



Progress on the long journey
to electronic payments



(Left to right) Robert Price, senior vice president, Cleveland Fed, with Nell Campbell-Drake, Retail Payments project director, Richard Oliver, executive vice president, and Elizabeth McQuerry, assistant vice president, all of the System Retail Payments Office

The long journey from paper to electronic payments in the United States has involved many unexpected impediments. Despite the rough terrain, 2006 was a year of substantial progress. The volume of payments made through the Fed's automated clearinghouse (ACH), for instance, increased 11 percent in part as a result of the conversion of paper checks to ACH debits, either at the point of purchase or at so-called lockboxes. The goal of establishing a

seamless end-to-end electronic payment system is coming into closer view.

The Federal Reserve's Retail Payments Office (RPO), which is based at the Atlanta Fed, continued to play a leadership role in 2006 in the quest to make the backroom business of paying for goods and services more efficient. Sometimes this responsibility to encourage more efficient payments leads the Fed to go against the grain of an



industry invested in now-cumbersome methods for processing paper checks.

For instance, an important program to increase the speed of check payments is the Check Clearing for the 21st Century Act (Check 21) of 2003. After Check 21 took effect in October 2004, many banks were slow to convert to this new method for creating and sending electronic images of checks, which then can be printed on paper as “substitute checks” to the paying bank if required.

In 2006, however, many more banks came to see the advantages of faster payments through Check 21. The Atlanta Fed is the largest processor of Check 21 transactions in the Fed System. With these transactions gaining a critical mass of volume, the Atlanta Fed, like some other Reserve Banks, found it necessary in 2006 to invest in new high-speed printers, imag-

ing technology, and other equipment to increase capacity. At the beginning of the year, the Atlanta Fed’s main facility for Check 21 printed an average of 180,000 substitute checks a day; by year’s end, the daily average was about 822,000. Processing facilities at the Nashville and Jacksonville branches reported proportionally similar increases.

While Check 21 expanded in 2006, the RPO proceeded with clearly painful but necessary plans to restructure more traditional check infrastructure in line with the Fed’s congressional mandate to recover the costs of providing financial services. These changes, which included the closing of many check processing shops, were implemented across the Fed System, but as the Reserve Bank with the most branches (five), the Atlanta Fed endured some reductions. Check processing operations previously located at branches in



Substitute check printers at the Atlanta Fed

Miami, Birmingham, Nashville, and New Orleans have been moved to Atlanta over the past several years or are assigned to do so in the near future. The bank also shut down cash operations at the Birmingham Branch, which became a cash depot serviced from Atlanta as part of a separate nationwide effort to ensure cash processing offices are deployed to the most effective locations.

In a global economy, low-cost payments should not stop at national boundaries, and the Fed continued to lay the groundwork for international ACH payments growth, forging relationships with key “gateway” partners in Europe and North America. Along these lines, the Fed RPO’s bank-centric Directo a México International ACH program gained traction in 2006 as a low-cost method for bank account holders in the United States to make remittance payments to Mexico.

Remittance payments are a rapidly growing and important market for businesses, individuals, and the U.S. government. Despite some public debate about this program during 2006, the Fed is committed to supporting and expanding efficient payments to Mexico as part of the Partnership for Prosperity approved in 2001 by the presidents of the United States and Mexico.

The transition to efficient payments will continue long past 2006. But the Atlanta Fed, working through the Federal Reserve System and with others in the financial services industry, is committed to confronting and overcoming the many challenges along the way to reaching our goals.