

A NEW DAWN FOR US PAYMENTS



MARCIE HAITEMA AND COLLEEN TAYLOR OF JPMORGAN DISCUSS THE RECENT US ADVANCE OF AUTOMATED CLEARING HOUSE PAYMENTS.

Experts have long predicted that consumers would change their ways and that electronic payments would outpace cheques. However, US consumers have proved steadfast in their cheque-writing habits – until now. A fresh study by the Federal Reserve System shows that, since the last major study 20 years ago, electronic payments are slowly advancing on cheques in the US payment system. Cheque use has declined from 85% of non-cash payments, as measured in 1979, to 60% of the current market. On the other hand, electronic payment methods, including credit cards, debit cards and automated clearing house (ACH), now comprise 40% of the retail payment market – 30 billion of the 80 billion retail payments made each year.

The study also found that bill payment and point-of-sale are the two largest categories for cheque writing, totaling 44.7% of cheque volume. Since these categories present an opportunity for conversion to ACH payments, more help is on the way for companies which seek to further automate the collection process.

Companies across a range of industries can leverage NACHA's cheque-to-ACH conversion rules to realise significant benefits, including reduced costs for processing payments and handling return items, accelerated cashflow and improved days sales outstanding (DSO) ratio.

The cheque-to-ACH services balance the needs of billers with the preference of some consumers for cheque writing. Some companies are taking the opportunity to expand the range of payment options they offer their customers – ACH is now a payment option on some websites and by phone, for example.

The 15 April 2000 edition of *American Banker* reported that payments by telephone and internet gave an additional boost to ACH payments last year. ACH volume climbed to almost eight billion in 2001, a 16.2% increase over 2000, according to NACHA, which co-ordinates and oversees the ACH payments system.

ACH GETS A LITTLE HELP FROM A FRIEND. NACHA has introduced new ACH-based services over a three-year period to enable billers to realise the benefits of ACH payments and consumers to continue initiating payments by check. Point of purchase cheque conversion (POP), accounts receivable cheque conversion (ARC) and re-

presented cheque (RCK) each address different methods of payment and focus on different points in the collection process.

ARC, POP AND RCK – WHAT IT ALL MEANS.

- **ARC.** Once a cheque reaches a company's processing centre, the biller can convert it to an ACH item. ARC applies to consumer items sent to a lockbox or a remittance processing centre. The biller need only notify the consumer that receipt of a cheque will be deemed to be the consumer's authorisation to use that cheque as a source document for the creation of an ACH debit transaction. Upon receipt of a cheque, the biller converts the item to an ACH debit by capturing the MICR line (routing number, account number and check serial number) and keying the amount of the transaction into the ACH entry. ARC is predicted to make a major dent in check volume. The retail conversion opportunity is an estimated 8.4 billion items. Companies are already looking to leverage this new service.

- **POP.** POP applies to payments at businesses where cheques are accepted onsite and has no dollar cap on the size of the transaction. The consumer presents a cheque to the retailer, which the retailer then runs through a cheque-reading device to capture the MICR line data and enters the cheque amount. The retailer then provides an authorisation to the consumer to sign, authorising an electronic debit to his/her account, and the cheque, which the retailer has voided, is returned to the consumer. The consumer's account is then debited electronically.

At a recent NACHA conference, one of the nation's largest retailers reported on a pilot of POP services that was introduced in 200 stores. In the first six months an estimated 12 million cheques were converted. With this retailer's 3,000-plus stores accepting a billion checks annually, the ultimate impact on cheque conversion should be substantial.

- **RCK.** Even with controls, cheques can bounce. RCK makes re-presenting a bounced cheque easier and more efficient. Any recipient can scan a bounced cheque and re-present it to its bank for transmittal as an ACH debit. This greatly improves the chance of collecting, since the collection rate on electronic debits is up to 50% higher than for paper. There are a number of reasons for the

greater success rate. Most importantly, banks typically post electronic debits before paper items. Also, banks have the flexibility to hold an ACH debit for a few days to coincide with payroll cycles.

To qualify for conversion to an RCK, a cheque must meet the following criteria: be drawn on a consumer account; be less than \$2,500 in value and less than 180 days old; have bounced due to insufficient or uncollected funds; and have been presented no more than twice in cheque form.

RCK accelerates the return process. On average, companies take 10 to 14 days to determine that a cheque has bounced and to re-present it – an RCK process can speed the re-deposit process and takes three to six days out of the return cycle. The return process is also cheaper as the entire collection stream, including collection notices, becomes electronic.

DIGITISED DATA STORAGE. The NACHA rules for ARC require the biller to hold a copy of the front and back of the source document for two years after the settlement date of the ARC entry and to destroy the original document. A select few banks are providing an archive solution so that companies can forego the added requirements for imaging technology and database management. For example JPMorgan's i-VAULTSM – a web-based image archive

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solution – lets a biller's customer service staff electronically retrieve and correlate document images directly from their desktops to enable more responsiveness to consumer enquiries. An archival solution is in step with the move by companies to leverage electronic storage for means of contingency.

BENEFITS TO BILLERS. ARC, POP and RCK all work as one-time payments. They benefit billers in a number of ways, including:

- lowering cheque processing costs;
- improving funds availability and collection rates;
- providing a faster handling of return items; and
- enabling consumers to continue writing cheques.

Quicker returns via ARC and RCK can provide the benefits of enhancing a company's risk management process. RCK facilitates the quicker integration of credit information into a risk modelling system.

ELECTRONIC AGE. The new NACHA rules will substantially speed the advance of ACH on cheques. After 20 years, the migration to a consumer world of electronic payments is finally coming to fruition.

Marcie Haitema is ACH Business Executive and Colleen Taylor is ACH Senior Product Manager at JPMorgan Treasury Services.

Marcie.J.Haitema@jpmorgan.com

Colleen.Taylor@jpmorgan.com

www.jpmorgan.com/ts