



A Consultative Approach to Check Truncation and Image Exchange

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Consultative Approach

A consultative approach to conditions in the payments industry has changed dramatically. Landmark legislation and new check electrification and conversion initiatives are contributing to the industry's overall decline in paper-check volume. With the volume of paper-check processing in rapid decline, it is extremely important for financial institutions to optimize their payments and reduce their cost per transaction.

In today's post-Check 21 operating environment, it is equally imperative for financial institutions to craft a comprehensive and aggressive strategy that will identify all the potential benefits and challenges that these historic changes are ushering in.

Most financial institutions acknowledge that truncation and check image exchange represent the greatest potential for a critical market advantage -- an opportunity to eliminate all the rising costs and inefficiencies associated with the transportation and duplicate processing of paper-based payments.

At times like these, it is often best for a financial institution to bring in a professional consultant — someone to help your institution take both an objective and tactical look at truncation and check image exchange.

It is very important that the consultant thoroughly understands all of the requirements and corresponding implications of the 2004 Check21 Act. A qualified consultant can help a financial institution execute a plan that:

- Balances transition expenses with cost savings.
- Bridges the gap between the declining profitability of traditional check processing operations and the cost savings promised by electrification.

Truncation and image exchange are transforming the way financial institutions handle check clearing and settlement. Some changes are strategic and impact customers, while others are operational and will re-engineer the back office. In both cases, a financial institution is best served by initiating a consulting engagement with a trusted professional who can help develop specific strategies that will translate into a competitive advantage.

Here is a checklist of categories that should be thoroughly covered in a professional truncation / check image exchange consulting engagement:

Forward Presentment of Cash Letters for Image Exchange

- Gain an immediate return on investment by forwarding presentment cash letters to an image exchange network (such as the Endpoint Exchange Network) to clear as many items as possible via image exchange and by printing substitute checks/image replacement documents (IRDs) for the remaining items.

Process for Handling Substitute Checks

- Process substitute checks/IRDs with no significant operational or back-office changes.
- Learn about the legal equivalency of substitute checks and how they must conform to industry standards (paper stocks, dimensions, MICR line, etc.) and must accurately and legibly represent all the information of the original check.

Electronic Adjustments

- Manage incoming and outgoing electronic adjustments to drive down costs, eliminate errors, prioritize cases, speed-up decisions, reduce float, and optimize the workload. (NOTE: Historically, adjustments have been a costly, labor-intensive function for financial institutions, involving a variety of steps — entry, research, information retrieval, customer communications, and decisioning.)

Electronic Returns

- Maximize automation efficiencies for the electronic return and re-deposit of incoming and outgoing exchanged items.
- Understand the “reasons for returning” an imaged item in accordance with the ANSI standard.

Forward Cash Letters

- Effectively manage the forward presentment of outgoing cash letters listing the details of truncated items transmitted and confirmed during a settlement cycle.
- Effectively manage the incoming cash letters listing the details of inclearing items received and confirmed during a settlement cycle.

Chargebacks and Automation of Customers

- Understand customer rights pertaining to chargebacks for check image exchange transactions, the proper steps for dealing with chargebacks, and the requirements for customers seeking recourse of funds.

Issues Resulting from Quality of Images

- Optimize the document quality of substitute checks.
- Place and respond to requests for re-scans or original copies of selected items.

Procedures to Prevent Double Posting

- Discover auditing processes that prevent duplicate entries prior to account posting.

Procedures in the Event of Errors in Exchange and the Process for Expedited Re-Credit of Improperly Charged Transactions

- Educate your management and back-office staff on the rules of UCC Article 4A and the Federal Reserve Regulation CC.

Effective Handling of Non-Truncatable Accounts

- Properly identify all customers who do not want their checks truncated, for whatever reason.
- Reissue checks that are designated as non-truncatable.

This is extremely critical to customer satisfaction for those customers for whom the institution is making exceptions, and it reduces the risk of error by cashiers and clerks.

Making Appropriate Reductions/Changes in Transportation

- Significantly reduce the transportation infrastructure needed to move paper checks.
- Identify cost savings in every area, from mail handling to air and ground couriers transporting physical checks.

Changing Staff Responsibilities

- Reduce the number of employees needed for the sorting, balancing, bundling, and delivery of paper checks and documents.
- Develop a staffing strategy that optimizes your back-office department.

Assistance with Disclosure Requirements

- Understand and meet the requirements of both federal and state-specific regulations.

Disaster Recovery Considerations

- Virtually eliminate payment system logistical interruptions, such as the grounding of commercial air service for several days following 9/11.
- Collect more checks and avoid check float by transmitting electronic checks and presenting substitute checks to paying banks during any type of disaster or disruption of business.

Financial Benefits to Your Institution's Bottom Line

- Reduce non-earning assets posted the day prior to settlement.
- Eliminate the expense of earnings credits and account interest fees for every dollar posted early.
- Gain revenue from increased non-sufficient funds fee income.
- Reduce float and save non-earnings assets due to the shorter collection cycle.
- Save dollars by eliminating at least one capture cycle.
- Reduce expenses associated with qualifying paper items for returns.
- Reduce the time spent researching adjustment requests.

Strong pre-planning and a sound strategy developed with a qualified industry consultant will provide tremendous value and generate the type of true cost advantage that truncation and check image exchange have always promised.

