The New Image of Payments

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Agenda

• The current payments landscape
• Paper electronification and drivers of change
• The future of check clearing
• Image deposit solutions: delivering deposits to the bank
• Considerations for re-engineering your payments processes
The payment initiation choices you offer clients will help drive the different payment types and payment channels available to you.

### Payment channels
- Internet
- Telephone
- In-person
- Traditional mail

### Payment types
- ACH
- Credit card
- Debit card
- Check truncation
The time is now for check electronification.

- Check **conversion** transforms a check to electronic settlement.
- Check **truncation** transforms a check to an image-enabled electronic transaction for settlement.
Drivers of change for electronification

**The continuous decline of check volumes**
- The number of checks written will decline from 40 billion items in 2003 to 32 billion items in 2010, representing a decline of approximately 3-5% per annum.
- Consumers are writing fewer checks, as they are opting for the numerous payment choices available today.
- Paper check processing costs are also increasing – costing twice that of electronic payments.

**New ACH regulations have made electronic payments even more usable**
- By September 2007, more than 70% of all checks are being converted electronically. This is facilitated by regulations enabling the conversion of consumer check payments, including remittances and point-of-sale payments.
Drivers of change for electronification – continued

Check 21
- On October 28, 2004, the Check Clearing for the 21st Century Act, more commonly known as Check 21, became law.
- Check 21 legislation gave substitute checks the legal equivalence of the original checks.
- Substitute checks are likely to be transitory given the more favorable economics associated with image exchange.

Image exchange
- Image exchange is a process where banks use images of checks for clearing and require no movement of physical items (either original or substitute checks).
- Image exchange will emerge as another method for processing checks in the end state, and ACH conversion will coexist as an attractive alternative.
The electronic check (eCheck)

The conversion to (or creation of) an electronic transaction at some point in the payment process involves the following eCheck applications:

**Current eCheck applications**

- **Web-initiated (WEB)** transactions enable consumers to use an Internet interface to make one-time payments.
- **Telephone-initiated (TEL)** transactions enable consumers to make one-time payments over the telephone.
- **Accounts Receivable Check Conversion (ARC)** allows a biller to capture and convert checks sent or dropped at a lockbox to ACH transactions that are presented in lieu of the physical check.
- **ACH Point-of-Purchase (POP) Check Conversion** allows merchants to capture consumer authorizations for ACH debits at the point-of-sale by capturing MICR data from the consumer’s check.
The electronic check (eCheck) – continued

Current eCheck applications

- **Back-Office Conversion (BOC)** allows for point-of-purchase payments to be converted to ACH transactions in the back office.

- **ACH Re-Presented Check (RCK) Conversion** allows corporations to re-present consumer checks returned for insufficient funds (NSF) as ACH debits.

Upcoming initiatives

- **Deposited Check Truncation (DCT)** will be piloted in 2008 by NACHA, allowing for eligible low-dollar check transactions to be converted to ACH.
Advantages of ACH over checks

- **Improved liquidity** – Changes in business processes combined with ACH clearing may further improve availability, because items are processed the same day they are received and two-day end points are eliminated.

- **Lower return rates** – Clients that have adopted other ACH conversion processes (e.g., accounts receivable conversion) have experienced up to a 30% to 40% improvement in return item rates, because electronic items typically present prior to paper items and ACH rules allow an additional re-presentment of the items.

- **Less expensive than traditional check clearing** – ACH clearing is typically less expensive compared to traditional check clearing (e.g., ACH fee vs. check clearing + encoding + transportation).

- **Faster returns notification** – ACH returns notifications are typically received within two business days from the time they are submitted, which can be faster than a check’s return time frame.

- **More electronic endpoints** – ACH has more electronic endpoints (more than 14,000) than Check 21 processes, which helps reduce your cost for clearing items and results in faster notification of returns.

- **Potentially reduced transportation costs** – Conversion and clearing of your items electronically may allow you to reduce deposit-related transportation costs.
The future of check clearing

ARC volume will continue to increase along with image exchange growth. As the numbers of checks written declines, ARC volumes may flatten out. ARC continues to be an attractive alternative to Check 21 clearing.

Back-office conversion (BOC) is introduced and emerges as an attractive alternative to Check 21 clearing.

Large banks are taking action to adopt image technology to capture financial benefits. The number of image-enabled banks will grow over time as more large banks implement image and more small/midsized banks decide to outsource.

Image replacement documents diminish over time as financial institutions move to image exchange.

Fewer than 20% of checks will be cleared through conventional paper processing by the end of 2010 (down from more than 95% today).

Source: NACHA, Federal Reserve Bank, JPMorgan Chase
Delivering deposits to the bank: image deposit solutions

Image Deposit Direct (IDD)

IDD includes a desktop image scanner that allows users to scan checks from any geographic location and transmit images to one central account or multiple accounts for deposit.

- Supports check volumes of less than 250,000 per month
- Scanner costs vary based on number of items processed per minute
- CAR/LAR facilitates more efficient deposit creation
- Requires PC software
- Scans associated remittance documents

Advantages

- Let IDD determine the most efficient settlement method: ACH conversion versus Check 21 clearing methods
- Choose various combinations of DDA and location tracking and deposit reporting
Delivering deposits to the bank: image deposit solutions — continued

Image Cash Letter (ICL)

ICL offers you the ability to scan check items from a lockbox facility, via a third-party lockbox provider or in one or more locations, and aggregate a file for transmission in ANSI X9.37 format to the bank for processing.

- You select and implement the image capability.
- Facilitates connectivity testing and image quality, which is critical for success.
- Value-based clearing allows you to benefit from available clearing alternatives, including ACH and image exchange.

Advantages

- Reduce the costs, time and risks of transporting physical paper checks
- Eliminate multiple passes in lockbox processing
- Optimize funds availability by sending electronic images for check processing
- Eliminate need for multiple banking relationships
Benefits from image solutions

- Simplification of accounts receivable reconciliation
  - Settlement and returns settled by location
  - Daily remittance file for accurate posting
- Reduce labor and check processing costs
  - Reduce check deposit preparation time
  - Decrease deposit transportation charges and check float
- Value-based clearing
  - Payment decisioning based on client preference and available options
  - Leverages image exchange, ACH and substitute check alternatives
Benefits from image solutions – continued

- Increase funds availability for better cash forecasting
  - Electronically deposit all checks to company’s account and provide faster collection and faster notification of returns
- Reduce return items
  - Electronic debits typically post before checks, resulting in more items clearing on first presentment
- Automate and accelerate return item processing
  - Early notification of return items, carrying deposit location or remittance information
  - Immediate or delayed re-presentment of returns for collection
Re-engineering the payments process

**Considerations**
Determine your collections strategy and vision
- Check processing requirements
- Deposit channel preferences (remittance locations versus within retail/branch locations)

**Types of check payments**
- Volume of high- and low-dollar check collections
- Dollar amount of checks
- Endpoints for collected checks
- Deposit deadlines
Re-engineering the payments process – continued

Considerations – continued
Customer preferences (e.g., risk, timeliness, cost)
  - Demographics
  - Maturity and customer flexibility

Drivers
Demographics
  - New technologies and trends
  - Industry-specific regulatory requirements and trends
Thank You