

Table 6

Electronic Check Product Share and Volume Changes			
	VOLUME CHANGE THROUGH AUGUST 2003 (PERCENT)	ESTIMATED 2003 CHANGE (PERCENT)	SHARE OF CHECKS COLLECTED THROUGH AUGUST 2003 (PERCENT)
Electronic Check Presentment ^a	-0.6	-1.9	24.0
Truncation	0.1	-1.2	5.6
Non-Truncation	-0.8	-2.2	18.4
Electronic Check Information	-6.9	-3.4	6.2
Images	8.8	8.8	9.8

^a ECP consists of truncated and non-truncated checks. Non-truncated checks include checks presented through the MICR presentment and MICR presentment plus products.

3. *2004 Projection*—For 2004, the Reserve Banks will focus largely on opportunities to streamline further check processing and adjustment activities across the System. The multi-year check modernization project will be largely completed by the end of 2003 and will result in a standard operating platform in all remaining Reserve Bank check processing offices. In 2004, the Reserve Banks plan to reduce check costs by \$21.2 million as the check modernization management and implementation teams are phased out. As the Reserve Banks complete their transitions to the standard check platform, they will reduce operating costs further. For example, through August 2003, the Reserve Banks have reduced check operating costs \$13.2 million because of the greater efficiencies resulting from the check modernization projects. In addition to these anticipated cost savings, the transition to a common operating platform also will enable the Reserve Banks to improve their operating efficiency further by providing them with additional flexibility to adjust their check processing infrastructure.

Check restructuring allows the Reserve Banks to address ongoing volume changes by reducing excess capacity across the Federal Reserve System. The Reserve Banks will begin implementing the restructuring initiative this year and will continue the restructuring through 2004. While most

of the one-time costs for this initiative will be accrued in 2003, significant costs also will be incurred in 2004. Check restructuring is expected to improve Reserve Bank cost effectiveness over the long term, with the current initiative reducing steady-state production costs by \$60 million in 2005. The Reserve Banks will continue to assess the potential for further changes to their check processing infrastructure. Given the expected continued volume decline in the interbank check collection market and the industry's excess processing capacity, the Reserve Banks anticipate further changes to their infrastructure in 2005. As a result, the Reserve Banks' 2004 budget includes the accrual of expenses associated with further changes in their check processing infrastructure in 2005, and potential expenses for operational changes related to Check 21 in 2004. The Reserve Banks are currently developing products as well as making changes to operational workflows to address Check 21.

In addition to the operational initiatives for improving efficiency and reducing ongoing costs, the Reserve Banks will modify the price of selected products in 2004 to enhance service revenue. The Reserve Banks will increase certain fees to collect and return checks drawn on depository institutions that are distant from Federal Reserve check processing offices to reflect the Reserve Banks' costs more

accurately in providing these products. Most of the price increases are targeted at markets that have become increasingly costly for the Reserve Banks to service. Depository institutions collecting checks drawn on and returning checks to depository institutions located in these markets may see a substantial increase in their check collection and return fees.

There is also a significant effort in 2004 to continue setting fees to achieve greater pricing consistency for key products across the Reserve Banks. In addition, a number of high-value products have been selected for moderate price increases for 2004. The fee changes will enhance the Reserve Banks' ability to recover costs, while maintaining the competitiveness of these products.

For 2004, the Reserve Banks are targeting an overall price increase of 5.2 percent, as shown in table 7. This increase consists of a 5.8 percent increase in forward check-collection fees, comprised of a 6.9 percent increase in forward cash letter fees and a 5.4 percent increase in per-item fees. Fees for return services will increase by 6.1 percent, which is composed of a 7.5 percent increase in return cash letter fees and a 5.1 percent increase in per-item fees. The average volume-weighted fees for payor bank services will increase 0.7 percent compared with current fees.