

## ACH eLockbox

By Steve Bernstein

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Good day. My name is Steve Bernstein. I'm the ACH product manager for J.P. Morgan. Today we're going to speak about ACH electronic lockbox. ACH electronic lockbox is becoming a predominant option for consumers and corporates both in the United States. Let's take a look back at how we got to where we are today.

Currently, about eight percent of all bill payers make their bill payments online. Our own retail bank, and our site at chase.com, facilitates ACH payments for bill payment purposes. Increasingly corporates as well as government entities are looking to provide bill payments as well as invoice payments to our own clients for us to consolidate. The key to ensuring that you have a high quality process and can compare favorably against our bank competitors comprise of several things.

One is the ability to customize on behalf of the companies legacy payment platform. Our clients increasingly utilize systems like SAP, PeopleSoft, and the like. And we need to be able to support those payment processes, and integrate our systems and payment information to those systems. In addition, our clients are demanding that we consolidate both consumer as well as corporate payments into this one fell swoop. Further, we have clients that utilize our regular lockbox on the retail side, or our wholesale lockbox, and request that integrate both ACH eLockbox with their lockbox payment file. This file, which is an electronic file, synthesizes both the lockbox payment information as well as the electronic lockbox payment information.

So let's take a step back for a moment. By definition, what is an eLockbox payment? An eLockbox payment is a payment typically that a consumer renders from any bank website in the U.S. So the bank website is not obligated to be a Chase account. It can be a B of A dotcom site. It can be a Sun Trust dotcom site. It could be any bank website where an individual, and we'll focus on individuals initially, are initiating the payment. That individual is trying to make a bill payment to their biller. The biller is the entity that J.P. Morgan has a relationship with. Some billers that we perform ACH eLockbox for include various industries.

For example, in the insurance industry, we consolidate for GEICO Insurance. Almost one-million of their customers make payments each month through their own bank dotcoms, where J.P. Morgan plays the role of consolidator for these eLockbox payments on their behalf. From the telecom industry, J.P. Morgan is a consolidator for AT&T. Each month, millions of individuals render a payment from their bank website to pay their AT&T bill. J.P. Morgan plays the role of consolidator and validator of these payments, and then remits these payments in the agreed upon format that AT&T requests. This is integral to AT&T's business. AT&T is also a good example of an industry where we're called upon to integrate both consumer as well as corporate based payments.

For example, we consolidate payments that an individual may make at their dotcom, but we also consolidate payments that other entities or other corporates are making to AT&T. And AT&T utilizes J.P. Morgan to integrate both the consumer as well as corporate payment types on their behalf. The benefit to AT&T is they have the most secure, least expensive, and quick routing of these payments to their end point.

In other words, instead of these payments being rendered by a check or a checking list through traditional mail channels to AT&T, where that channel can take four, five, six, or seven days, these payments can be affected in some cases even on the same day basis, or at worst, a next day basis. This is extremely attractive to our billers. So in various industries as we look out at the card industry for example, where we act as consolidator for our own Card Services

group, or mortgage groups where we act as consolidator for mortgage companies, or for cable companies, or for universities, in effect, we connect as an electronic lockbox consolidator where ever there is a large degree of payments being made from a consumer to a business. We play the role of the electronic lockbox consolidator. Our client requires us to validate the payment information that they receive. It's extremely important that our biller provide that information that will render the payment successful. We would not be doing the biller any good if we took any payment that we received and then failed to provide accurate information.

So, for example, a utility company will request that we validate payments that have an agreed upon account length or algorithm in them before we route them on to the utility company. For example, if the utility company has several different entities in various states, and they've requested that we validate the account length for an entity, for example, in California where they may have 12 digits as their account number, then we must provide that validation on behalf of that utility. That utility may request that anything — any payment that is rendered to that utility that does not contain 12 digits of information be returned from whence it came, because they do not want to hunt and peck to find a home for that transaction.

On the other hand, we have other companies that request that we forward any payment to them, and they'll do their best to find it. And in some cases, send us back a notice of change so that we can provide that to the provider.

So you see the benefit of this is that the biller gets as much information as quickly as possible, with as little expense as possible, and to the highest degree of a straight-through process as possible. And, again, each year more and more individuals are making their payments through online banking. Why is that?

Well, increasingly kids coming out of college do not write checks. So we have a built in issue with customers writing checks. We see a check decrease percentage of somewhere between five and eight percent annually.

Further, retail banks provide free bill payment for the most part to their consumers where they can render, in some cases, up to 20 or 25 bill payments monthly to that biller. We, at J.P. Morgan, have an extensive relationship from a Treasury Services standpoint, from an investment bank standpoint, and a commercial bank standpoint, with some of the largest billers in the country. They are looking for the service as a way to ease their pain and for someone to integrate the process for them so that they get these payments rapidly with the least expensive routing and with the most amount of straight through process. And so that's one of the largest roles that we play. Performing those three duties to the utmost of our ability.

Now, who are some of the providers that we at J.P. Morgan consolidate for? Well, the largest provider of payments in the country is CheckFree or Fiserv. We have a direct linkage within our treasury ACH team with CheckFree. We also have a linkage with Metavante, with Online Resources, with Western Union, with MoneyGram, with iPay, with In Person Payments. We also have a linkage with Mastercard RPPS. Those are the majority of all of the largest bill payment providers in the country. Our ability to have a direct linkage to these providers as opposed to going through the network provides us a leg up on our competitors. It increases the rapidity of the payment to us, so that we can in effect provide same day payment processing on our clients, and for our clients, that request it. And in other cases, we can receive payments at the worst on a next day basis. So if someone is at home tonight at 8:00 p.m. local time, and they are rendering a payment through their own bank dotcom, they can rest assured that if we consolidate for that biller, we will be able to post that payment tomorrow morning, as quickly as possible in a worst case scenario. That provider that we have a linkage with sends us the payment. We aggregate it along with all of the other providers that we aggregate for, including the Fed. Each morning at opening of bank business, or earlier, we will send a consolidated file to our client and then post the funds as good funds to our clients account for opening of bank business. This is extremely attractive to our biller, because they have the use of funds, and they have the data. In this day and age, the data and the dollars are key to the success of any business. And if you can improve on behalf of that business, the speed in which that business receives those payments, again, we have a leg up on our competition.

Another thing that sets us apart from our competition is our ability to customize our payment process. As I mentioned earlier, increasingly our clients are utilizing for their legacy platforms, various platforms such as SAP, PeopleSoft and the like — Oracle. And with our ability to customize with those requested formats, or into the clients lockbox format, to send this electronic information, we have the ability to further add value to our client by integrating these payments.

Let's turn to corporate payments for a moment. Increasingly, our clients are building out from the consumer platform to include corporate or even government payments for processing. And where we play a role is, again, to act as a consolidator for that other corporate to render a payment to our biller for integration purposes. The difference, however, in the corporate based payment is that many times you will receive both payment information and remittance information. We have an ability to deliver to our client both a payment as well as a payment in remittance-based file. The remittance information contains information or details about the payment. For example, corporate can send another corporate a payment for one million dollars, and the remittance information, which is contained in ACH addenda

records, contains the information that relates to that payment information. So in that one million dollar payment it may be comprised of ten widgets for \$100,000, and within the remittance information, which is contained in the addenda, each of those \$100 [,000] tranches are denoted within the payment file. We have the ability to receive that information and integrate it along with the consumer-based information.

We also consolidate on behalf of government payments. Part of our electronic lockbox consolidation is performed on behalf of other banks in other countries. For example, we consolidate for social security payments for beneficiaries in Greece, and have a relationship with the National Bank of Greece. Each month folks that retired and moved back to Greece for their retirement, receive social security payments. The U.S. government sends payments to J.P. Morgan. We render those payments in a separate format as requested by the National Bank of Greece on behalf of the recipient. The National Bank of Greece is designated as the country of Greece's designee for social security payments for U.S. citizens that have retired to Greece. We render that file in the agreed upon format, and they post those payments accordingly as if it were a direct deposit payment each month.

So as you can see, electronic lockbox enables us to consolidate all matter of information, validate information, and provide good funds within a payment file to our client base. Our client base can be from any walk of life. We've talked about some of the industries, such as telecom, the mortgage, the cable, the utility, universities, but really anywhere where there are a large volume of payments and/or many payment information tidbits, such as the addenda, that pertain to a payment, can be consolidated as electronic lockbox. And further, we can consolidate on behalf of other banks outside the country. In this case, using the new IAT transaction format on behalf of our clients to act as consolidator. As we see the decade playing out, ACH eLockbox will play a greater and greater role with regard to our clients and our billers. There are increasingly seeking the benefits that we've talked about today. Low cost, rapid processing, straight through processing, integration capabilities, and our ACH eLockbox capabilities afford all four of those attributes.

Should you need further information, please contact me, Steve Bernstein at 212.552.7960, or send an email to myself or to my colleagues, either Rocco DeSanto or Beth Ann Hastings. Thanks and have a great day.

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