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Business Magnet: Grow Commercial Accounts with Free Electronic Check Recovery Service

By: Barrett Nichols

The banking industry is facing a number of challenges and opportunities. How a bank identifies these challenges and turns them into opportunities will be telling of its success and industry longevity ... and it does not have to be as hard or costly as it sounds. In fact, it can be a free proposition.

One Bank's Story

Russellville, Ark.-based First State Bank was facing a decrease in deposit accounts and increase in local competition. The bank targeted businesses eligible for commercial accounts as a way to generate new deposit growth. First State Bank focused on building its commercial products offerings with free services as a way to attract new accounts, neutralize competition and expand existing relationships.

Historically, First State Bank managed the collection of returned checks manually on behalf of its business customers, diverting precious time, money and employee resources from regular customer interaction and bank functions. Ragen Moore, senior vice president of operations for the bank, identified this function as an area of opportunity for improvement and sought a way to simplify collecting insufficient fund checks and other returned deposit items for the benefit of the bank and its commercial accounts. The solution was electronic check recovery or RCK.

"First State Bank is building its footprint in Arkansas as a financial institution dedicated to exceeding the expectations of our account holders," said Moore.

“Electronic check and item recovery helps both our customers and our bottom line by offering a valuable service to customers and eliminating a time-consuming, manual process for the bank.” The bank also earns income through a revenue share of collection fees.

In just months after implementation, the bank and its business customers realized tangible results. Since offering RCK to commercial accounts, the collection rate for commercial customers has been more than 75 percent. Traditional collection methods, such as phone calls and letters, typically generate collection rates of less than 40 percent. In addition to increased collections – which could stand alone as a return on investment for the bank – First State Bank personnel no longer juggle primary duties with monitoring the collection of returned checks. RCK allows the bank to be a bank and not a collections agency.

How Does It Work?

Offered at no charge to First State Bank’s commercial account holders, RCK electronically re-presents a returned item to a check writer’s account to recover 100 percent of the check’s value. Because of multiple presentments and strategic timing, e.g. when funds are most likely to be there, the chances for collection are significantly improved and often take less time than traditional methods – five days to collect versus 30 days.

Neither the bank, nor the commercial account holder, is involved in the automated collection process; business customers simply access online detailed reports to track checks whenever necessary. All they need is an Internet connection. To further increase collection success, secondary collections are also offered for free to account holders. According to bank officials, this total collection solution provides them with the means to offer a new and useful service to their business customers as well as consolidate functions within bank.

Banks that do not perform collections for their business customers as First State Bank does – but instead send returned checks back to the customer for their own collection efforts – stand to benefit even more, as they can provide an effective solution to a burdensome problem without charging the customer.

“We did our due diligence in researching RCK companies and their product offerings; we chose a program that spoke directly to our business and customer objectives as a community bank,” said Moore. “Electronic check and item recovery enables us to offer ‘big bank’ services without forsaking our ‘community’ focus.”

In addition to processing returned paper checks, First State Bank’s RCK program also processes electronic items, including ACH originations and check conversions, such as back office conversions, accounts receivable conversions and Web-authorized payments. As a result, the revenue the bank earns through processing paper checks is only a part of the potential program earnings, as the bank receives a portion of the revenue generated.

Where Are Checks Today?

Do not count electronic check recovery out as a product offering or bank differentiator just because checks are not as prevalent a form of payment as they once were. The 2007 Federal Reserve Payments Study, which in an ongoing effort by the Federal Reserve System to measure payments trends in the United States, estimates that 30.6 billion checks were paid in 2006 and 153 million checks were returned unpaid. The average value of a returned check increased from \$731 in 2003 to \$1,193 in 2006. As check values increase, writing them off as bad debt becomes more and more detrimental to a business. While the number of checks written has decreased, there is still a valuable opportunity to collect more items, because of the dramatic increase in the number of ACH check conversions, with 2.6 billion in 2006 alone.

"At the time of the survey, about 40 percent of all interbank checks involved the replacement of the original paper check with electronic payment information in the collection process," which has paved the way for another trend the study notes - "check collection is becoming increasingly electronic."

How to Select a RCK Provider

According to Cornerstone Advisors' Bill McFarland in his June 15, 2007, GonzoBanker article, "The Gnomes of Chargeback," key considerations that differentiate electronic check and item recovery service providers include the following:

1. Are services NACHA compliant? ACH fee collections require a consumer authorization signature for each item, so that it is preferable to issue paper drafts to collect the bounced check fee.
2. Does the service provider provide call center support so the bank does not have to answer questions or deal with support issues from its business customers?
3. Is the program designed for and marketed to banks and their customers? Some service providers primarily sell directly to banks' customers, and continue to draw the bulk of their revenue as a competitor to banks.
4. Does the service provider collect on all returned items from a bank's business customer, not just the ACH-eligible items? Some service providers supplement RCK collection with IRDs, letters and phone calls.
5. When collected, are merchants paid at 100 percent of face value? Most merchants do not receive 100 percent of face value on secondary collections from non-bank servicers.
6. Handling all returns in a single location simplifies processing because the bank does not have to sort the various types of returns before forwarding to the service provider.

7. Some service providers and correspondent banks share a percentage of the gross collected fee with their client banks.
8. Are there provisions for an opt-out of selected merchant depositors? If so, what is the opt-out ratio? If a service provider has an opt-out ratio of 40 percent or 50 percent, the bank will receive income off of only about half the items it handles.
9. Service providers who process returned electronic items allow the bank to capitalize on the growth of ARC, POS, BOC, PPD, TEL and WEB.
10. Some service providers provide operational simplicity by allowing the merchant and the bank to access RDI status information via the Web.

Every bank interested in electronic check recovery should literally hand Bill's list to potential RCK providers and ask them to address each point. If the provider cannot address each question, your bank does not need to work with them. Reputable providers of RCK programs can easily and without hesitation comment on each point.

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