

# As the ePayments scale tips, a wave of new products rolls in

By all accounts, the transition away from a paper-based check clearing system has gained momentum in the last year as more and more financial institutions take advantage of the opportunities afforded by Check 21.

As reported in the last issue of *FedFocus*, September 2007 was the tipping point where more items were deposited with the Reserve Banks in Image Cash Letters (ICLs) than as traditional paper deposits. This trend has continued, with more than 62 percent of all deposits in February 2008 arriving in ICLs.

“By 2010, we expect more than 90 percent of checks will clear as images,” states Fred Herr, senior vice president of the Federal Reserve Banks’ Retail Payments Office. Figure A (below) attests that this trend continues with accelerated upward momentum.

### Check 21 ICL availability options for depositors

As the pace of transition intensifies, financial institutions are looking for opportunities to achieve cost efficiencies and improve the value proposition to convert remaining paper items to image. In response, the Federal Reserve Banks have expanded the FedForward® product suite to include additional Check 21 ICL deposit options.

These product enhancements are designed to help meet the unique needs of customers, from those who value low cost image clearing alternatives, to those who value high availability. Additionally, the enhancements provide financial institutions a number of options for reducing

image clearing fees in exchange for somewhat lower availability, complementing the Mixed ICL calculated availability deposit option — the foundation of the FedForward product suite. The new ICL deposit options include:

- **Deferred Mixed ICL** – Allows all items in the cash letter to be deferred until the 3 p.m. ET deadline the following business day and are priced lower than the traditional Mixed ICL deposit. This product, offered on Mixed, Presort and Fine Sort deposits, is ideal for low-dollar items where availability may not be a significant factor
- **Dollar Cut Mixed ICL** – Provides lower clearing fees for lower-dollar items by deferring availability to the next business day on all items under \$1,000. This product offers institutions, with limited sorting capabilities, the opportunity to reduce clearing fees in exchange for lower availability on a portion of their items
- **100 Percent Immediate Availability Option** – Provides immediate availability on all items at eligible deadlines. This product, available on FedForward and FedReturn® deposits, provides easier reconciliation through one credit entry, per cash letter, per day. In exchange for immediate availability on all items, an explicit fee ranging from \$.003 to \$.05 is assessed on all items in addition to published fees

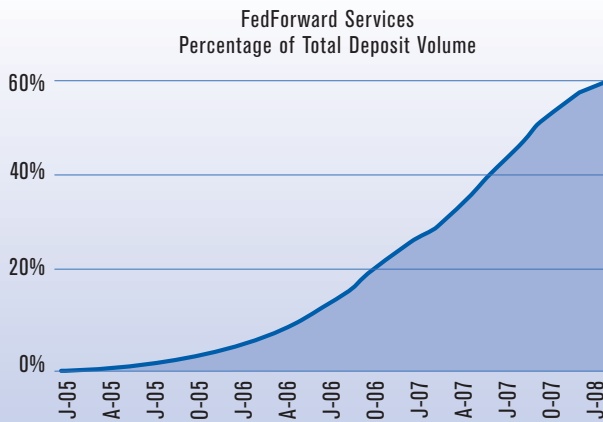


Figure A

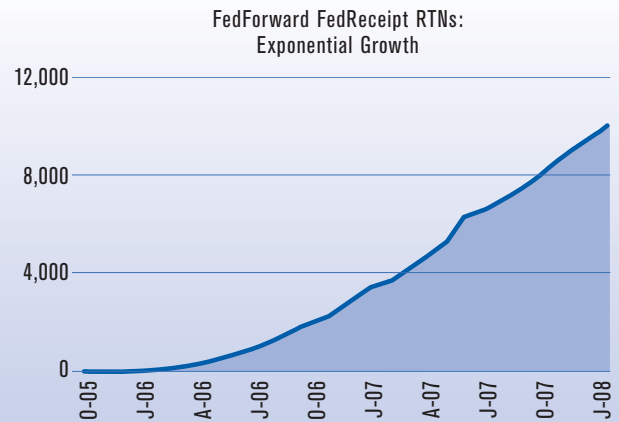


Figure B

### Fostering a national network for end-to-end electronic check clearing

It is well known that the true efficiencies in check collection come from end-to-end electronic check clearing and return. Once a paper check has been imaged, the fastest and most efficient way to complete the collection process is electronic presentment. The FedReceipt® inclearing services provide paying banks the opportunity to realize the benefits associated with efficient, electronic check processing.

The growth in FedReceipt is impressive in its own right. Two years ago, in April 2006, there were 470 RTNs signed up for the forward FedReceipt Service, agreeing to accept an ICL in place of paper for all, or a portion, of their inclearings. Since then, the growth in FedReceipt has been impressive, crossing the 10,000 RTN threshold earlier this year.

The geographic reach of the network is widespread, representing all 50 states, as well as Puerto Rico, Guam, American Samoa and the Federated States of Micronesia.

These institutions are all realizing the benefits of FedReceipt Services, including reduced expenses for back room operations, earlier posting and improved balance reporting.

The steady growth indicated in Figure B (bottom of page 8) is a testament to the number of customers who recognize the advantages of the all-electronic payments system. Today's Check 21-enabled payments products offer the benefits of reduced fees, while providing the ability to choose specific services that best help meet the objectives of each financial institution. The suite supports the electronic check clearing process in today's marketplace, while assisting organizations in achieving a sustainable competitive advantage.

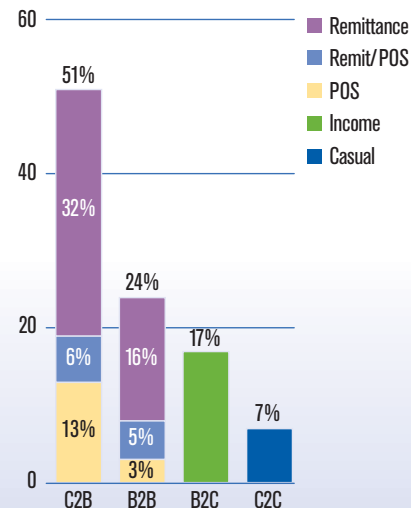
Contact your account executive for additional information on which Check 21-enabled products can be most beneficial for your institution or visit [FRBservices.org/Retail/Check21.html](http://FRBservices.org/Retail/Check21.html).

## Study reveals biggest share of checks written are C2B

The *Check Sample Study* is one of three components included in the *2007 Federal Reserve Payments Study*. Its findings were released on March 25, 2008, and can be viewed in their entirety at [FRBservices.org/communications/payment\\_system\\_research.html](http://FRBservices.org/communications/payment_system_research.html). The first two components of the study were released December 10, 2007.

The composition of the check market is based on responses from nine large financial institutions that together account for about one-quarter of total U.S. paid check volume. According to the study, the highest percentage of check payers (writers) were consumers at **58 percent**, while the highest percentage of check payees (receivers) were businesses at **72 percent**.

“The findings help the payments industry better understand how checks are being used and inform future payments investment decisions,” stated Richard Oliver, executive vice president of the Federal Reserve Banks’ Retail Payments Office.



- “C” refers to consumer
  - “B” refers to business or government
  - Figures may not add due to rounding
  - Population is “prime pass” checks processed by nine large commercial banks
  - Representative random sample of over 32,000 checks
  - Sample population is about 40% of “prime pass” checks
  - Estimates exclude 0.4% of checks that could not be classified
- Source: Exhibit 10 The *Check Sample Study*