

Front and Center

Back office conversion emerges as viable settlement option

By Lauri Giesen

It's not unusual for new bank and payment products to take years before gaining significant traction, as evidenced by debit cards and check imaging. So the results were quite surprising when ICBA surveyed community banks about their use of back-office check conversions (BOC) only one month after the National Automated Clearinghouse approved in March the rules to allow such transactions to ride over the ACH network.

located in their back offices to convert paper checks into electronic payment transactions that can move through the ACH networks. This product is often confused with remote image deposit, which clears the check as an image rather than an electronic transaction. "Our survey showed there was an enormous amount of momentum," says Cary Whaley, ICBA associate director of payments policy. The high penetration rate indicates banks



According to the ICBA survey, 9 percent of the community banks were already engaged in BOC activity. Another 28 percent planned to implement a back-office conversion program within the next two years, meaning that more than a third of community banks in the United States will have implemented the technology within two years of its approval.

With back office conversions, retailers or other businesses are able to use scanning equipment

recognized the importance of this service and moved quickly to implement.

Still, not everyone is convinced that the interest in BOC has translated into heavy use. "We've heard from a number of people—both bankers and others in the industry—that the boom is not there as anticipated," says Charles Potts, senior vice president of Brentwood, Tenn.-based Goldleaf Financial Solutions Inc. While a number of banks are expressing interest or even

starting to implement the technology, they are not yet seeing a significant number of transactions from their merchant customers, he says.

Costs and confusion by both merchants and banks over BOC

Checkout vs. Backroom

There are two ways that community banks can convert checks to ACH transactions. In addition to BOC, banks can use point of purchase (POP) to convert paper checks at the

manner at the point of sale. Changes only occur when the paper check hits the back office, which the customer does not see.

In addition to being less costly, BOC doesn't slow the checkout time in order to make the conver-

“Some merchants may benefit from point of purchase while others will like back office conversion. Offering both lets the merchant decide what works better for that business.”

– Cary Whaley, ICBA Payments Expert



and other ACH transaction requirements could also be a factor, suggests David Peterson, executive vice president at Goldleaf. Retailers must decide whether to convert a check into an electronic payment through the ACH or convert it through Check 21, he says.

point of sale instead of the back room. But while POP requires retailers to install scanners at every checkout lane and train all their clerks in the technology, with BOC, only one scanner is required per store and a limited number of employees need to be trained to use it.

sion. POP does have its attributes however, including the ability to catch problematic checks *before* the customer leaves the store with the goods.

Many of the systems available on the market, including those offered by ICBA Bancard (provided through Goldleaf), ProfitStars, Zions Bank as well as options offered by your core vendor, allow retailers to use the same scanners to convert checks through both BOC and Check 21, giving the merchants the ability to set system perimeters about what types of checks they want converted which way. A retailer could decide that checks over a certain amount are sent through as Check 21 and other checks are sent through the ACH, for example.

Choosing Wisely

Community banks have several vendor system options to choose from in selecting a back office conversion vendor, says Cary Whaley, ICBA associate director of payments policy. When evaluating these systems, he recommends banks consider:

- **Versatility.** Does the hardware software encompass all the features necessary to offer a range of payment operations?
- **Compatibility.** Is the system compatible with the bank's existing data processing platform? Is that connection seamless, or is there a disconnect?
- **Ease of use.** Consider use for both the bank and the merchant.
- **Cost.** Do your homework on price, and get comparison numbers.

“At the beginning, Check 21 was a lot more expensive relative to ACH,” he adds. “But the Check 21 costs have come down a lot so that while it still is more expensive to do Check 21, it is much less so than it had been.”

Additionally, with POP, there is often a customer training process that needs to take place: customers hand over their paper check, watch it get converted and then are handed the check back. With BOC, the consumer pays with a check in the traditional

BOC vs. Imaging

Once the merchant has decided where to convert the checks, they then have to decide whether to convert using BOC or using check image. Chris Doyle, president and CEO for Texas City-based Texas First Bank, says check volume should not be the only factor in

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determining conversion techniques. For many of his customers, the dollar amount of the checks is the deciding factor.

“We work with a lot of petro-chemical companies that receive checks for large amounts. Using BOC will allow those companies to get their funds faster,” Doyle says. “And given the large dollar amounts involved, faster availability of funds is significant.” Texas First Bank does not currently offer BOC but is in the process of implementing it soon.

For customers at Sutton Bank in Attica, Ohio, the issue in adopting BOC was location. Rick Gillett, Sutton Bank president and CEO, says his community bank works with several retail chains that have outlets in remote locations. Previously, those stores would have had to open checking accounts separate from the corporate account or mail their checks in to the main office. Using BOC, the stores can convert their checks and save the cost and time of separate accounts or mailing checks.

“Any business that has remote locations is a likely candidate for BOC, because it solves a lot of problems [that result from] dealing with checks from those locations,” Gillett says.

While NACHA can't disclose the number of banks participating in BOC programs, Daniel Miner, NACHA senior director of network development, expects volume to trend upward. “We're expecting significant growth in 2008,” Miner says. **fb**

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