

Check 21-One Year Later

Making Check Transformation
Work for your organization

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Agenda

- ◆ Check 21 “go-live” date
 - Check 21 Pop Quiz
 - What we expected
 - What occurred
- ◆ Check Transformation Solutions
 - Solutions Overview
 - Examples of value derived
 - Case Study-University of Minnesota
- ◆ Questions and Answers

Check 21 Pop Quiz

- Check 21 legislation mandates that you destroy checks within 14 days of converting them to images. **False**
- Image Replacement Documents that are returned NSF can be handled in the same manner as paper checks. **True**
- All US \$ paper checks drawn on US FIs, including Money Orders, Travelers Checks, and Third Party Checks can be converted into Check Images or IRDs? **True**
- Converting a paper check into an ACH does not change its legal standing. **False**
- October 28th has come and gone, and nothing happened, so I shouldn't spend anytime on Check 21. **False**

Before October 28, 2004 – What we expected

- ◆ New products for clients
- ◆ Remote capture – a winner on several dimensions
- ◆ Adoption of Image Exchange by banks
 - Small banks jumping on board faster than large banks
- ◆ Industry standards
- ◆ Image Cash Letter – a viable check transformation strategy
- ◆ Payments minimally impacted

What's happened so far...

- ◆ Remote capture of the transaction – a winner
 - ✓ Client sites – Eliminate trips to the bank for deposits
 - ✗ ATM – Create new channel for accepting large deposits – Not yet

What's happened so far...

- ◆ The clearing network would take time to develop
 - ✓ Agreement of check image standards quickly established
 - ✓ Tipping point for Image Exchange is 18+ months away

What's happened so far...

- Image Cash Letter would compete with ARC as viable transformation strategy
 - ✓ All checks (not just consumer) could be transformed
 - ✓ But clearing network would take time to establish

What's happened so far...

- ◆ Payments would be minimally impacted
 - ✓ Positive Pay not impacted, but become more important
 - ✗ Loss of physical fraud capabilities could cause some problems

We've also been surprised at times...

- * New solutions have clients exploring remote capture and imaging of remittance and other documents

We've also been surprised at times...

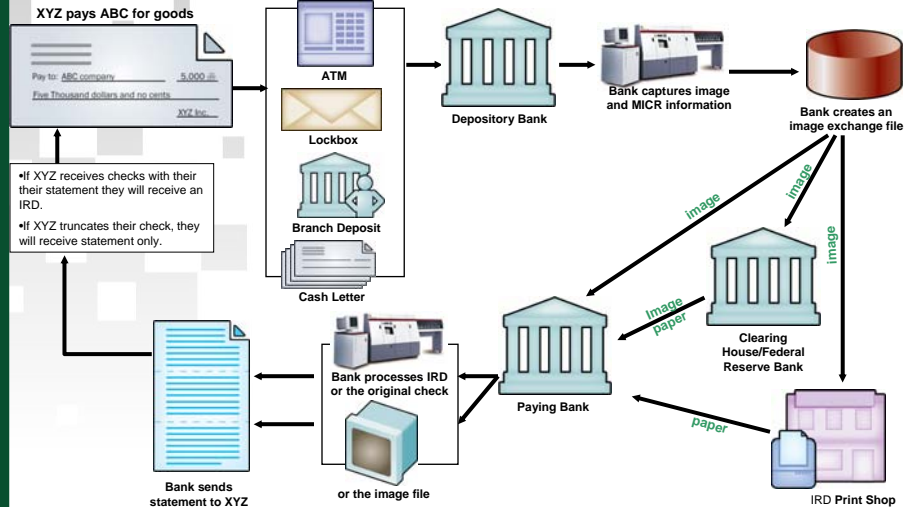
- * New solutions have clients exploring remote capture and imaging of remittance and other documents
- * Clients raising priority of creating or enhancing overall image strategy

We've also been surprised at times...

- * New solutions have clients exploring remote capture and imaging of remittance and other documents
- * Clients raising priority of creating or enhancing overall image strategy
- * Industry rapidly responding to security needs for check images – automated comparisons of check characteristics, etc.

Check Transformation Solutions

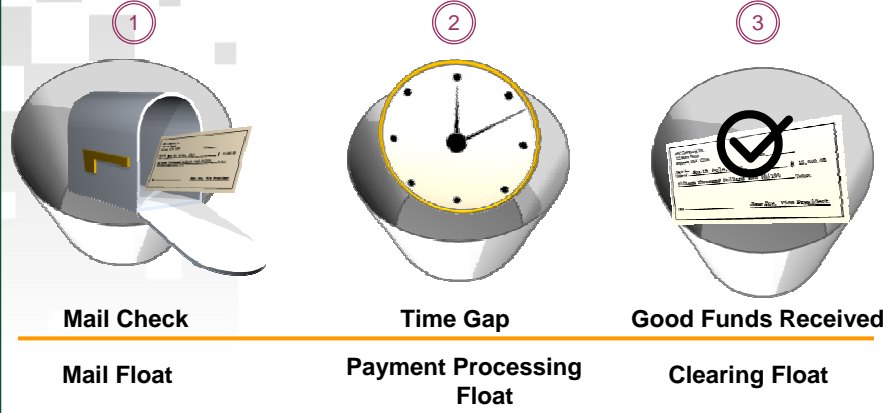
Check flow after Check 21



*If XYZ Company does not have sufficient funds to pay the check it is returned to the depositing bank as the original check or an IRD or an image exchange file for the depositing bank to process the return and resubmit item to the paying bank.

Why consider Check Transformation now?

Receivables Processing Time



Payments Transformation Solutions

Definition:

To transform an incoming paper check to a check image or ACH, and accelerate the deposit to the bank

•Potential Benefits:

- Reduce days sales outstanding (DSO)
- Speed receivables processing
- Accelerate access to key customer service data
- Improve cash forecasting
- Increase ACH usage

Payments Transformation Solutions

•Potential Benefits:

- Reduce costs of processing, storing, and retrieving paper
- Increase data integrity
- Minimize risk and fraud

Transformation Solutions for Receivables

- ◆ **Remote Deposit Service** – Using a desktop scanner and PC, Company scans the paper checks received, captures check MICR and images, and creates an electronic deposit file, eliminating trips to bank to make check deposits
- ◆ **Image Cash Letter** – Company (high volume check payment) scan incoming check payments, leveraging their existing high-speed capture or remittance processing equipment. Company captures check MICR and images, and creates an electronic deposit file in lieu of traditional paper cash letters

Transformation Solutions for Receivables

- ◆ **ARC Cash Letter** – Company (high volume of consumer check payments) mail) scans incoming check payments, leveraging their existing high-speed capture or remittance processing equipment. Along with capturing check images, company captures check MICR, which is then used to convert eligible consumer checks to ARC ACH debit transactions.
- ◆ **Customer Initiated Payments** – Company empowers end customers to initiate electronic credit card or ACH payments via the Internet, touch-tone phone, or live customer service representatives

Remote Deposit Service

What to look for in a remote capture solution

- ◆ Remote deposit capability. Deposits made to bank electronically with image transmission from almost any location.
- ◆ Image Quality analysis. Ability to analyse images at point of capture. This helps protect you from posting errors due to poor quality check images.
- ◆ Optimal clearing channels. Having built-in intelligence determines the optional check clearing path – either ACH conversion or check truncation.
- ◆ Courtesy Amount Recognition. Technology to reduce data entry and increase efficiency

Remote Deposit Service

What to look for in a remote capture solution

- ◆ Information security. Use of digital certification to authenticate users and encrypted data transmission

Benefits to the company

- ◆ Ideal for companies processing 500 – 100,000 items in multiple locations
- ◆ Faster access to funds; expedited check processing
- ◆ Reduced transportation costs; eliminates trips to the banking center
- ◆ Faster notification of returned items, based on faster deposit time

Remote Deposit Service

Benefits to the company

- ◆ Minimizes risk
- ◆ Consolidation of banking relationships and depository accounts

Image Cash Letter

What to look for in an image cash letter solution

- ◆ Image Quality Analysis. Technology should analyze basic image characteristics such as skew, darkness, streaks, and image size, and prevent defects.
- ◆ Multiple File-Processing Acknowledgments. Ability to confirm receipt of file, and notify of any rejects due to MICR detail and image quality review. Company should be able to extract, repair, and resubmit items.

Image Cash Letter

What to look for in an image cash letter solution

- ◆ Multiple Deposits per File. Ability to submit image files containing multiple cash letters to be posted to separate depository accounts.

Benefits to the company

- ◆ Ideal for companies with centralized in-house receipts processing with ability to capture/transmit MICR and check images

Image Cash Letter

What to look for in an image cash letter solution

Benefits to the company

- ◆ Reduced transportation costs
- ◆ Streamlined back-office procedures
- ◆ Extended deadlines; faster access to funds
- ◆ Faster notification of returned items, based on faster deposit time

Check 21-One Year Later

- ◆ Check 21 at the University of Minnesota
 - Operations before 10/28/2004
 - Reasons for change?
 - Problems encountered
 - Operations today

Check 21-One Year Later

- ◆ Operations before 10/28/2004
 - All cash and check receipts sent to Bursar/Cashier Office on each campus
 - Twin Cities campus checks are encoded before deposit to DFI
 - Courier takes deposits from Bursar/Cashier Office to DFI
 - Courier handles all requests for cash replenishments

Check 21-One Year Later

- ◆ Reasons for change
 - Lost deposit
 - Courier RFP – huge increase in cost
 - Decision to image deposited checks
 - DFI was looking for a partner in a Check 21 pilot program – free scanners

Check 21-One Year Later

- ◆ Problems Encountered
 - Speed of scanners
 - High volume of unscannable items
 - Software glitches
 - Retraining
 - Process redesign

Check 21-One Year Later

- ◆ Operations Today
 - Approx 55K checks deposited per month
 - Reliable scanners
 - Reduced courier costs and schedule
 - Very few batch problems
 - Employees like the system

Payments transformation and fraud solutions – An evaluation checklist

- ◆ **Understand where transforming the check will help the company's business**
 - How many payment processes can/should you operate?
 - Will check transformation help to meet your working capital objectives?
 - Do you have an established, secure image retention, and access infrastructure?

Payments transformation and fraud solutions – An evaluation checklist

- ◆ **Review the check transformation options available**

- Conversion capabilities that exist work best when a high percentage of your customers are consumers.
- Does there necessarily have to be a single solution?
- Is check conversion and check truncation mutually exclusive?
- How can check conversion and check truncation ultimately work together?

Payments transformation and fraud solutions – An evaluation checklist

- ◆ **Remember the importance of knowing your customers**

- How will the company notify and educate their customers?
- Has the company anticipated customer reaction?
- Is the company prepared to handle customer service?
- What about the opt-out provision?

In Closing...

- ◆ Current environment is more complex than ever
- ◆ There are also more opportunities than ever
- ◆ Do not attempt to tackle all opportunities concurrently; prioritize solutions that:
 - Can be quickly implemented
 - Improve a core receipt process
 - Are easily adopted both internally and with your customers
- ◆ Plenty of help is available!