

An ARC Solution

Measuring the Impact of ARC Upon Receivables,
Lockbox Processes and Costs

Southern California AFP Chapter

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- Introduction
- What is ARC?
- Payment Trends
- Features and Benefits
- Business Case
- Alternatives and Options
- Q&A

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■ **Organizational Expertise**

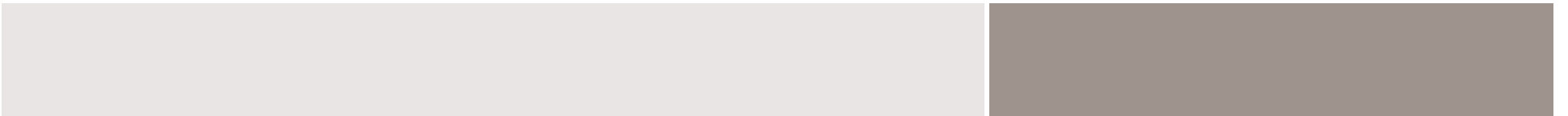
- Over 400 organizations rely on Regulus for financial process outsourcing
- Expertise focuses on key industries:
 - Utilities
 - Telecom
 - Insurance
 - Financial Services
 - Mortgage

■ **Business Metrics**

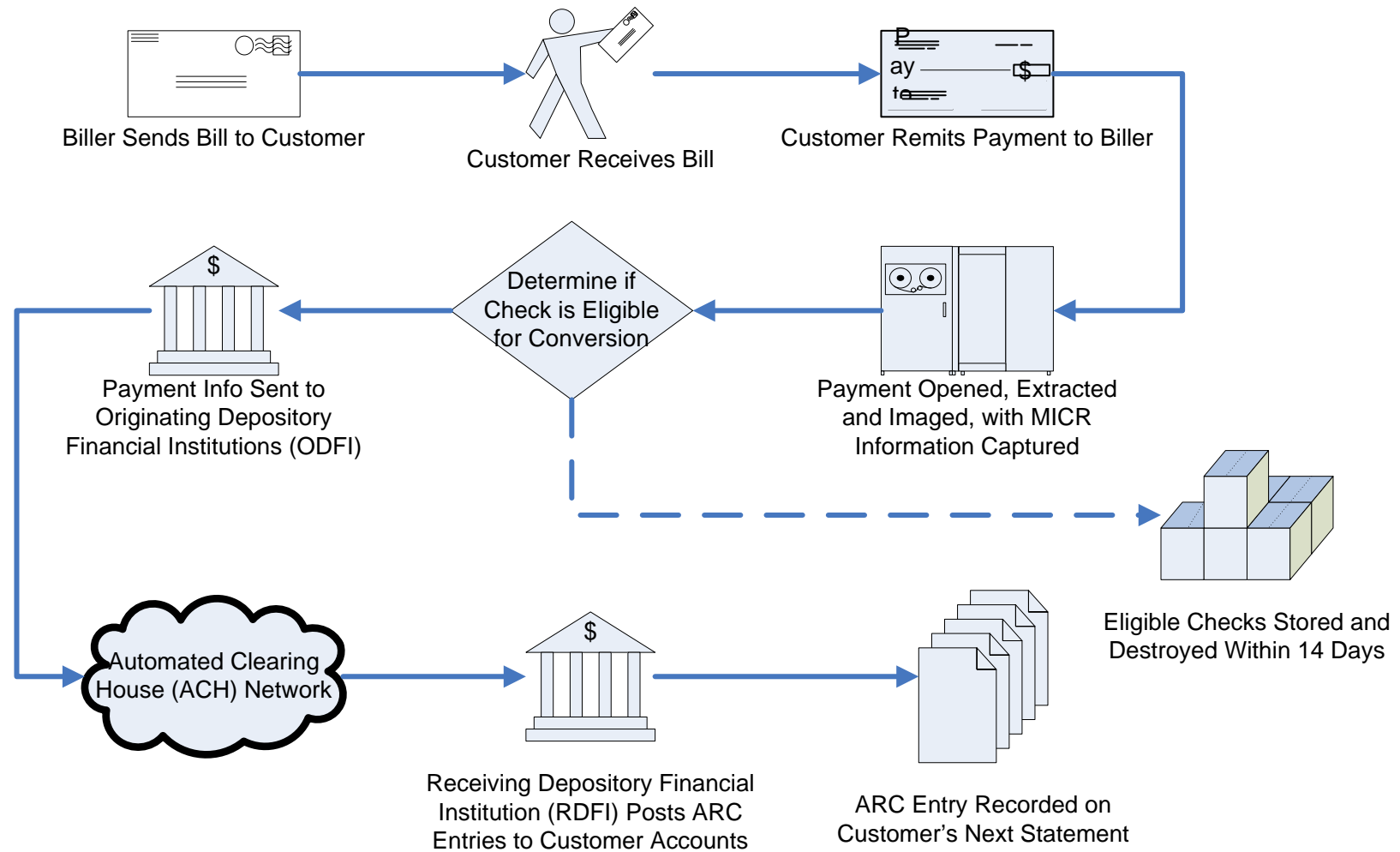
- 2nd largest “third party” First Class Mailer
 - Over 1.3 billion images annually
- Largest independent US Remittance provider
 - Almost 500MM items annually
- Regulus produces 1 in 25 statements
- \$31.85 of US Monthly household payments
- National network of 10 print/remittance sites

- ***Regulus converts more than 20 million items via ARC each month***

What is ARC?

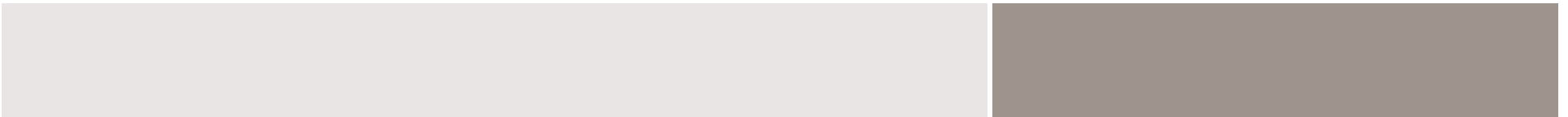


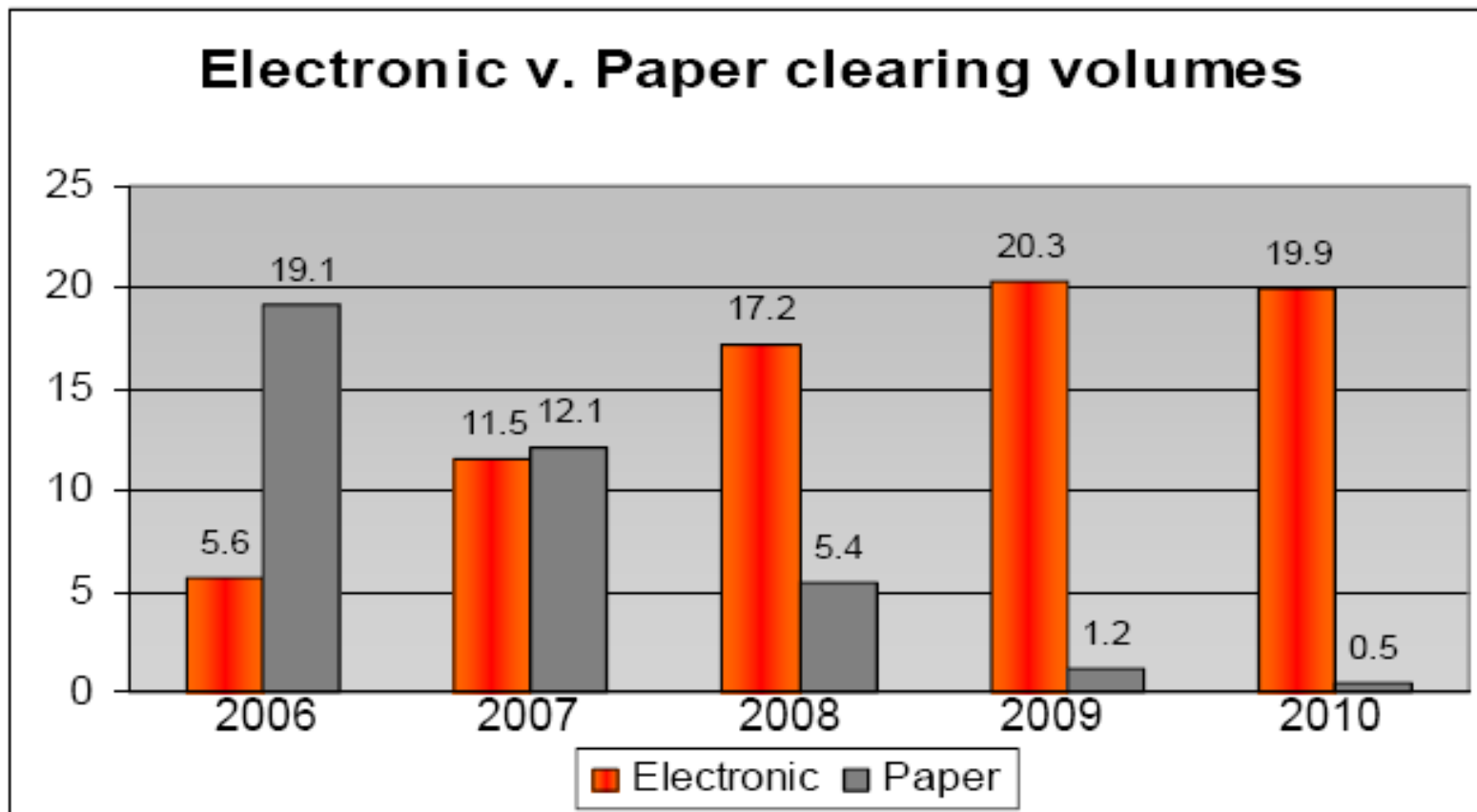
- Accounts Receivable Conversion (ARC)
 - Method of converting a paper check to an electronic debit
- Instituted and governed by National Automated Clearing House Association (NACHA)
 - Service began in 2002
 - Governed by Electronic Funds Act, Reg E, NACHA Operating Rules
 - Not part of Check 21 or Uniform Commercial Code (UCC)
- Exists alongside expanding payment options:
 - Paper Checks
 - ACH
 - Image Cash Letter (Check 21)
 - Credit card
 - PIN-less debit
 - Etc.



- Business checks
- Third-party checks
- Cashier's checks, money orders, traveler's checks
- Checks payable in foreign currency
- Checks drawn on US Treasury or Federal Reserve bank, state or local government
- Checks without printed serial numbers
- Demand drafts and third party drafts without Receiver's signature
- Credit card access checks
- Any check drawn on a bank not participating in the ACH

Payment Trends





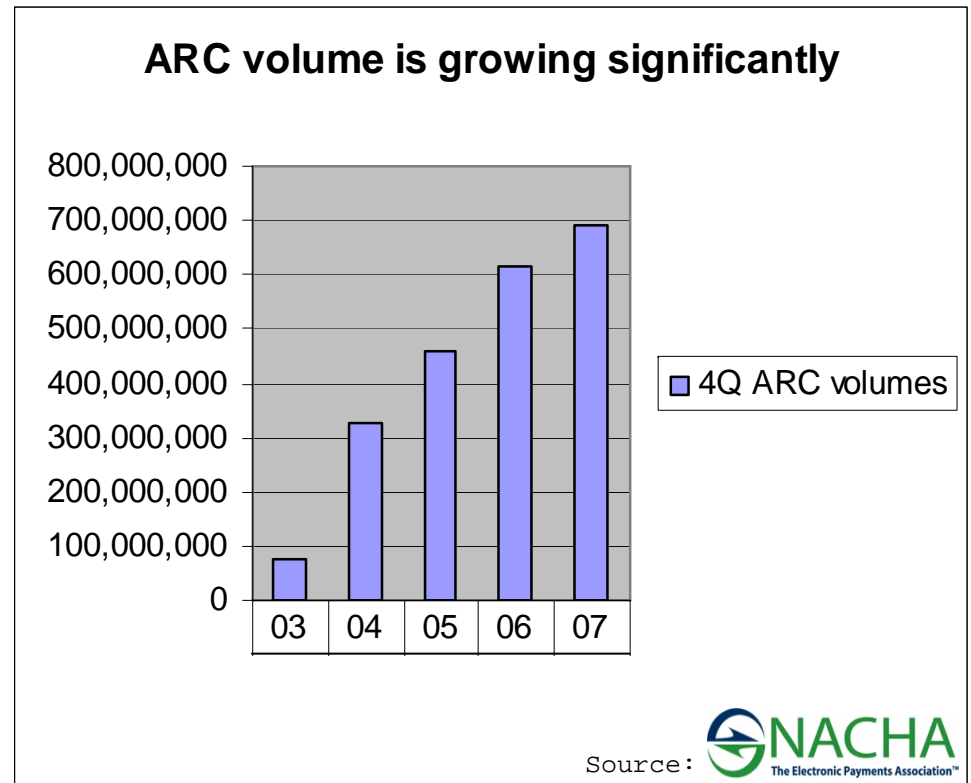
Source: Global Concepts, BAI Banking Strategies, January 2008.
 Electronic is IE, IRD, and ACH

Method of Payment	Credit Card	Insur	Mort	Home Phone	Cell Phone	Cable / Satellite	ISP	Utilities	Car / Other
Paper Check	43%	44%	47%	46%	35%	43%	33%	50%	45%
Bank Transfer ¹	45%	36%	41%	29%	29%	28%	31%	30%	40%
Credit Card	2%	6%	2%	8%	13%	10%	18%	4%	3%
Debit Card	6%	8%	4%	11%	15%	12%	12%	7%	5%
Cash	2%	4%	3%	4%	5%	4%	3%	6%	3%
Other	3%	3%	3%	3%	3%	3%	3%	3%	4%

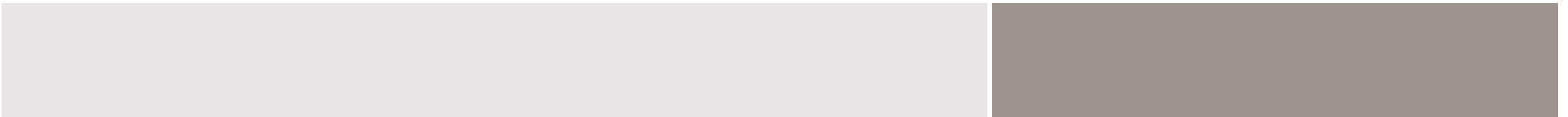
Bill Pay Instrument Use by Industry (Source: 2006 Javelin Research for Fort Knox)

¹ Payment via ACH debit (PPD, WEB, TEL) initiated via auto-pay, pay-by-phone/web, EBPP

- Fastest growing payment application in history of ACH network
- Surpassed 1-billion-payments-threshold within 3 years of introduction



Features and Benefits



■ *Faster*

- Faster cash collection
- Rapid return item receipt
- Earlier fraud notification
- Faster research and adjustments
 - No longer waiting on check copies

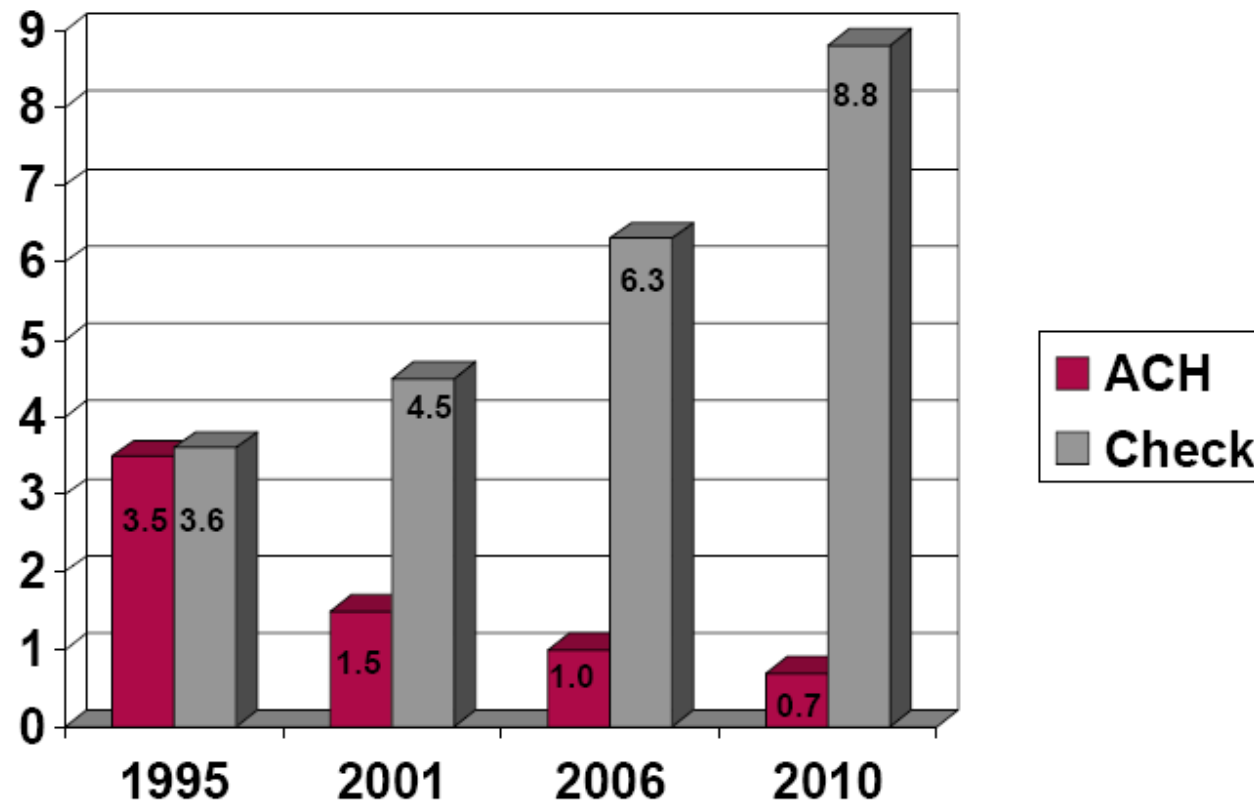
■ *Cheaper*

- Reduced clearing fees
- Fewer NSF return items
- Reduced processing labor
- Late fees collected sooner or waived fees more often

■ *More Effective*

- Consolidation of bank relationships
- Increased accuracy
- Enhanced forecasting capabilities
- Extended processing window
 - May shorten float
- Fewer courier / bank deposit trips
 - Security risks decreased

Check Clearing and Settlement
Unit Costs
(in cents)

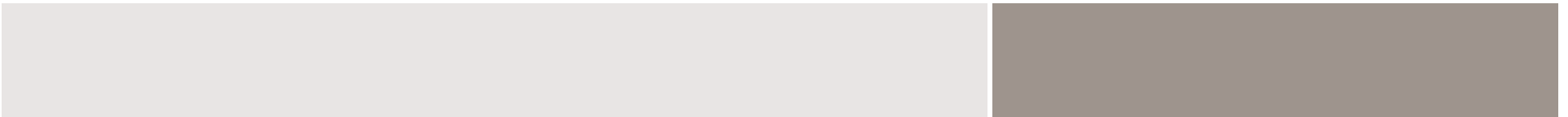


Source: NACHA analysis of Federal Reserve data; 2010 figures estimated by NACHA based on current rates of change.

■ *Limitations and Drawbacks*

- Notification
 - Notice to consumer + check = authorization
- Opt Out management
- Exclusion of business checks and other payment types
- Domestic financial institutions only – no funds drawn vs foreign banks
- Managing imaging and archiving
- Destruction requirements

ARC Business Case



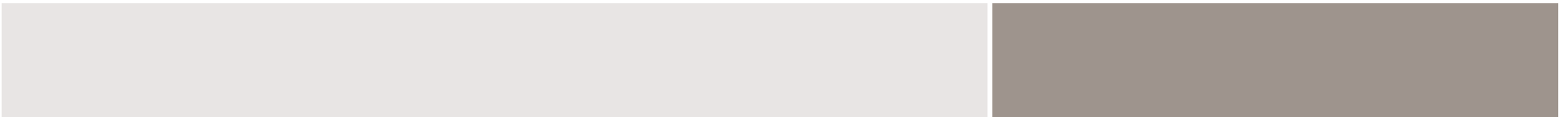
■ ***ARC Business Case Considerations***

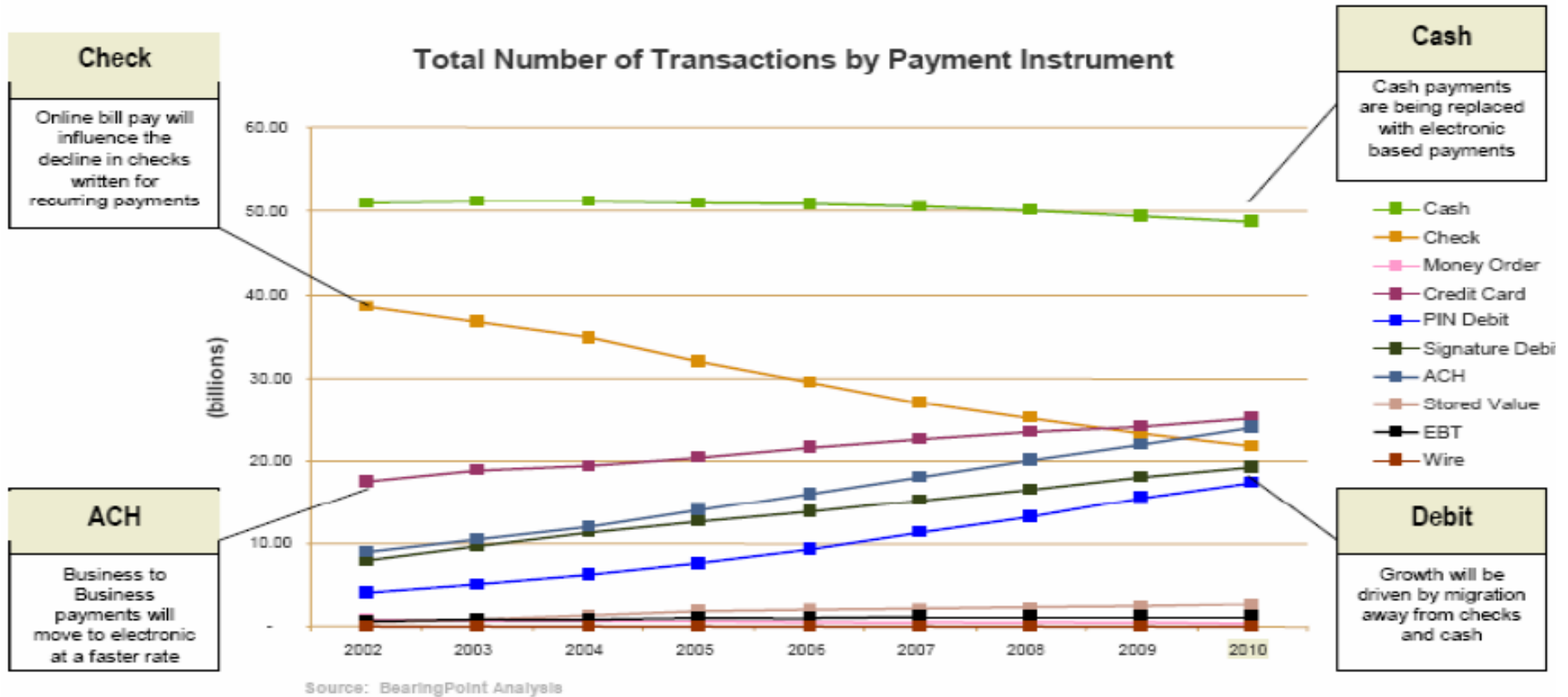
- Remittance volume
- Mix of work
 - Volume of ARC-eligible items
- Image-enabled remittance process required
- Number of returned checks
- Dollar amount of checks
- Reduced check clearing costs
- Customer distribution
 - Time to settlement
 - Can get same day clearing on On-U's payments

■ Cost Considerations

- Implementation
- Opt Out management
- Hardware requirements
- Return handling
- Retention requirements
 - Storage
 - Risk
- Labor savings
- Destruction

Alternatives and Options



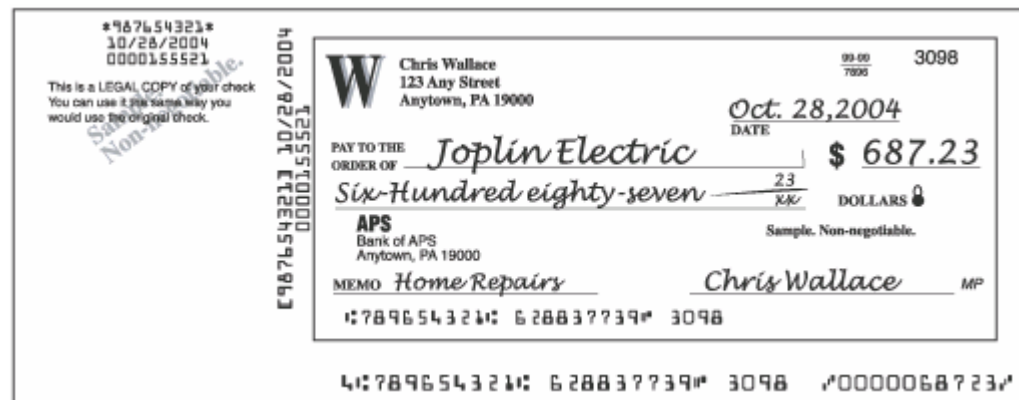


■ *Treasury / Remittance Options*

- Traditional Lockbox (Paper / Cash / Credit Cards)
- EBPP
 - Biller Direct
 - Distribution
- ePayment Consolidation

■ Check 21

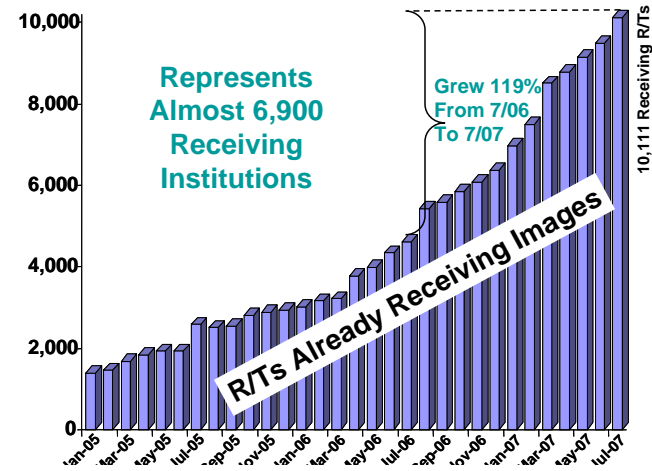
- Law that went into effect in 2004
- Created “substitute check” or “image replacement document” (IRD)
- Substitute check = printed image of original check + identification data
- Does not require Image Exchange (banks can agree to perform IE between themselves)
- Requires image retention period of 7 years (vs. 2 for ARC)



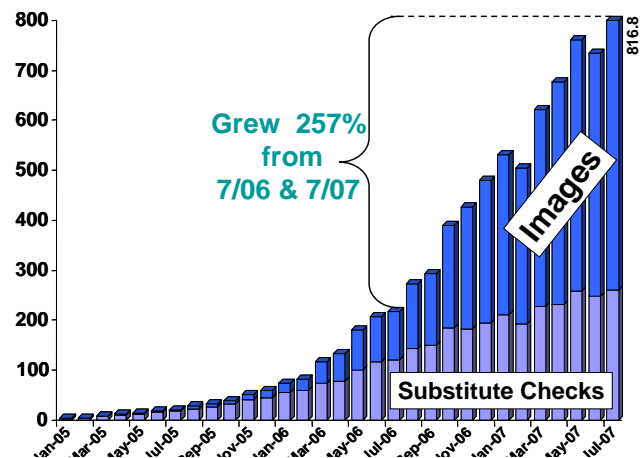
■ *Image Cash Letter (ICL)*

- May shorten float (dependent upon Bank availability schedules and cut-offs)
- Likely extends the “processing day”
- Potential reduction in overall clearing fees
- Reduced and faster returns
- Breaks down geographical boundaries
- Security risks are decreased by not physically sending checks via courier
- Only foreign checks are ineligible

of Receiving Institutions



of Image Based Trans.



Payment Method	Average Cost	Typical Time to Deposit	Implementation Time	Benefits	Drawbacks
Paper Check	0.25	2-5 days	60 days	Consumer comfort, established processes	Costly, long float times
Credit Card Payment	1.00	1 - 3 days	10 - 90 days*	Auto Authorization, consumer options, reliable cash	Costly transactions fees, consumer protection over disputes
ACH	0.05	1 - 3 days	30 days	Reduced fees, quicker cash, reduced returns	Not all items are eligible,
ICL	0.05	1 - 3 days	30 days	Any check can be converted, no dollar limits or type limitation	Cost can get high if IRD's must be produced
Wire Transfer	\$15 + ***	0 days	10 days	Immediate cash	Costly - mostly prominent in B2B transactions
PIN Debit	0.05	0 - 2 days	See CC	Goes through the ATM networks, lower fees, Consumer confidence	No good methods for entering PIN information, security concerns
PIN-less Debit	0.50	1 day	See CC	Auto Authorization	Still goes through the CC authorization / fee process

* Dependent on agreement with Merchant Providers

** ICL costs can vary depending on the rate of IRD's in the portfolio

***Wire fees can as well vary depending on the processor

- Dramatic growth of ARC
- Valuable part of payment mix
- Business case requires examination of payment types, workflow, etc.
- Considerations include:
 - Opt Out management
 - Imaging requirements
 - Retention
 - Mix of work
 - \$ amounts of payments
- Other payment options may prove valuable to explore

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