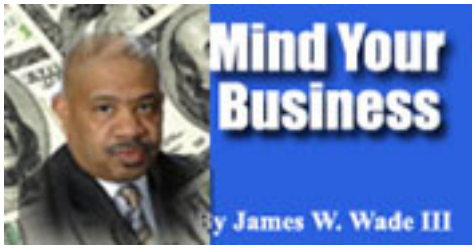

So in 2013 be prepared to move forward in the electronic age but continue to ‘mind your business.’

Paper checks are fading

For some time now, I have been asking how long would paper checks be around with everything being more electronic and most people are using debit cards more and more. The Treasury Department is now facing a March 1 deadline to get millions of people who still receive their benefit payments by mail to convert to electronic delivery.

Affected are those receiving Social Security, Supplemental Security Income, Veterans Affairs, Railroad Retirement Board or Office of Personnel Management benefits and other non-tax federal payments. The government has been gradually phasing out paper checks to save money. It costs 92 cents more to issue a paper check than it does to electronically deposit the benefit money.

Electronic is the new best way to go in almost everything we do now in life. Remember, when you had organizations and you had a recording secretary and corresponding secretary for minutes? Now all they do is type them up and email them. Want to have a special meeting? You used to have to call each person or send a letter by mail, now just email everybody and have them respond.

More than likely the term the ‘checks in the mail’ will be a phrase of the past. The internet has arrived for the business world and I hate to say it, you have to embrace it. I laugh so hard when I see the commercial about the woman who said she believes everything on the internet. And she is now dating a French model. He walks up, looking all goofy and big stomach only to say one line of French.

I think that's a great commercial.

The government is seeking ways to reduce costs and is estimated a cost savings to theU.S.payment system resulting from implementing Check 21. This legislation initially permitted a paper substitute digital image of a check and later an electronic digital image of a check to be processed and presented for payment on a same-day basis.

Check 21 has effectively eliminated the processing and presentment of original paper checks over multiple days. By shifting to electronic collection and presentment, the Federal Reserve reduced its per item check processing costs by over 70 percent, reducing estimated overall payment system costs by $1.16 billion in 2010.

In addition, payment collection times and associated the old 7 day float time for collecting on a check.

Checks have played an increasingly important role in theU.S.payment system since 1865 when they started to replace cash for certain large value business transactions. They have long been the most used non-cash payment instrument in theU.S.because, up until the 1950s when credit cards became established, checks were the only significant non-cash instrument available.

In 2009, 24.5 billion checks were paid out of 109 billion non-cash transactions totaling $72 trillion.

Not only banks are seeing the change but the post office has seen a decline and people mailing their bills in. They are paying online which decrease the sale of postage stamps. I often laugh at me remembering people who say I will write the check and I have 7 days before it clears, not anymore with Check 21.

The benefit of Check 21 is that, once a check is deposited at a bank with the proper imaging equipment or at a Federal Reserve, the original check is truncated and the image on the front

and back of the check is sent to the paying bank.

The result is that funds are received at the bank of first deposit on the cost of borrowing these funds from a bank. Consumers also benefit since their need to hold extra balances to fund expenditures or tap a credit card line of credit is reduced.

Check float has been viewed as a zero-sum game since any benefit from reducing the value of float for collecting banks and their customers equals the loss received by paying banks and their customers. However, Check 21, by providing rapid electronic collection of check images, renders moot the incentive to incur the substantial costs of expedited collection and remote disbursement merely to redistribute the benefits.

The reduction/elimination of expenses to redistribute these benefits reduces the social cost of the payment system a same-day or next-day basis, reducing processing, collection, and availability and saving 1 day or more in opportunity cost. Since businesses receive funds much faster, they need to hold less working capital and they save tremendously.

There have been earlier efforts to shift payments to cheaper electronic methods. The most successful, although it took a long time, is the Automated Clearing House (ACH). Initiated during the 1970s by commercial banks that asked the Federal Reserve to become the ACH operator, there are now also many private sector operators in different parts of the country.

The ACH was envisioned to do what has been fully accomplished by Check 21. The idea was to take payment information on a check and transmit it electronically nationwide among check clearinghouses (where banks meet to exchange checks drawn on each other).

This great idea help speed up collections and, over the years, helps reduce processing and delivery costs. Although ACH initially expanded slowly, many billers now receive payments via a preauthorized ACH debit to your bank account (direct debit) and most employees, retirees, and Social Security recipients receive payroll and other payments via an ACH credit to their bank account (direct deposit).

However, by value, the largest set of ACH transactions are among banks overnight for corporate cash management purposes. Banks collect daylight and end of day idle balances for their corporate customers from many dispersed individual banks and concentrate these balances at a cash concentration bank for sale into the market overnight or the next day or for other corporate uses such as funding other subsidiary operations.

So in 2013 be prepared to move forward in the electronic age but continue to 'mind your business.'

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Comments and questions are welcome but, because of the volume of mail, personal responses are not always possible. Please note that comments or questions may be used in a future column.