



PAYMENTS2007

Knowledge » The Currency of Success

Check Truncation and Conversion From the Treasurer's Point of View

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What's The Fuss?

- New regulations and technology on check processing
- Profound change in how checks are handled by check processors
- Requires analysis and action on the part of check issuers and receivers
- Conclusion: even in the old-style world of checks, change has come and must be dealt with

Today's Agenda

- Check Conversion
 - What is check conversion
 - How does it work
- Check Truncation
 - What is check truncation
 - How does it work
- Comparison
- Creative Solutions

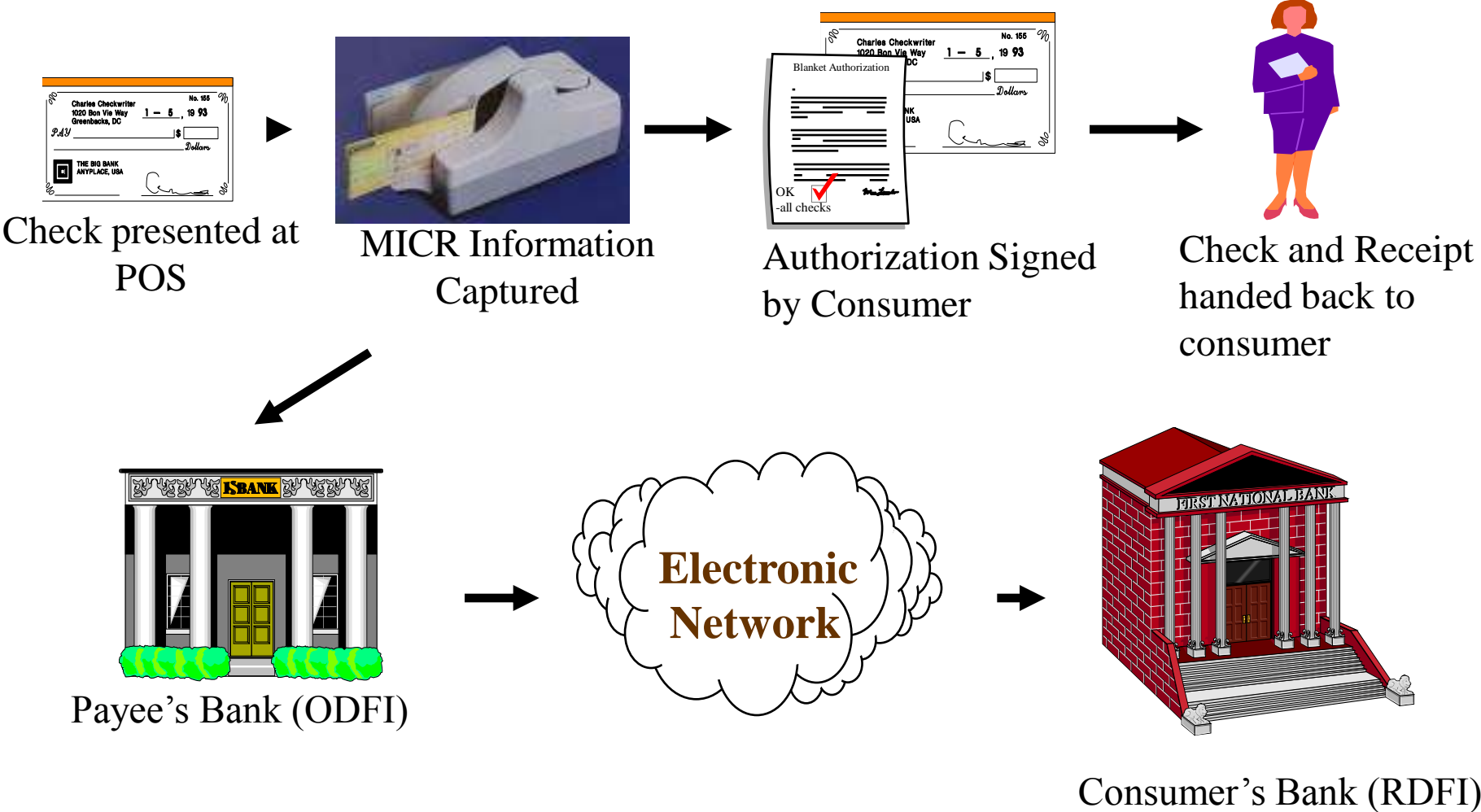
Check Conversion

Check Conversion

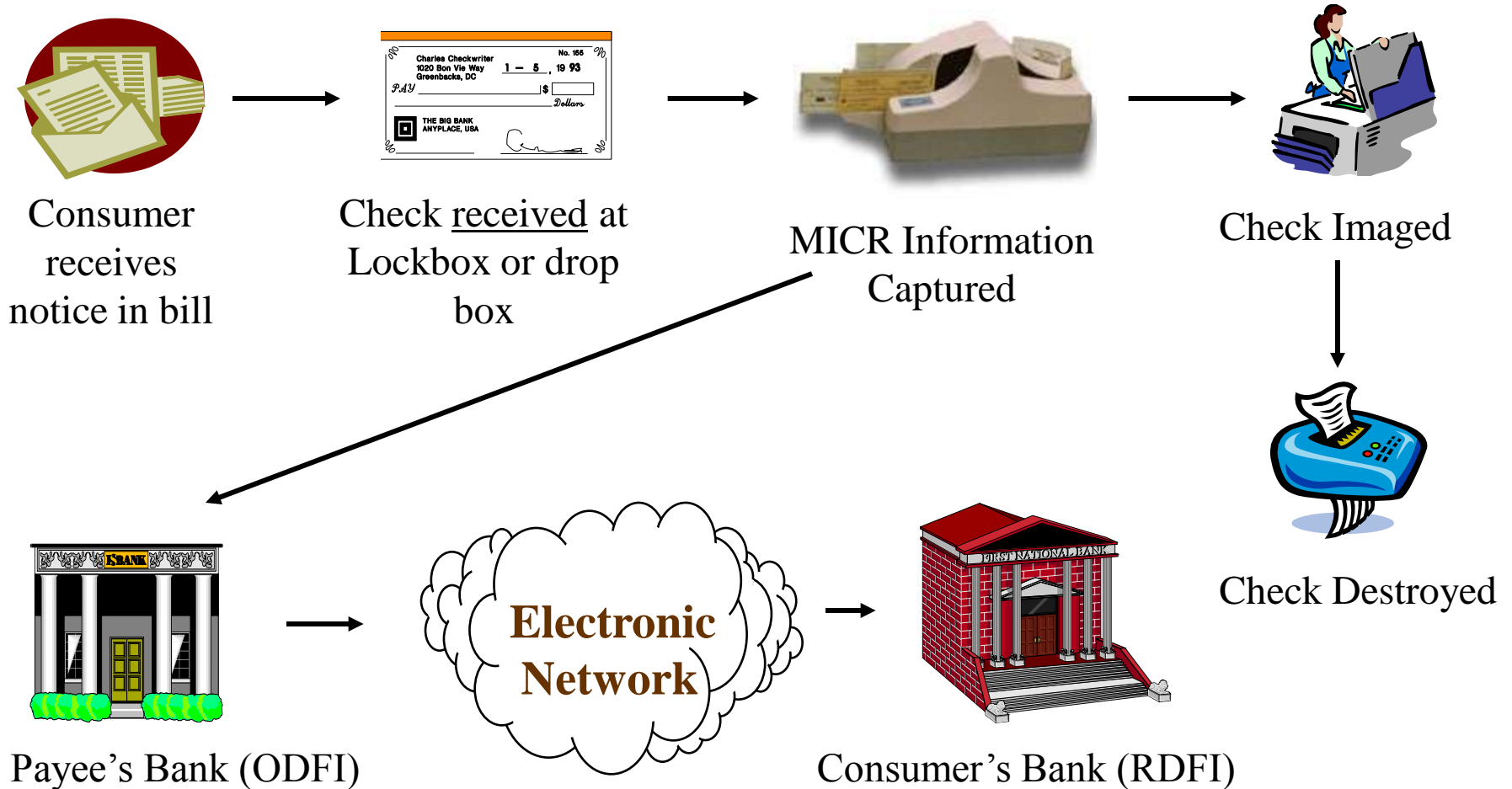
The payment begins as a paper item but is converted to an electronic payment, usually when the check is negotiated. The item is no longer under check law but under electronic banking regulations. The check is no longer a “check” but a “source document.”



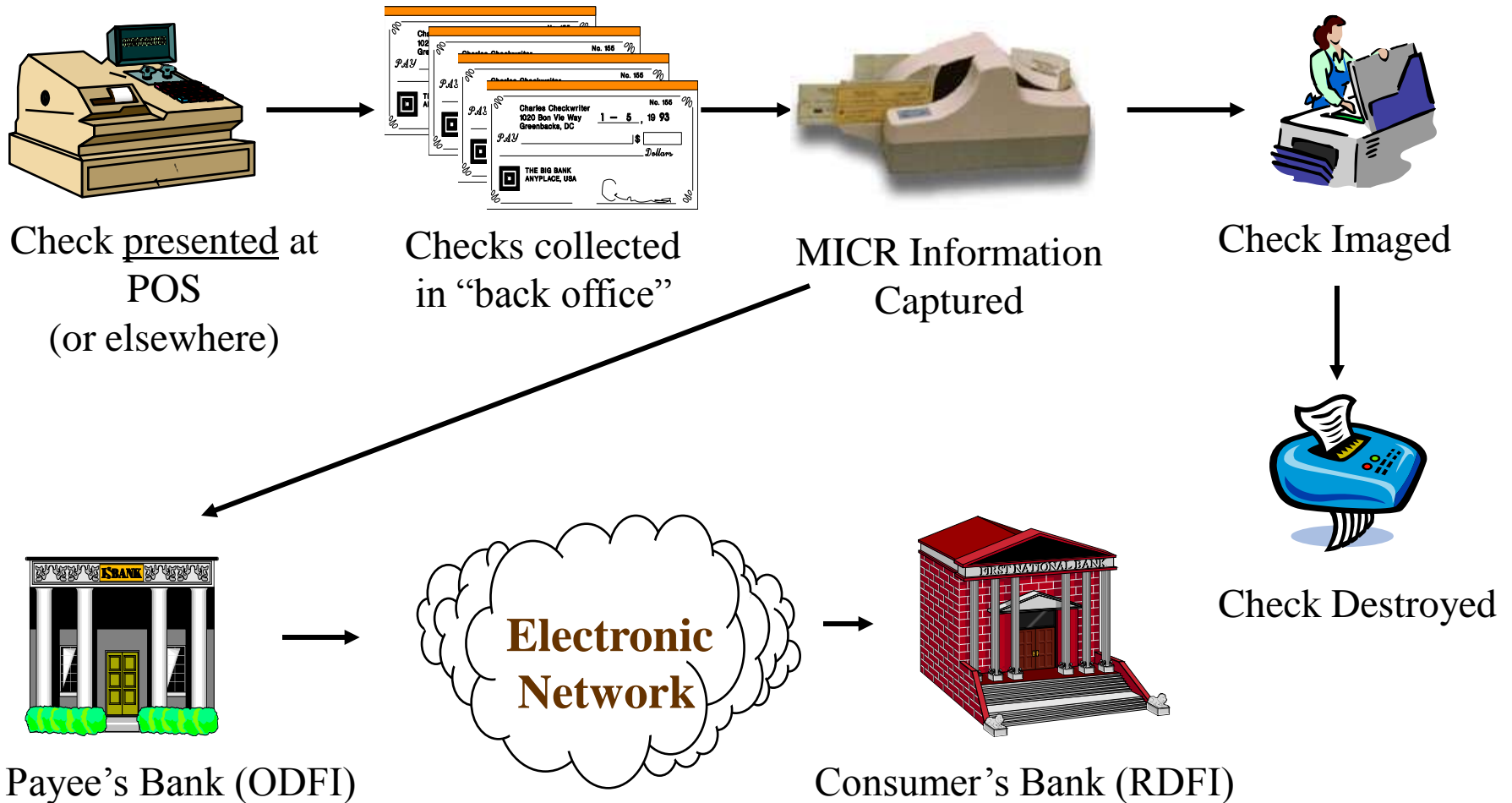
Point of Purchase (POP)



Accounts Receivable Check (ARC)



Back Office Conversion (BOC)



Why Conversion?

- Reduced deposit fees
 - Most billers are saving \$.01 - \$.03 per transaction with ARC
 - NACHA quotes 35 – 50% reduction in return fees
- Fewer returns
 - NACHA quotes that this has been reported as high as 50% by current ARC billers
 - 15 – 20% reduction is a conservative estimate
- Faster notification of returns
 - 3-4 days after settlement vs. 5-10 for checks
- Reduced operational costs
 - Reduced labor, equipment, supplies etc.
 - Reduced errors, overtime, and holdover
- Faster collection
 - 1 day settlement for all ACH items versus 0-2+ days for checks

Conversion Challenges

- Not all checks can be converted!
 - The original rules limited conversion to consumer checks
 - It is not always easy to differentiate between commercial and consumer checks - resulting in the conversion of some corporate checks
 - As of September 15, 2006, any check that does not have an "auxiliary on-us" field on it can be converted (typically 9" or "business" checks) - theoretically
 - Checks over \$25,000 also can no longer be converted
 - BOC ≠ ARC ≠ POP

Conversion Challenges

- Not all checks can be converted
- Choice of payment method moved from payer to payee
- Opt out issues
- Potential legal issues
- Impact on reconciliation/fraud control systems
- Ability to get copies of the check

Yes, we *KNOW* it's against the rules,
but your check *IS* going to be converted.

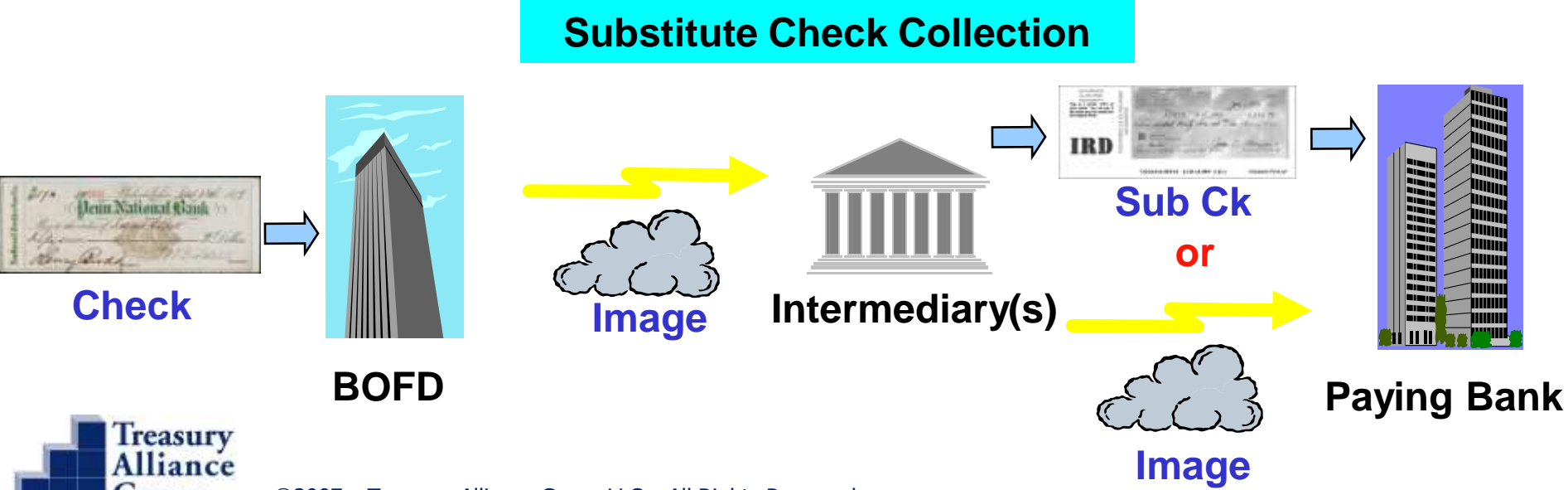
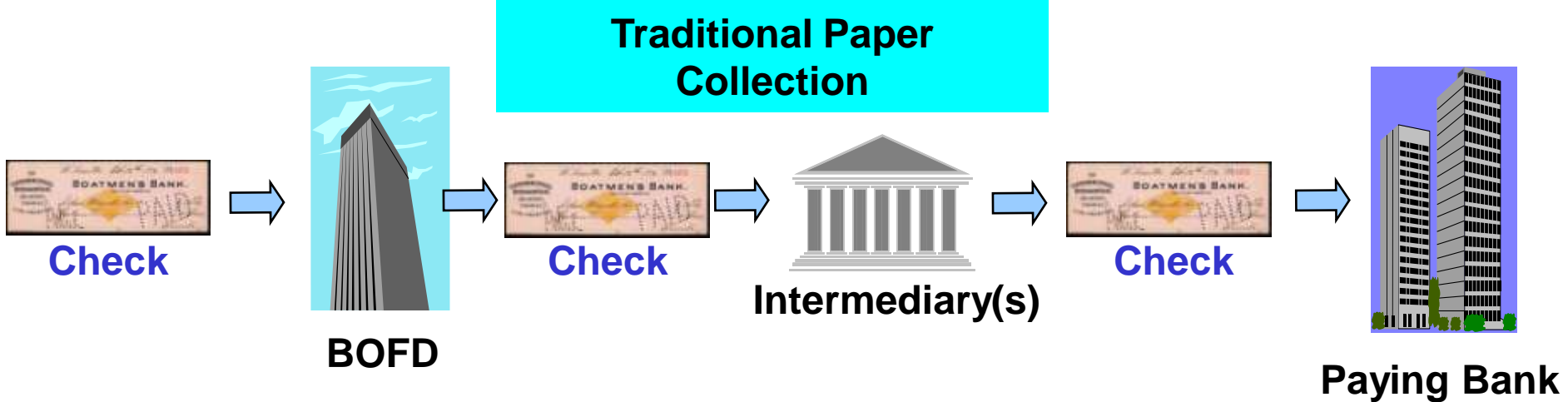
Check Truncation

Check Truncation

The payment begins as a paper check and is negotiated, but the paper item is stopped at some point and the payment is processed electronically from then on. However, the payment remains under check law.



Payment Process



Why Truncation?

- Reduced cost
 - Transportation
 - Check processing
 - Exceptions
 - Statements

Why Truncation?

- Reduced cost
- Faster collection time
- Faster/fewer returns
- Reduced/eliminated geographic restrictions
- New service options

Truncation Challenges

- Procedure changes
 - Some of your checks will become substitute checks

Truncation Challenges

- Procedure changes
- Service disruptions
 - ARP/Positive Pay may be problematic especially Payee Positive pay
 - Statement cycles may be extended
 - Customer service/problem resolution may take longer

Truncation Challenges

- Procedure changes
- Service disruptions
- Duplicate presentment
 - To date operational issue not fraud

Truncation Challenges

- Procedure changes
- Service disruptions
- Duplicate presentment
- Price changes
 - Bank margin pressures may result in attempts to increase prices
 - Physical check processing will become more expensive

Truncation Challenges

- Procedure changes
- Service disruptions
- Duplicate presentment
- Price changes
- Float impact
 - Disbursement float will be reduced
 - Collection float may be reduced
 - End result will be pressure on available cash

And let's not forget check fraud!

Are you expecting this?



Or this?



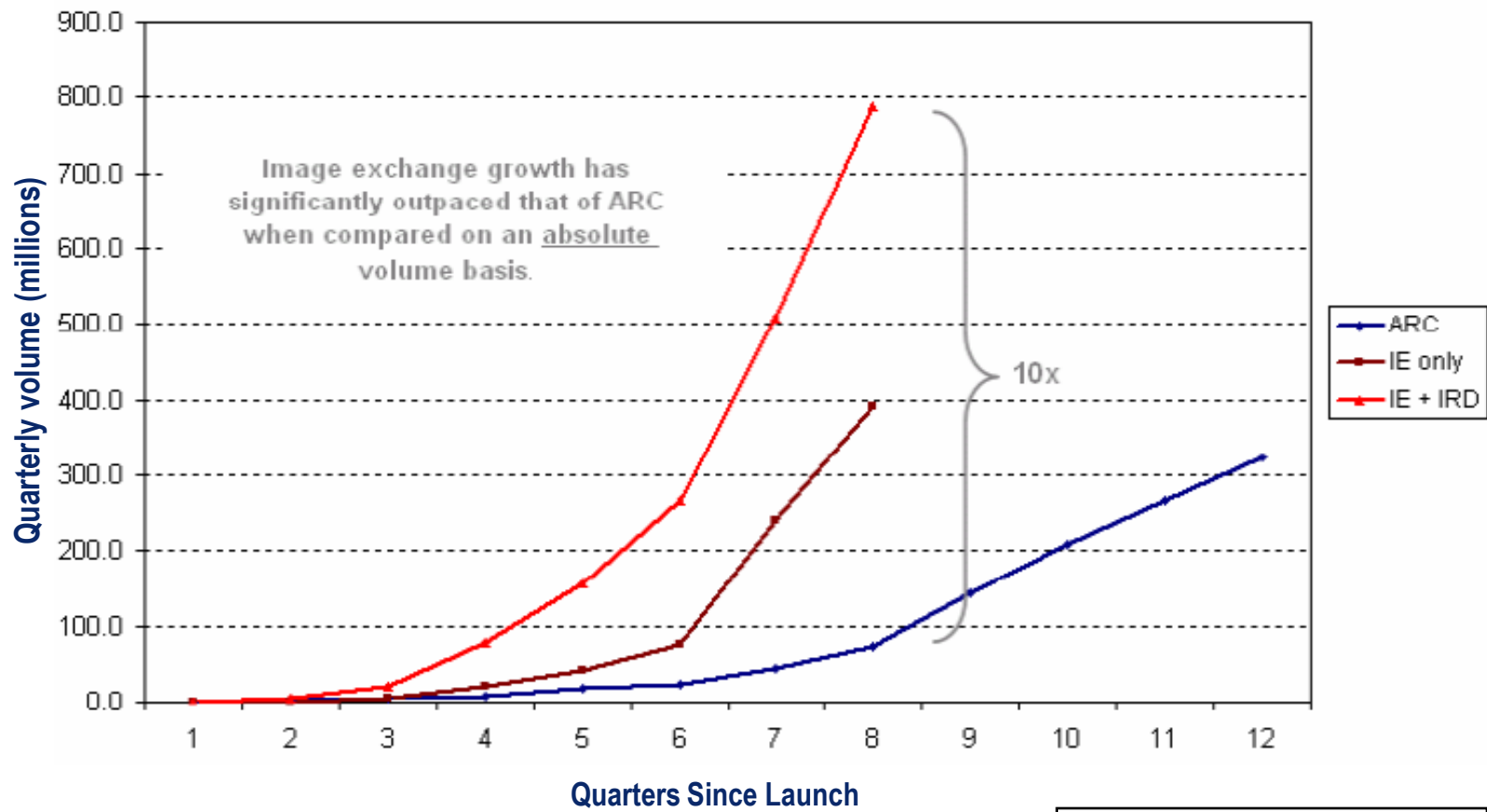
More importantly, what does your local prosecutor or AG expect?? Do you know?

Comparison

And the winner is?

Comparative Growth Rates

(absolute volume basis)



Source: NACHA, ECCHO, Celent

Key Differences

	Conversion	Truncation
Legal Framework	Regulation E and related EFT law including NACHA Rules	Reg CC and related check law with individual interbank agreements for electronic presentment
Format	Always electronic after conversion	May be reconverted to paper if needed
Types of Checks	Primarily consumer checks under \$25,000	All checks are eligible

Pros and Cons

Check Conversion

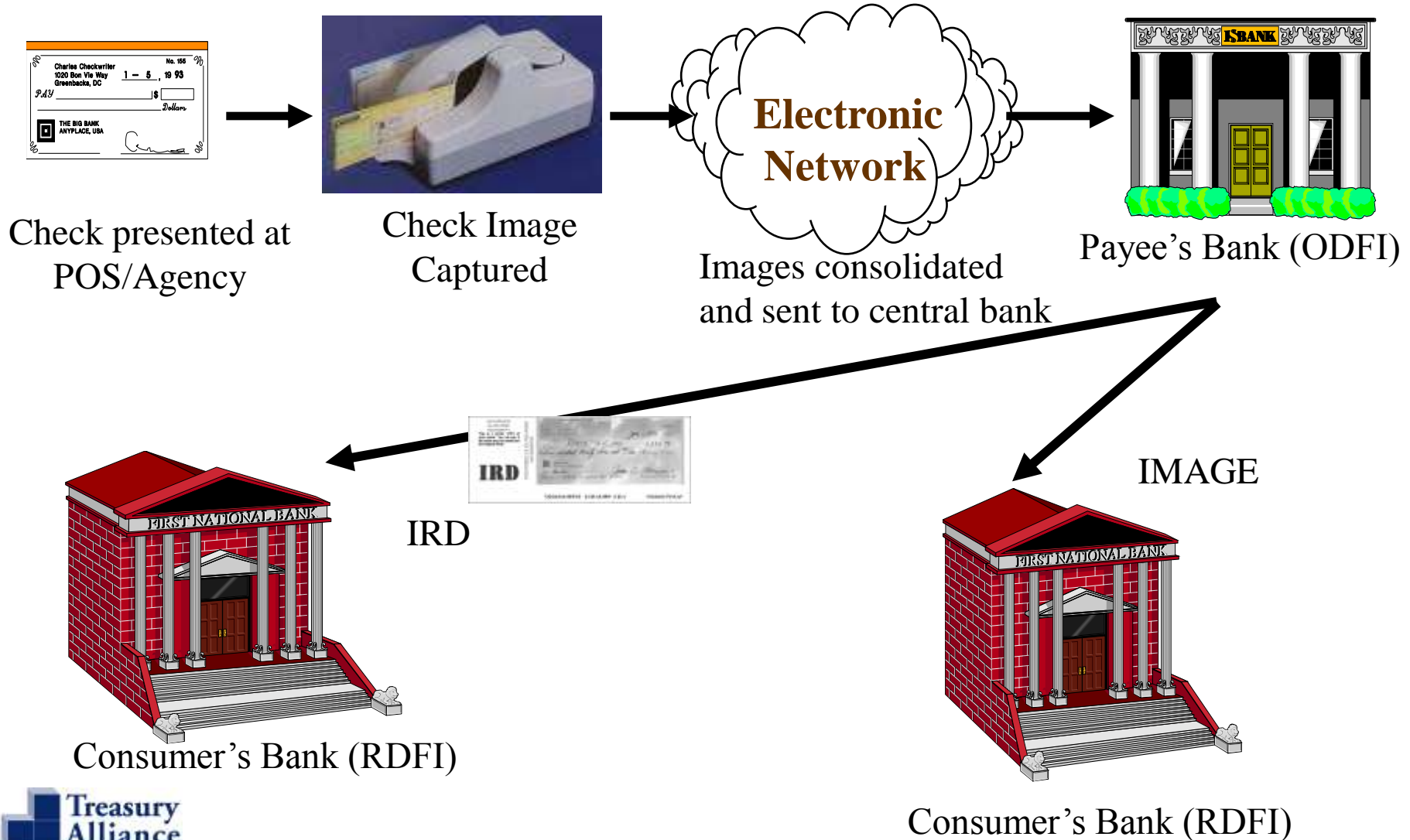
- Pros
 - Faster collection time
 - Fewer/faster returns
 - Typically reduced transaction cost
- Cons
 - Not valid for all transactions
 - Opt out provisions
 - Check must be present
 - Duplicate systems needed
 - Written authorization or individual notice required
 - Longer return deadlines
 - 60 Day Right of Rescission

Check Truncation

- Pros
 - Valid for all items
 - No authorization needed
 - Faster collection time
 - Potential for faster returns
 - Potential for reduced transaction cost
- Cons
 - Image based check fraud controls may be compromised
 - Recredit provisions may be an issue
 - Commercial depositors will need an agreement with financial institution

Creative Solutions

Remote Deposit Capture

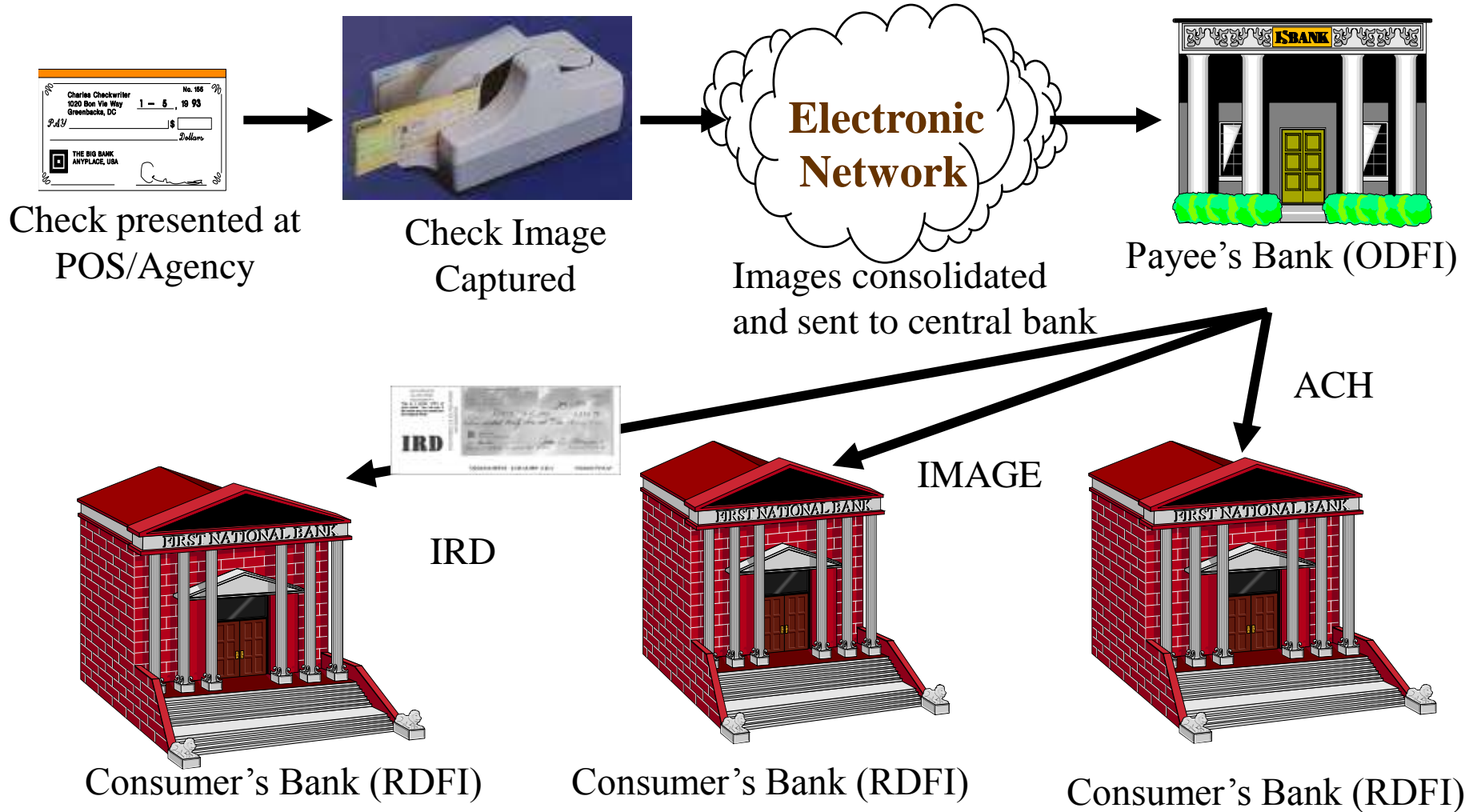


Remote Deposit Capture

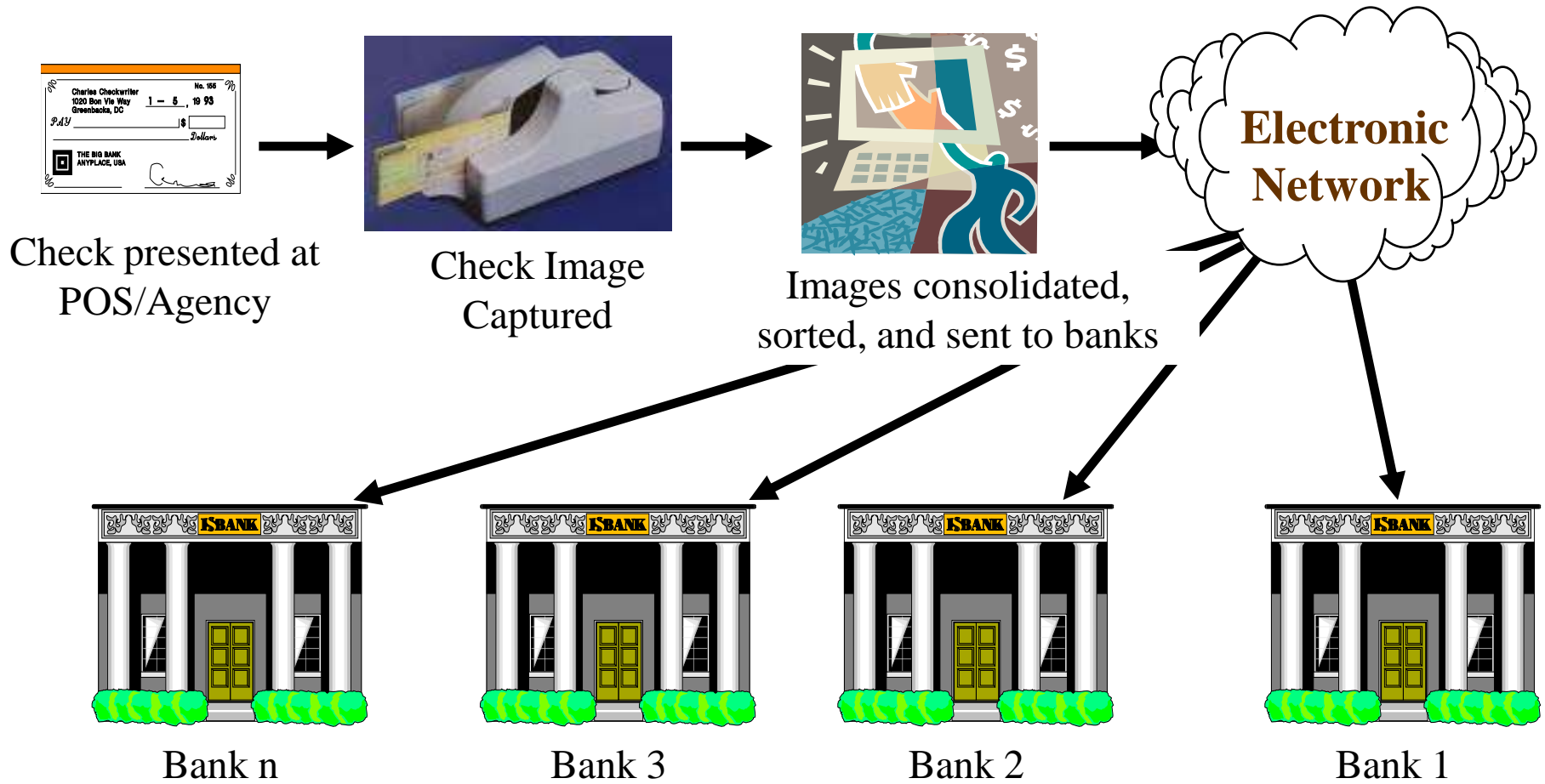
Potential Benefits

- All items eligible
- Minimal retraining
- No customer notice needed – (unless BOC involved)
- Reduced costs associated with courier services
- Reduced work involved in deposit preparation
- Reduced work in account reconciliation
- Later deposit deadlines can expedite posting
- Remote deposit capture coupled with image exchange will eventually improve availability and cash flow

Remote Deposit Capture with BOC



Remote Deposit Capture with Hub



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