Policy to encourage more efficient use of cash services. Under the policy, depository institutions that deposit fit \$10 or \$20 notes at a Federal Reserve Bank and order the same denomination during the same week are assessed a fee for each bundle exceeding the de minimis exemption level¹ (See "Navigating the Recirculation Policy: Services to minimize cross-shipping fees" in the March 2007 *FedFocus*).

In order to help institutions avoid fees and encourage greater recirculation of fit \$10 and \$20 notes, the Federal Reserve Banks began providing two services: The FedCash Custodial Inventory (CI) program and FedCash Cross-shipping Reports via the FedLine Web access solution. The FedCash CI program enables institutions that recirculate a minimum of 200,000 notes per week to transfer eligible currency to the Federal Reserve Banks' books, but physically hold the currency within their own vaults, thereby reducing the investment cost of holding currency long enough to recirculate it to their customers. FedCash Cross-shipping Reports help institutions monitor and manage cross-shipping activity with four detailed, downloadable reports to analyze currency shipping activity. Proper management of cross-shipping activity may help institutions avoid fee assessments.

Together, the new policy and the related FedCash Services offerings strive to eliminate inefficient cross-shipping activity, while maintaining the integrity of circulating currency.

Ordering channel enhancements to create a more consistent customer experience

In late 2007, the Federal Reserve Banks rolled out enhancements to their two automated ordering channels, FedLine Web and FedPhone®, that enabled customers to

place orders for new, as well as fit, currency for the holidays. These new tools replaced the more manual fax-in ordering procedures that prevailed in most districts in prior years and ensured that both fit and new currency were available to customers in all zones. FedLine Web customers also benefited from the enhanced order tracking tools available on that access solution. To facilitate better management of holiday currency inventories, the Reserve Banks provided two separate ordering periods — in early November and early December. As a result, customers can expect holiday currency ordering to be as simple as regular ordering processes going forward.

Improved risk mitigation tools for better control

In early 2007, FedCash Access Manager began offering customers increased flexibility and self-service control of FedCash Services. FedCash Access Manager enables an institution to offer different levels of access to designated Administrators and other Subscribers. It also allows an institution to control endpoint access for Subscribers. The result is a powerful tool to assist with contingency planning and risk mitigation (See "Three levels of FedCash Services access help institutions manage risk" in the September 2007 *FedFocus*).

While cash remains a vital component of the payments system, there's little doubt that electronic payments will continue to challenge how cash is used.

At the same time, the Federal Reserve Banks are offering FedCash Services over the FedLine Web and FedLine Advantage access solutions for faster, more flexible access to cash services. This will help provide depository institutions with better control of their risk exposure.

Looking ahead

As we've noted, these enhancements are aimed at providing streamlined, customer-friendly FedCash Services. In the next issue of *FedFocus*, we will provide details about additional changes to expect in the coming months. In the meantime, you can always find the very latest information on FRBservices.org/fedcash/.

¹ The de minimis exemption level is set at 875 bundles per quarter.

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