PRODUCT FOCUS

"PayTM Card"

by Evelyn Tullos

First it was the ATM card, then the debit card, then the Smart Card. Now enters the PayTM Card, and employers and employees alike are finding it a sensible alternative to the traditional paycheck.

The PayTM card allows Mercantile Cash Management customers, such as temporary staffing agencies and fast food restaurants, to offer employees a new way of being paid — a PayTM card. Each pay day the employer deposits funds in Pay accounts of its employees. Employees can then withdraw all or part of their wages from any of more than 200,000 ATM locations nationwide, or use their card at point-of-sale merchants for goods and services.

Bonus — any remaining balances earn 3% interest, and a Holiday Savings Plan (also interest bearing) may also be implemented.

"Employees find the PayTM very convenient. It eliminates time spent picking up pay checks, reduces check cashing fees, and provides spending control," said Andrea Allen, manager, Cash Management. "Employers like the service because reduces the administrative costs to produce and distribute payroll, while keeping a tighter rein on check fraud."

The PayTM card carries the Citibank logo. Citibank administers the payroll accounts and issues all statements. PayTM card users are charged normal ATM fees and a small transaction fee for withdrawals.

Evelyn Tullos is an officer and associate in Cash Management.

Corporate Banking

Beware: The Euro is Coming!

by Larry Kirschner

In January of 1999, 11 countries will unite in an unprecedented monetary experiment. For the first time since the fall of the Roman Empire, these countries will have a common currency, with each individual currency valued to the same standard (the euro). Each country will have 3-1/2 years to convert exclusively to the euro. By mid-2002, local currencies will have no commercial value, and the euro will be the only recognized currency for these countries.

Ultimately, this will help solve one of the greatest obstacles in European society — selecting a restaurant. It is much too complicated to choose eating establishments in Europe because of non-standardized currencies. For example, a Big Mac can cost DM 4.95 (Germany), Ffr 17.50 (France), lire 4,500 (Italy), Fl 5.45 (Netherlands), pta 375 (Spain), or Bfr 109 (Belgium). The U.S. dollar equivalent for these prices is $2.69 (Germany), $2.84 (France), $2.47 (Italy), $2.63 (Netherlands), $2.40 (Spain) and $2.87 (Belgium). You obviously want to have lunch in Spain where Big Macs are 20% cheaper than in Belgium.

Once the euro is in place, Big Macs may not cost the same throughout Europe but pricing will be more transparent. Aside from consistent meal prices, what else does monetary union mean?

It means that trade within Europe should increase. One theory driving monetary union is that Europe is built on a common economy. A common economy should operate more efficiently with a common currency since members of the European Monetary Union transact approximately 70% of their trade with each other. If the volatility and transaction costs are removed from business conducted within the European Union, the belief is that overall trade will increase.

Larry Kirschner, seated, far right, and the staff of Foreign Exchange department, are available to assist customers prepare for entry into the European market.

A Centralized Bank

In the United States, the Federal Reserve System (Fed) functions as the central bank of the country. The Fed is responsible for establishing the monetary policy of the United States, supervising and regulating banks, maintaining the stability of the financial system, and providing critical financial services.

In Europe, there are several institutions with similar responsibilities, including the Banque Nationale de Belgique, Banque de France, Oesterreichische Nationalbank, Suomen Pankki, Banque de France, Institut MonÈtaire Luxembourgeois, Central Bank of Ireland, De Nederlandsche Bank, Deutsche Bundesbank, Banca d'Italia, Banco de Portugal and Banco de España.

With the advent of EMU, representatives from all these institutions will unite to form the European Central Bank (ECB). Each country will then operate under a single policy. Much like the Federal Reserve Bank, the ECB will be free from political pressure and operate without political influence.

The European Monetary Union

Members:
Austria - Belgium - Finland - France - Italy - Germany - Ireland - Luxembourg - Portugal - The Netherlands - Spain

Non-Members:
By Choice: Denmark - Sweden - United Kingdom
Not By Choice: Greece

Currently Negotiating Membership:
Cyprus - Czech Republic - Estonia - Hungary - Poland - Slovenia

Longer-Term Potential Members:
Bulgaria - Latvia - Lithuania - Romania - Slovakia

A Challenge to Bank Systems

Even if unification can occur without political influence, system problems could arise. Most countries have their own Real-Time Gross Settlement system (RTGS), national systems designed to process daily payments between financial institutions. These systems ultimately will link through the main euro RTGS called Trans-European Automated Real-Time Gross Express Transfer (TARGET). While TARGET will be able to process up-to-the-minute payments, it will have limited processing capacity (roughly 50,000 payments per day).

The main alternative to TARGET will be the Euro Banking Association (EBA) clearing system, currently in place and widely used for European Currency Unit (ECU) clearing. Members of the EBA include 49 of Europe's largest banks. The EBA system will be less costly to operate than TARGET and has greater processing capacity. However, it does not process payments up to the minute. In other words, a payment with a value date of Wednesday may actually be credited late Wednesday afternoon. The EBA clearing system allows participants to net settle with each other at the end of the day. On the other hand, TARGET can credit a transaction by a predetermined cut-off time for a large payment such as a bond settlement or legal closing. Along with more traditional correspondent bank credits and debits, these systems are intended to handle the vast majority of euro automated payments. Many of these payment methods will have their first live trial during the introduction of the euro.

If processing wires sounds complicated, don't even contemplate check handling. Currently, there are no plans for a Euro Automated Clearing House (ACH) system. As a result, each country will be responsible for clearing its own checks, with autonomy to set its own clearing cycles, formats, collection and return policies. In other words, a euro check drawn in Germany and presented in Italy could be sent for international collection by the Italian bank. Clearly, there will be a few minor inconveniences.

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U.S. Business Preparedness

Ready or not, in January of 1999, the euro will become the standard unit of account in the member nations of the European Monetary Union. The good news is United States companies have time to convert their systems. If a U.S. company sends an invoice in euros and its client pays German deutschemarks (at the correct exchange rate), the books ultimately will balance correctly. If that U.S. company has a Spanish peseta receivable but instead receives euros, it will all work out in the end... at least for a while.

Long-term implications of the euro are more significant. Euro notes and coins will be issued on January 1, 2002. Six months later, local currencies will no longer be legal tender. U.S. companies need to begin long-term evaluations so they are not left with exposure to currencies that no longer exist. It is time to revise legal documents, contracts and invoices that refer to local currencies. Systems will need to change to accommodate euro payment processes. As competitive pressures cause U.S. companies to price in euros, discrepancies between euro-based countries will be much more evident.

Mercantile is euro-ready. As bankers, we can help our customers start thinking about the future now, while transition to the euro is underway. The Foreign Exchange department is available to assist customers prepare for entry into the European market, or deal with the European market in either U.S. or local currencies.

For more information call Mercantile Foreign Exchange Trading in St. Louis (314) 418-3939; in Kansas City (816) 871-2223, or toll-free 800-800-6372. □

Larry Kirschner is senior vice president and manager of the Mercantile Foreign Exchange department.

Technology & Operations

Interactive Voice Response Upgrade

by Sandy Laramie

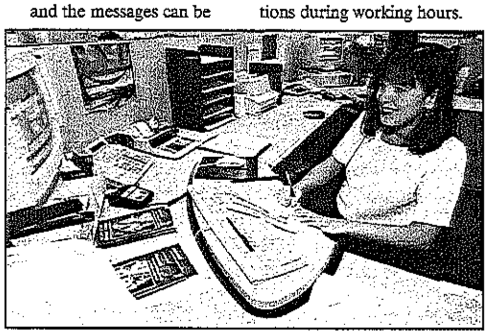
The Mercantile Customer Information Center is installing a new Interactive Voice Response system that will give customers more menu options, more quickly.

Kimela Haill, (above) and Caryn Eickel, customer service representatives, handle approximately 200 calls a day in the Customer Information Center.

In Phase 1, acquisition customers in Iowa and Illinois were brought into the system prior to their conversion. This occurred in conjunction with the Iowa conversion/consolidation in August. Having these customers already on the system will dramatically reduce the overload of calls that typically occur the week after conversion, tying up phone lines and slowing down response time.

Phase 2, scheduled for early December, will provide expanded selection options on the main menu and more information to customers, such as increasing the the number of checks cleared and ATM transactions from five to 10. The December installation also will bring the IVR system into full Year 2000 compliance. Other enchancements to the system include:

- Sub-menus will be linked so that the customer can move around through the system without returning to the main menu.
- Additional voicing capabilities will allow Mercantile to inform customers of current special offers and events — and the messages can be changed or updated in a matter of hours.
- Customers will be able to transfer funds between their accounts 24 hours a day — currently fund transfers are accepted from 7 a.m. to 7 p.m.
- Merchants will be able to verify funds automatically.
- Mercantile's goal is to have one telephone number for all customers across the system, including Mortgage and Credit Card.



As always, customers will be able to speak with a customer service representative to answer additional questions during working hours.

Mercantile customers will be notified of the new services in a series of communications prior to the upgrade. □

Sandy Laramie is vice president and manager of the Mercantile Customer Information Center.

MERGERS & ACQUISITIONS

Calendar

Saturday, September 19, 1998
Firstbank of Illinois Co. converts its systems and consolidates with Mercantile Bank N.A. in St. Louis and Mercantile Bank of Illinois.

Monday, September 28, 1998
Legal closing of First National Bank Iowa.

Saturday, October 10, 1998
Merits application Y2K release installation.

Saturday, October 31, 1998
Firstbank of Illinois trust conversion.

Saturday, November 14, 1998
THE Rock Island Bank converts its systems and consolidates with Mercantile Bank Midwest.

First National Bank Iowa converts its systems and consolidates with Mercantile Bank Midwest.

Saturday, December 12, 1998
Mercantile Banks of South Central Missouri, Central Missouri, Southeast Missouri, Memphis, Missouri Valley, Western Missouri, Northern Missouri and Mercantile Bank N.A. in St. Louis consolidate to form one Missouri charter.

1999
- CBT Corporation systems conversion.