

ADVANCED FRAUD SOLUTIONS, BRYNN JOHNSON

Proposal and Comment Information

Title: Check Services - Request for Information and Comment on the Future of the Federal Reserve Banks' Check Services, OP-1874

Comment ID: FR-2025-0077-01-C237

Submitter Information

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Organization Type: Company

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Submitted Date: 02/05/2026

Response is included in the attached file.

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Fed Check Services RFI Question

What is your view of the importance of the Reserve Banks' check services in the United States today? How should the Federal Reserve's role in the provision of check services evolve over the next 3 years and over the next 10 years?

What aspects of the Reserve Banks' current check services (for example, deposit deadline options, how quickly checks are processed, discrepancy resolution services, and options for sending a check back as a return) are the most critical, and why?

Generally speaking, what would be the impact of different potential strategies for the Reserve Banks' check services, including those discussed above: (1) continuing Reserve Banks' check services largely as they exist today with significantly degraded reliability over time, (2) significantly simplifying Reserve Banks' check services, (3) substantially winding down Reserve Banks' check services, or (4) upgrading the Reserve Banks' check-processing infrastructure to support existing services and reliability? Are there other strategies you believe the Reserve Banks should consider?

Would you, your organization, or your community be willing to incur additional costs and fees to continue to use or process checks as you do today? Why or why not? Would you, your organization, or your community be willing to make additional investments such as enhancements to check security features in support of continued use of checks in the future? Why or why not?

If your organization relies on the Reserve Banks' check services, directly or indirectly, to what extent could alternative providers offer similar services that meet your needs over the next 3 years and over the next 10 years? For instance, are there unique benefits of the check services provided by the Federal Reserve that are not otherwise available in the industry?

How important are checks to you, your organization, or your community, and how challenging would it be to use alternative payment methods? How might the importance of checks and the challenges associated with using other payment methods change over the next 3 years and over the next 10 years?

What are the unique aspects of checks that lead users to continue to use checks?

How could other payment methods offer the same benefits as checks if they do not already? Are there any barriers that prevent alternative payment methods from offering the same benefits as checks, or other constraints on adoption of these alternatives?

Do you have any planned or ongoing efforts to transition from checks to electronic payments, and why or why not? How can particular communities that may still need to rely on checks, such as the elderly, rural populations, and low- or moderate-income households, be better served?

What benefits and risks to the payments system and to the public should the Board consider as it assesses potential strategies for the Reserve Banks' check services?

In addition to these questions above, the Board invites comments on any other considerations it should assess as it evaluates the future of the Reserve Banks' check services.

Advanced Fraud Solutions Response

Due to the digitalization of check processing, the process is faster and less error prone. Also, depending upon the size of the financial institution, many institutions have outsourced check processing operations to third-party vendors who have the ability and option to clear directly with financial institutions. Also, many financial institutions already have direct relationships with other financial institutions.

With the reduction in check volumes, outsourcing will likely become more prevalent in the industry. Therefore, the Federal Reserve Check Services operation should begin the process of ending services within three years and be fully ended within 10 years.

With the increased use of instant payments and the market's demand, whether retail or commercial, of easy and faster payment processes along with the ongoing fraud scenarios related to checks, the ability to process checks and report issues such as returns quickly is important.

The Federal Reserve's services are known for reliability and security. Allowing the services to degrade over time should not be an option.

Strategically and methodically reducing and simplifying the services over time as Check Services winds down the operation would be a step in the right direction. Simplification over the next three years and ending the services within ten years is a reasonable plan.

Given the initiatives to move check volume to digital transactions for both retail and commercial users, spending to upgrade the check processing infrastructure should only be considered if the infrastructure causes down time or security issues during the transition to ending the services.

Based upon market demand for faster payment processes and instantaneous responses including posting, expenditures should be focused on digital payments and methodologies to end use of checks for those using them today. Such activities should include integrations with accounting platforms to aid businesses in eliminating checks as payment tools as well as enhancing security for digital payments.

Our use of the Reserve Bank's services today is limited to the receipt of files on behalf of our client base. Financial institutions as well as third-party vendors would be able to provide the same files and transaction data.

As the US population ages, those using checks will continue to diminish as expectations of fast, online, digital transactions are the norm for both retail and commercial users outside that aging population.

If accounting solutions and online banking solutions allow both retail and commercial users to make payments using digital methods, checks should dramatically reduce in number over the next 3 to 10 years.

Older generations continue to use checks as a trusted payment method and an understandable payment solution where technology in that age group is not widely used or understood.

Businesses also use checks as a part of their accounting process; however, changes to both accounting and online banking solutions could aid significantly in reducing the number of checks written by businesses.

Industry data has also speculated that Millennials and Gen Z may be going back to check writing to aid in preventing overspending.

Society's expectation today is fast and secure for any payment transaction. As digital faster payments are more widely available and used with speed and security, their use should become the standard. However, integrations and solution enhancements for both financial institutions and service providers will be required to ensure that fast and secure digital payments are available to all users.

The check writing process allows a physical review of the payment, a process that is appealing to some payment issuers such as businesses. While a receiver wants a payment immediately, the sender's review could identify mispayments, for example. The ability to review a payment prior to its final submission to a receiver would be an added benefit for senders using digital methods.

As a service provider, we are consistently working to enhance our digital fraud mitigation solutions to the transactions that matter to our customers.

As transition occurs to eliminate Check Services, the service must continue to provide a secure payment process while managing costs during the transition.

As the evaluation to eliminate Check Services continues, the Board should ensure an uninterrupted, secure payment process while managing costs during the transition.

Expenditures saved by winding down Check Services should be used to educate users and ensure that the needed integration points are available to fully automate payment processes from start to finish.