NEXT STEPS BY THE PAYMENTS SYSTEM DEVELOPMENT COMMITTEE TO ADDRESS BARRIERS TO ELECTRONIC CHECK PRESENTMENT

On June 29 the Federal Reserve’s Payments System Development Committee hosted a workshop at the Federal Reserve Bank of Boston to help identify significant barriers to the greater use of electronic check presentment (ECP) in the United States. Participants in the workshop were asked not only to help identify significant barriers to the greater use of ECP but also to suggest potential steps that the Federal Reserve and the private sector might take to address these barriers. Knowledgeable private- and public-sector representatives from a variety of organizations participated in the discussions. In their remarks to the workshop, Roger Ferguson and Cathy Minehan, on behalf of the Payments System Development Committee, promised to follow up with participants to describe the next steps the Committee and the Federal Reserve will take to help address barriers to ECP. The key focus of this document is on near-term actions the Federal Reserve and the private sector can take cooperatively to help address these barriers.

Key action areas

The Payments System Development Committee has reviewed the ideas put forward at the workshop and believes that there are several promising areas for near-term action. These include:

- Further consideration of legal changes that would foster the use of check truncation, ECP, and digital imaging by permitting the collection or return of a substitute check when necessary instead of the original check.

- Further efforts to develop and implement standards for exchanging electronic images of checks, where needed, and for creating and using substitute paper checks.

- Facilitation of follow up discussions with the banking industry about the mature ECP environment and the business case for depository institution participation in ECP.

- Discussions with the banking industry about tests of new operational concepts involving ECP and check imaging, potentially including additional tests of concepts by either the banking industry or the Federal Reserve.

- Work on educational materials that could be used to help inform depository institutions and the general public about check truncation, ECP, check imaging, and related topics.
Next steps

The following paragraphs provide additional information on the next steps for cooperative work. Several of these steps will need further refinement as the Federal Reserve and the private sector continue to evaluate how best to take forward specific initiatives.

**Default check truncation rules.** As discussed at the workshop, one way to facilitate the truncation of checks is to modify check law to remove the requirement that a bank must collect or return the original check unless it obtains agreement to do so electronically. One concept would treat a digital image of a paper check or a machine-readable paper copy of the check (a “substitute check”) as the legal equivalent of the original check. If a bank did not agree to accept electronic presentment or return, a bank could collect or return a substitute check instead of the original check. Preliminary work by the Federal Reserve, depository institutions, consumer representatives, and the legal community on this concept shows promise. Further work to explore possible changes to current check law, along with potential operational changes, remains to be done. To follow up on the discussions at the workshop, a meeting to examine these ideas in greater detail will be held at the Federal Reserve Board on September 7.

**Standards.** Participants at the workshop noted that standards for image replacement checks will need to be developed to complement efforts in the legal and operational areas. The topic of standards for image replacement checks has now been suggested for the agenda of the September meeting of the ANSI X9B5 check images standards group.¹ Some further work on standards involving the interchange and storage of digital check images, as well as educational work involving existing standards, may also be needed. The Federal Reserve will work with the banking industry to follow up on these issues and will sponsor a workshop on the standards issue in 2001. Additionally, workshop participants emphasized that broader participation by depository institutions in existing standards setting groups is needed.

**Long term ECP environment and near term business case.** Workshop participants talked about the need for a common definition of ECP, common language, and a broader understanding of the business case for various types and sizes of depository institutions to participate in check truncation, ECP, and check imaging. Some individual institutions and banking associations have already undertaken important work on these topics. The development of a business case to engage in particular operations or offer particular products and services is ultimately a matter for the individual institutions involved. As a facilitator of further discussions, the Federal Reserve will contact representatives from the banking industry to discuss their ideas on how to approach these issues.

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¹ A Federal Reserve staff member currently serves at the chair of the ANSI X9B5 group.
Additional tests of ECP concepts. The Federal Reserve currently presents electronically 25 percent of the checks it collects. Nearly ten percent of these presentments now involve check truncation. The Federal Reserve is also actively conducting a pilot project involving ECP and digital imaging concepts through the Helena Branch of the Federal Reserve Bank of Minneapolis (Montana Project) and is leading a joint effort with the industry to re-engineer the check return process using digitized images. Likewise, private organizations have been undertaking significant efforts to increase the use of ECP in the near term. The Federal Reserve has been discussing ECP concepts with the banking industry for some time and will reemphasize the policy that new concepts for ECP are welcome and that the Federal Reserve is open to suggestions for the cooperative investigation of responsible ideas. Additionally, as suggested at the Workshop, the Federal Reserve will continue to review its own products and deadlines involving ECP and related services in light of the growing interest of the banking industry in ECP.

Educational efforts. The banking industry has the central role in educating bank customers and the general public about check products, account services, and related issues, including truncation, ECP, and digital imaging. Some participants in the workshop suggested that there is a need for additional educational materials that would help support these efforts. To help supplement the work of other organizations, the Federal Reserve will explore with the industry the development of relevant and informative educational materials related to ECP and truncation for targeted audiences.

Finally, the Payments System Development Committee will continue to seek forums for dialogue with the private sector regarding ECP and other emerging retail payment system issues. The Committee continues to believe that dialogue, along with well-focused efforts by the private sector and the Federal Reserve, hold significant promise for improving the long-run efficiency of the U.S. retail payment system.