

Financial Services Clipsheet
December 3, 2004

Banking & Payments

Banks face reduced payments profits 11/29 BS&T Although global payment revenues within the banking industry are expected to increase, some banks will face a decrease in profit margins because of changing customer behavior, increased regulation & competition from non-banks. The research by Boston Consulting forecasts that banks will see an increase in payments volume by 2011 but will suffer a dramatic reduction in profits from these payments. Overall transaction revenue in the banking industry is predicted to increase to \$390m in 7 years, but the profit margin for each transaction will decline, according to Carl Rutstein, BCG. BCG forecasts that fees on individual domestic payments will decrease from \$1.16 per transaction in 2001 to \$0.86 by 2011 - a compound annual decline of 5% in real terms. On cross-border payments, revenues per transaction will decrease by more than 1/2 over the same period, from \$12 - \$5.20. Customers are increasingly using different payments methods that often have lower transaction fees - & slimmer margins. 'There is a reduction in the use of signature debit & there is an increase in the use of PIN pads for debit, which has lower fees than signature debit or credit cards. This reduces transaction fees.' In addition to changes in customer behavior, profits from payments may be suffering because banks are preoccupied with spending on compliance issues, rather than focusing on improving their payments business. 'Lots of folks are spending on Check 21 compliance, SOX or the Patriot Act. There is a lot on the regulation front that puts pressure on institutions.' Competition from non-banks, such as telecom or other service providers that offer customers alternative payment methods, can divert transactions from traditional bank channels. 'Other players in the payment space are doing things around the banks.' This contributes to the decline in banks' profits from payments. To counter the declining margins & profits in their payments businesses, banks need to be proactive in seeking profits from other products & services. By leveraging CRM technologies & increasing cross-selling efforts, banks can maintain customer loyalty. 'The banks that are going to be successful are those that leverage customers to get loans.'

Check 21 & check bounces 12/1 ChicagoSunTimes Steve Thompson knows he isn't as financially responsible as he ought to be. He doesn't balance his checkbook, & sometimes he forgets to move money around before heading out of town on business. The price he used to pay: \$30 for a bounced check here & there. The price he paid 1 week in August: \$450 for bouncing 17 checks in 4 days. Why? Because the bank paid the largest check first, wiping out the few bucks still in the account & resulting in a bounced check fee for every other check that arrived while he was out of town. He went straight to customer service at the main branch of Bank One in the Loop. 'The person in customer service volunteered the information that this was a new policy the bank had just started implementing to increase fees. The supervisor, who overheard, said that it was because the bank is interested in paying the biggest checks - the mortgage & car payment - so those checks don't get bounced,' said Thompson, not his real name. He asked not to be named for obvious reasons: 'I feel kind of stupid. I was out of town & got lazy, & it cost me \$450.' Bank One did change its check policy. It used to pay checks in numerical order. So it was possible that the smaller checks would go through & if a customer was lucky, the last check to be paid was the biggest, meaning only one bounced check fee. Now the bank pays checks in reverse order - highest to lowest. The change took effect in 4/03 as a way to help customers by ensuring mortgage, rent & car payment checks don't bounce, just as the customer service supervisor said, according to Tom Kelly. Thompson, who has learned his lesson & hasn't bounced a check since that week in August, doesn't remember getting a notice about the new check-paying system. 'Was it one of those sheets you can't read without a microscope?' referring to the fine print that passes for most banking correspondence these days. Thompson was just one reader who wrote me after my 11/3 column took the banking industry to task for the anti-consumer components of Check 21, the new law that speeds the way checks are debited from your account but does nothing to speed the way deposits are credited. That means the check you wrote yesterday could clear your bank today. But the deposit you made yesterday might not be credited for as many as 11 days, depending on the amount of the check & whether it is drawn on a local bank. A bill introduced last week by Rep. Carolyn Maloney (D-NY) & co-sponsored by Rep. Jesse Jackson Jr. (D-IL) would require the Fed to fix that imbalance by telling banks to credit deposits as quickly as they debit checks. It would prevent banks from charging a bounced check fee if the funds are in the account awaiting the hold period; require banks to clear deposits before checks presented on the same day, & require banks that clear checks on Saturdays to count Saturday toward the deposit hold period. Until that bill passes, consumer advocates predict Check 21 will result in even more bounced checks & banking fees. Bank One does not keep statistics on revenue earned from bounced check fees. The ABA did not respond to my request for industry stats on bounced check fees. But the cost to consumers may be even bigger than the simple \$30 (or \$450) in bounced check fees. A terrific Frontline program on PBS last week, *Secret History of the Credit Card*, a joint investigation with the *New York Times*, offered some scary statistics about the future of consumers' credit rating. The latest anti-consumer policies among credit card issuers allows the company to jack up your interest rate because you paid another bill late. How will an increase in bounced checks at your not-so-friendly multinational bank affect the credit issued by the equally unfriendly multinational credit card company? Hard to say, but don't expect it to be good. 'I was always taught to do the right things for the right reasons, but they're just reshuffling the deck so they can make more in fees. Banks used to be your partners. Now, they're just trying to stick it you.'

Bankers, merchants criticize check conversion proposal 11/29 AB Changes the Federal Reserve Board has proposed to Reg E regarding the conversion of paper checks to electronic transactions could end up confusing consumers, bankers & merchants say. Under the Fed's plan, merchants would have to notify consumers who present checks at POS that their checks may be converted to electronic transactions, that their accounts will be debited quickly, & that their checks will not be returned. Bankers' concern 'is that their customers not be confused,' said Nessa Feddis, ABA. 'If they didn't realize' they had authorized an electronic transaction, 'they might call the banks.' If disclosures are clearer, people 'won't be surprised, upset, & calling the bank.' Checks can be converted at the point of sale by a cashier, or at lockboxes where they are sent for payment. The check is electronically scanned & its MICR code is captured for the routing, account, & serial numbers. That information & the amount of the check are then electronically transmitted to the consumer's financial institution & debited from a DDA (assuming there are sufficient funds). The process has been used in various merchant stores for a number of years. Nacha has rules that address the disclosures about converting checks to ACH transactions. In a 11/17 comment letter, Feddis asked the Fed to delete the proposed disclosure that would say that 'funds may be debited from the consumer's account quickly.' 'We believe that it will be confusing & misleading to consumers as it suggests that the transaction will process more quickly than if it were to be processed as a check.' Feddis said that local checks (which make up the overwhelming majority of those submitted to cashiers) are often processed just as quickly as an electronic transaction through the ACH. Dave Willis, Navy FCU, said that such a disclosure was

unnecessary. Consumers know 'that float is coming out of the system' since check conversion at the point of sale has been around for years. Willis said Check 21 has received much publicity. Since October the law has permitted banks to settle transactions with image replacement documents, not the original check - though banks with the proper technology could agree to keep the images electronic. Such transactions would go very fast. Another proposal by the Fed would require merchants & payees who receive paper check remittances at lockboxes & convert them to electronic payments to inform consumers that their checks will not be returned. 'We believe such required disclosure would confuse consumers that do not receive checks back from their financial institutions with their monthly statements,' wrote Ian Macoy, Nacha, in a 11/19 letter to the Fed. Under Nacha rules, merchants converting checks at the point of sale must return them to the consumer once they have been converted. Nacha's Mike Herd said that the proposed notification would puzzle rather than inform consumers. Many institutions today do not return checks received by remittance, so it would confuse consumers to tell them 'that they may not get their checks back when they don't get their checks back. On the other hand, merchants would be required to tell a consumer at POS, 'You're not going to be getting your check back, when you're getting your check back.' 'The length & complexity of the model notifications the Fed designed were questioned. Mallory Duncan, NRF, wrote in a 11/19 letter that notices at the point of sale 'are useless unless they are brief & to-the-point, such as 'Checks may be converted to EFTs.' Duncan said that longer notices would be more appropriate in a lockbox remittance situation where the consumer had the opportunity to more leisurely read the notice. The Fed requested comments on the changes to Reg E in September.

Blue book of bank prices 2004-2005 12/1 ControllerReport The prices of individual treasury management services are modest, with banks

charging no more than a few hundred dollars for even their most expensive services. Most controllers periodically review the prices their banks charge for maintaining various cash-based services & accounts & processing their transactions. The reasons for these periodic reviews are 2-fold. Banks are sometimes poor communicators & fail to notify their customers when prices rise. This is particularly for volume based services, such as check image capture, that cost only a few pennies per use. Many CR readers believe that they should not overpay for any service. Given the right information, these controllers can determine whether they are paying list or discount prices for various banking services. They can determine whether the discounts they do receive are as steep as those available to other companies. For those readers who feel now is the time to do a periodic cost review, CR provides the associated table. Phoenix-Hecht's *Blue Book of Bank Prices 2004-2005*, our table provides 4 types of information for 56 treasury management service. This information, which has an effective date of 3/04, is: average list price, average list price increase, discount frequency, & discount %. Upshot: This table is a quick way to answer 4 cost questions. These are: How does our price compare to list pricing? Have our recent cost increases for this service exceeded those in the market? How frequently do companies receive discounts? If companies do receive discounts, what is their depth? CR emphasizes that the information in this table reflects prices for 900 companies, each with sales exceeding \$100m. Key point: These are companies with negotiating leverage with their bankers. An overview of the information in our table includes: The average list price increase for 2004 was 2.4%, 0.5% above the 2003 CPI increase of 1.9%. Phoenix-Hecht was able to develop list prices for 55 treasury management

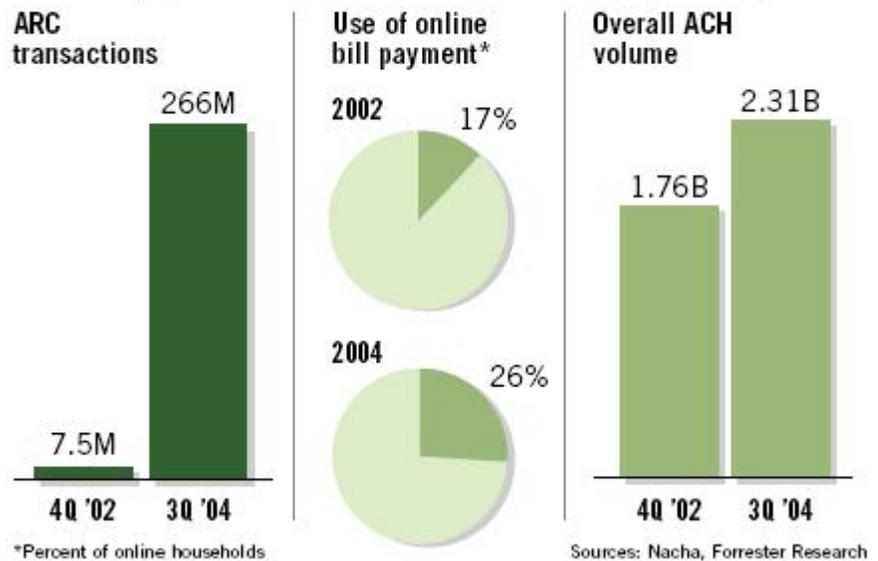
| Current Pricing for 56 Cash Management Services | | | | |
|---|------------|--------------|---------------|------------|
| Service | List Price | Price Change | Discount Freq | Discount % |
| Ledger Overdraft Fee | \$35.50 | 1.1% | 19.4% | 16.7% |
| Account Maintenance | 28.55 | 1.8 | 48.0 | 33.3 |
| ZBA Master Account | 41.07 | 0.3 | 35.5 | 42.9 |
| ZBA Sub Account | 24.82 | 0.7 | 48.2 | 40.0 |
| Credit Posting | 1.37 | 3.7 | 52.2 | 37.5 |
| Deposit | 0.09 | 0.9 | 40.8 | 28.7 |
| Checks Deposited - On Us | 110.87 | 4.9 | 45.7 | 26.1 |
| Checks Deposited - Transit | 0.15 | 2.2 | 52.3 | 20.9 |
| Return Item | 6.24 | 3.9 | 52.1 | 45.9 |
| Debit Posting | 0.47 | 0.0 | 35.8 | 40.0 |
| Checks Paid | 0.18 | 3.5 | 48.4 | 34.0 |
| Coin Rolls | 0.13 | 12.9 | 32.0 | 33.3 |
| Currency Strap | 0.60 | 8.3 | 22.6 | 27.8 |
| Deposit Reconciliation Maintenance | 58.75 | 2.8 | 35.1 | 38.5 |
| Deposit Reconciliation Item | 0.11 | 0.0 | 50.0 | 37.5 |
| Wholesale Lockbox Maintenance | 115.53 | 2.3 | 48.6 | 28.0 |
| Wholesale Lockbox Item | 115.53 | 2.3 | 48.6 | 28.0 |
| Lockbox Data Capture | 0.07 | 3.1 | 41.9 | 26.1 |
| Lockbox Keying | 0.01 | 2.3 | 37.1 | 33.3 |
| Wholesale Lockbox Photocopy | 0.11 | -1.7 | 28.7 | 30.0 |
| Retail Lockbox Maintenance | 210.71 | 0.0 | 39.5 | 33.3 |
| Retail Lockbox Item | 0.16 | -7.5 | 38.1 | 43.1 |
| Controlled Disbursement Maintenance | 107.89 | 2.4 | 60.3 | 48.8 |
| Controlled Disbursement - Checks Paid | 0.17 | 4.8 | 65.6 | 43.8 |
| Controlled Disbursement - Notification | 71.25 | 0.0 | 46.2 | 50.0 |
| Positive Pay Maintenance | 80.83 | 7.3 | 46.8 | 50.0 |
| Positive Pay Checks Paid | 0.22 | 0.0 | 68.9 | 32.5 |
| Check Imaging - Maintenance | 41.47 | 0.0 | 39.5 | 37.5 |
| Check Image Capture | 0.04 | 7.0 | 44.2 | 33.3 |
| Automated Stop Payment | 10.45 | 2.0 | 38.5 | 37.5 |
| Manual Stop Payment | 26.22 | 2.1 | 41.3 | 25.9 |
| Check Sorting | 0.06 | 12.4 | 48.1 | 42.3 |
| Partial Reconciliation Maintenance | 65.42 | 3.7 | 51.3 | 36.4 |
| Partial Reconciliation Item | 0.05 | 5.0 | 42.6 | 37.5 |
| Full Reconciliation Maintenance | 88.53 | 0.0 | 55.6 | 36.8 |
| Full Reconciliation Item | 0.06 | 2.3 | 50.9 | 38.0 |
| ACH Maintenance | 53.89 | 2.3 | 45.5 | 40.0 |
| ACH Credit | 0.13 | 0.0 | 56.9 | 34.0 |
| ACH Debit | 0.13 | 0.0 | 60.5 | 40.0 |
| ACH Return Item | 4.689 | 35.5 | 34.9 | 40.0 |
| ACH Concentration Maintenance | 78.75 | 0.0 | 13.5 | 15.0 |
| ACH Concentration Item | 0.24 | 3.3 | 17.4 | 8.3 |
| ACH Tax Payment | 4.68 | 0.0 | 29.6 | 22.5 |
| EDI Receiving | 0.33 | - | 3.8 | 6.3 |
| Incoming Wire | 9.06 | 0.5 | 52.9 | 31.0 |
| Automated Non-repetitive Wire | 9.04 | 2.2 | 46.3 | 21.9 |
| Automated Repetitive Wire | 8.38 | 4.7 | 43.9 | 18.8 |
| Manual Non-repetitive Wire | 22.08 | 3.1 | 45.0 | 31.8 |
| Manual Repetitive Wire | 16.69 | -0.6 | 42.3 | 36.7 |
| International Incoming Wire | 12.96 | 4.2 | 31.7 | 22.3 |
| International Outgoing Wire | 35.05 | 1.6 | 26.2 | 24.2 |
| Previous Day Balance Reporting | 54.86 | 0.0 | 44.0 | 54.5 |
| Previous Day Reporting Transaction | 0.17 | 1.9 | 51.9 | 40.0 |
| Intraday Balance Reporting | 64.08 | 2.2 | 35.3 | 48.1 |
| Intraday Reporting Transaction | 0.19 | 0.7 | 43.1 | 43.9 |

services. In comparison to 3/03, 3 (5%) of these services had an average list price decrease, 12 (22%) had no change in list price, 10 (18%) had a list price increase that was at the CPI or less, 20 (36%) had an increase above the CPI but below 4%; & 10 (18%) had an increase about 4%. We point out the complete Blue Book has additional valuable information on each of these 56 services. It ties pricing to volume, bank location, & a company's total monthly bank fees. It shows the distribution by decile of discount-pricing frequency & depth. Such information has great value to controllers who are serious about negotiating lower treasury management costs.

Nacha ponders next step for payments industry 12/1 AB When Leonard Heckwolf became Nacha's chairman in 1/03, ARC was one of the least-used types of ACH payments, online bill payment was a novelty for consumers & bankers weren't sure whether Check 21 would become law. In his 2-year term, the payments landscape has been transformed - multiple mechanisms now in widespread use have dramatically reduced the number of consumer checks. 'I think the consumer piece is in place now,' said Heckwolf, who will step down next month from his post with the electronic payments association. Now that the industry has implemented electronic options for consumer payments, he sees a dual mandate for his still-unannounced successor. Banks have to address business payments, which remain largely paper-based. Banks must start looking at these issues not as discrete problems to tackle, but as elements of an overall payments strategy. 'We've had positive movement, but it has been movement without an overarching agreement from the industry & the Fed over our direction,' said Heckwolf, JPMorganChase. 'The challenge for our industry is to make a decision about which way it wants to go.' Perhaps the most obvious change in Heckwolf's tenure at Nacha has been the rapid evolution of consumer payments. Online bill payment has rapidly become a common way to make monthly payments without paper checks. Many consumers continue to mail in checks, but banks are now using the ARC process to convert them into ACH payments (1b items this year, & 1.25b next year). When banks cannot use ARC, some can now convert the checks into digital images & process them electronically, thanks to Check 21, which took effect in October. Heckwolf did not put these policies into place. ARC was approved in 3/02, & bankers were talking about online bill payment & check imaging long before that. He led Nacha in 2 years of transformation in the payments industry. One of his main tasks during his term was to ensure that these new technologies emerged as popular options in the consumer market - & that's exactly what happened. 'The last 2 years have been about managing the growth' of these services. 'There is a path to an almost universal preference among consumers to use electronic payments.' The group will announce his successor this month. Heckwolf will remain on its 19-member board as the immediate-past-president, a position designed to preserve a sense of institutional memory within the group. Nacha's board has 4 2-day meetings every year & it often has unofficial conference calls between those meetings. The group's mission is to shape the rules & policies that govern the ACH network, though after the board drafts a proposal, it must still be approved by a vote among Nacha's membership. Heckwolf said the chairmanship demanded 'much more time than I ever thought it would' but was 'an incredible experience.'

On Heckwolf's Watch

Consumer payments have been transformed in the past two years



Nacha has chosen the next chair & Heckwolf said he had a meeting last month with his successor at a payments conference in San Diego to discuss the payments industry's future. Since electronic consumer payments are now largely in place, the group needs to focus on the corporate side. ACH rules bar business checks from going through the ARC process. Corporations often use positive pay lists to prevent check fraud; their banks get a list of the checks they have written, & if a check not on the list is presented for payment, the bank will raise a red flag. Businesses have resisted the idea of permitting ARC for business checks, because converting the items to ACH payments could render the positive pay process impossible. Heckwolf said pushing for business check conversion should be one of the top items on the new chairperson's agenda. In the past, the board has sometimes failed to attain some goals simply by not making a decision on what it wants to pursue. The group was very aggressive about pushing for the consumer payment options, & it needs to be just as focused now on business checks. 'I do think the industry has to make some real decisions' on the issue. However, ARC is just an interim technology, designed to convert paper payments into electronic ones. The endgame is to persuade consumers & corporations to issue electronic payments instead of writing checks. 'We need a high-quality B2B electronic payment system. That's what people need to focus on for the next 3 - 5 years.' On a larger scale, banks must start devising an industrywide payments strategy. Paper checks are almost extinct in Canada, largely because the country's banks made a conscious effort to promote electronic payments instead. 'Canada has done this very well,' but the US is lacking in overall direction. A hopeful sign of cooperation within the industry in creating a payments vision has been the progress in developing a rule for return entry fees. Heckwolf noted that the proposal calls for banks that originate some ACH payments that must be returned to pay the receiving bank a fee. The current rules have no such provision, & many smaller receiving banks have said processing return items can become an economic burden. Some originating banks initially resisted the idea, because it would cost them money, but Heckwolf said that many banks recognize that the proposal is fair & will lead to improvements in the payments network. This level of cooperation indicates that US banks can see beyond their own self-interest & work toward an industry goal. Now the banks just have to decide what that goal should be. The banking industry seems to be unsure whether to pursue a slow transition to electronic payments or a rapid one. A slow transition would minimize the economic disruption that would come from replacing well-entrenched check processing infrastructure. A rapid transition would lead to improved efficiencies,

but it would produce some short-term pain. 'We have some big decisions to make.' He advocates a rapid transition. 'I think ultimately, you have to go in the direction that offers the greater efficiencies. It makes a lot of sense.'

Building customer relationships at the front line 12/2 PRNewswire BAI research on the challenges financial services providers face executing relationship-based strategies at the front line. Findings from 'The Front-Line Factor,' a study by BAI, Oracle & DeLaRue Cash Systems. The study, which surveyed 500 respondents representing banks, savings institutions & CUs of all sizes & conducted interviews with 38 executives from the nation's top 50 banks, breaks new ground with its focus on the linkage between front-line performance - as assessed by bank management - & intangible assets, such as HR. 'As branch networks expand & perform an important role in driving profitability for financial companies, the need to attract, hire & retain front-line employees who can interact with & service customers in a way that fosters long-term, profitable relationships increases. The challenge lies in developing higher order relationship-building skills in employees who have traditionally been at entry-level, & increasingly on a part-time basis.' 'Banks & other financial services companies strive to deliver a relationship-oriented approach with an emphasis on service quality, & they have made enormous investments in relationship-based strategies in recent years in the hopes that they would produce better customer interactions,' said Paul McAdam, BAI. 'But financial services executives say that their companies are falling short of achieving their goals at the front line. 'The Front-Line Factor' indicates that a significant gap exists between relationship-building strategies & front-line execution.' Common obstacles identified by respondents were: Staff lacks required sales skills; Staff does not receive adequate sales training & coaching; Front-line staff focus is on internal activities (such as counting, balancing & paperwork) versus serving the customer; Front-line employee turnover remains high; Teller transaction activity is too time consuming; Too much pressure is placed on front-line personnel to cross-sell. 'The challenge for financial services HR executives is finding branch employees who excel at accurate cash handling & who exhibit an inclination toward inspired customer service - yet are willing to work for entry-level wages for the industry,' says John Smith, DeLaRue Cash Systems. Financial companies are hiring retail sales professionals to fill these branch roles. 'Acquiring the ideal experience,' added David Klebba, Oracle, 'takes the appropriate front-line staff & an organization that aligns tools, training & incentives to support them.' But just as important is providing consistent, actionable & high-quality customer information to these individuals. 'This will make their jobs easier & more efficient, which in turn improves ROI.' The relationship with customers begins at the point of an account opening, & most new accounts are opened in branches. Benchmarking conducted by BAI reveals that the average retail banking customer conducts 2 or 3 branch-based transactions a month. 'Branches are arguably the most important retail delivery channel. Financial services companies measure customer relationships through the branch because sales & service there directly shape revenue potential.' Financial executives felt that leadership at the front line was one of the most critical ingredients for success & goes a long way toward distinguishing successful branches from unsuccessful ones. 'They recognize that training, coaching & the ability to generate & track cross-sell leads are key areas for improvement. Relationship management requires a long-term commitment. While there are immediate opportunities to entrench a new relationship, service excellence & a dedication to needs yields long-term results that can often not be accelerated.'

Many bank web sites haven't yet taken care of marketing basics 12/2 PRWEB Of 50 randomly selected bank web sites in a survey sponsored by BankersOnline.com, fewer than 1/2 listed ATM locations, provided the number for 24-hour telephone banking, invited customer feedback or included online aids for customers trying to find information hidden somewhere deep within the site. 1/3 failed to give any reason on the home page why customers should do business with them rather than competitors. 36% of the time, the home page failed to state where the bank is located - important since so many banks have similar names. 'In my survey, I looked up 'Georgia Banks' in Yahoo & was startled to see a web site come up in a language I couldn't read. It was a bank in the Republic of Georgia, formerly part of the Soviet Union,' says Marcia Yudkin, author of *Web Site Marketing Makeover*. 'Then I saw that some of the banks in the US state of Georgia might have been in Canada or New Zealand as far as the first-time visitor was concerned, since they didn't specify their geographical location on the home page.' Yudkin performed the survey for BankersOnline.com & delivered tips on creating user-friendly bank web sites that help attract new customers & satisfy existing ones. Her advice included: Test how intuitive your navigation links are with customers who have never seen your site. 40% of sites had confusing navigation labels. Enjoy a competitive advantage by posting timely consumer information at the bank's site & letting the media know about it. Only 12% of the sites in Yudkin's survey offered helpful information about Check 21. If you offer online banking, include an obvious sign-up for customers. 'This sounds like a no-brainer, but 32% of banks offering a customer log-in for online banking on the home page had no apparent way to sign up for the service.'

Companies to reduce use of checks 11/29 CUJ More than 1/2 of financial executives across 20 industries said they will be reducing their organizations' reliance on checks as a form of commercial payment. The findings are part of Visa's second cash management survey, which additionally found that of the 51% who plan to use fewer checks, 40% of that group said they will do so by increasing usage of commercial payment cards. The responses indicate that a significant & growing perception among financial executives is that commercial payment cards play a very important role in almost every aspect of the cash management process. 'Some key activities companies hope will reduce costs & boost operating efficiency include the increased use of electronic payments through cards & the elimination of paper checks & invoices.' Visa's analysis said that while few corporate CFOs, treasurers & controllers find their current cashflow & cash management processes to be highly efficient, the survey indicated some improvement in achieving greater process efficiency. 9% of respondents in 2003 rated their cashflow management process as 'very efficient,' increasing to 13% this year.

Company News

Adlertech, Optical Deterrent Systems & void pantographs 12/2 PRWEB The technical support agreement ensures that Optical Deterrent Systems commercial licensees can become compliant with ANSI X 9.7 requirements for Check 21. Adlertech is the leader in advanced VOID pantograph printing techniques & methodologies; & can offer the guarantee that its methods & techniques will ensure that the VOID pantograph will run 'smooth' without the common production & wastage problems associated with printing the VOID pantographs. Check 21 is the biggest operational change for the banking industry in decades. Banks will no longer be required to exchange paper checks; they will be able to electronically scan & image those same checks & exchange the images instead of the paper checks. In order to make the operations efficient these new check images must scan clean; the VOID Pantographs must drop out & not be seen in the scan. 'What we have done is made printing a VOID pantograph easy & cost effective. We have eliminated waste & made production consistent' says Andrew McTaggart, Adlertech. We have always enjoyed our professional relationship with Optical Deterrent Systems & we see this agreement as a very logical next step in that relationship.' Bob Saunders,

Optical Deterrent Systems agrees, 'Adlertech has demonstrated that they have an advanced understanding of VOID pantographs & Check 21 compliancy. We have been running this void technology since 1996 & Adlertech has assisted us in making it compliant'.

AirCharge - wireless check conversion & check guarantee solution 12/2 PRWEB AirCharge is offering an application that enables users to accept & process checks the same way they wirelessly accept & process credit cards. Merchants are able to wirelessly accept checks anywhere on Nextel's nationwide network with AirCheckz. AirCheckz is the first wireless electronic check conversion & guarantee solution on the market, providing a new & easy way for merchants to accept check payments in the field via Nextel's Java-enabled handsets. The process is simple. After starting the AirCheckz software program & selecting 'process check', the merchant inserts the check into a check reader connected to the Nextel handset. The customer's ID, taken from a driver's license or state issued ID card is swiped or entered manually, followed by the check amount. This information is then submitted over the Nextel network to the check conversion company for approval. If approved, the customer signs a written or printed receipt. A copy of this receipt & the original check is returned to the customer & the sale is complete. If the check conversion company declines the check, the merchant can then request an alternate form of payment, eliminating the possibility of accepting a bad check. 'AirCheckz opens a door for customers to accept payments with confidence. Not only does it process the check electronically, saving the merchant trips to the bank, but it guarantees the approved transactions. An added benefit AirCheckz has to offer is that the same equipment & customer account can be utilized for our AirCharge product. One device gives the customer the functions of products - credit card acceptance & check processing.' The payment gateway system for AirCharge & AirCheckz is eProcessingNetwork. Steve Sotis, eProcessingNetwork says, 'The ability to perform wireless check processing is the next step for wireless payment processing. Together with AirCharge & Nextel, eProcessingNetwork has simplified & lowered the cost of wireless credit card processing, & we have done the same thing for electronic check conversion.' Electronic check conversion is available only for personal checks; business checks are limited to the check guarantee function only. AirCheckz is based on the same AirCharge technology that has saved customers money on wireless credit card transactions for 3 years.

DeLaRue to cut jobs 12/2 Aranova Hundreds of jobs are going at banknote printer DeLaRue. Most of the 150 jobs going in the UK will be from the closing of a factory in Portsmouth that makes cash counting machines for banks & retailers. Other employees - bringing the total to 350 - will be made redundant at its operations around the world in a restructuring that will cost the group £17.5m. The move comes despite a 30% increase in DeLaRue's pre-tax profits to £25.8m in the 6 months to 9/25. Savings of £8m are expected annually from better productivity & a simplified group structure, with DeLaRue pledging to return spare cash to shareholders. It follows a strategic review of the business which will now focus on 2 areas where it has 'a strong competitive advantage' - cash systems & security paper & print. DeLaRue is involved in the production of 150 national currencies & employs 6,000 people across 31 countries. It provides cash handling equipment & software solutions to banks & retailers.

Fed's FedLine Advantage 11/30 AB The Federal Reserve plans to replace one of their oldest online-access systems with an Internet version over the next 18 months. A pilot group of 25 banks is using the new service, called FedLine Advantage, said William Barouski, FRB Chicago. FedLine Advantage provides Internet access to several important Fed payments systems, including Fedwire & FedACH Services. Fed banks have contacted 1,500 other banks & begun scheduling them for conversion. By mid-2006 all 8,500 that use FedLine services will have been converted to Internet-based versions. The oldest FedLine service, a dial-up service based on Microsoft's antiquated MS-DOS operating system & in use since the 1980s, will then be retired. The Fed has not been enhancing that service. 'You get the improved functionality only through FedLine's Web services.' Since 6/01 the Fed has offered limited access to payment services through an Internet-only program called FedLine Web. But FedLine Web does not provide some important ACH, wire transfers, or the ability to issue some securities, such as government bonds. The DOS-based service provides all of these, & so does FedLine Advantage. FedLine Advantage provides a wider range of connections than FedLine Web, including private-dial & dedicated private leased line. It requires the bank to use virtual private network technology, so many will have to install some new equipment. But it is typically faster to use than either of its predecessors; has a more intuitive user interface, with enhanced help functions; & provides more information reporting. Concerns that some banks in remote locations lack Internet access are no longer warranted. Fed customer surveys & a survey by ICBA demonstrate the point. Tim Cook, ICBA, said that all of the 912 community banks in its survey had Internet access, & that 87% had high-speed connections. Carl Faulkner, Cornerstone Advisors, said the Fed's move was overdue. Many of the midsize banks he deals with are still using the Fed's MS-DOS service, because it offers functions that FedLine Web lacks, notably access to wire transfers. Many banks maintain a single MS-DOS machine - which must be kept in a secure area, often locked in a bank's wire room - to initiate wires. Even if you used Web 'you still had to have your DOS guy.'

Fiserv - 2 core processing agreements 12/1 AB Fiserv has landed 2 new banks as core-processing clients, winning praise from stock watchers. The additions are Countrywide Bank & Columbia Bank. Countrywide Bank, a division of Countrywide Financial Corp.'s \$30b-asset Treasury Bank of Calabasas CA, licensed a core-processing system from Fiserv CBS Worldwide of Lake Mary FL. \$1.9b-asset Columbia Bank, Tacoma, hired Fiserv's Precision Computer Systems to provide outsourced core processing services for deposit & loan accounts. Chad Gregg, Columbia Banking System, said the 34-branch bank has begun planning for the transition from its current provider, Metavante. Columbia plans to begin using the service commercially in 2/06. 'It's going to enable us to be more flexible, & maybe grow faster.' He pointed to the thin-client design of the system provided by Precision Computer Systems, Sioux Falls, which requires no downloading of software to employee workstations. 'It will help our resources internally to concentrate on other tasks.' Paul Decoff, Countrywide, said, 'We chose Fiserv over the incumbent because of the richness of product offerings, functionality, & Fiserv's ability to expedite the delivery of new products.' Carla Cooper, Robert Baird, said the deals, taken in conjunction with an expanded stock buyback that Fiserv announced 11/23, 'increase our confidence for accelerated 2005 internal growth.' Jon Markman, RealMoney.com, called Fiserv one of 'the cheapest stocks in the S&P 500 today that have at least modestly good prospects.'

Harland & Check 21 11/30 Primezone 10 financial institutions have engaged Harland Financial Solutions, Inc. in the last 70 days for its CheckQuest image-based item processing solution. The new customers include Dolores State Bank, Dolores CO; Midland Community Bank, Kincaid IL; First State Bank, Picher OK; Bank of Wyandotte, Wyandotte OK; State Bank & Trust, Kenmare ND; First National B&T, Williston ND; Rake Savings Bank, Rake IA; Frost State Bank, Frost MN; First National Bank, Milaca MN; & Citizens State Bank, Waverly IA. CheckQuest provides financial institutions with a high-performance check imaging & item processing solution that enables them to take advantage of the efficiencies created by Check 21. Its Credence Assisted Balancing feature improves item processing by applying specialized recognition technology to

automate & expedite the balancing process. Harland acquired CheckQuest, along with the CaptureQuest electronic document management solution, from Mitek in 7/04. 'CheckQuest's CAR/LAR feature was a strong selling point for us,' explained Doug Aiken, Dolores State Bank. 'We were excited about the efficiencies & savings we will receive from CheckQuest, as it will allow us to capture images & quickly forward them to our correspondents for collection, reducing the need for the ever-increasing courier & microfilm costs.' 'It is not surprising to see the CheckQuest product performing so well in the market,' said Bill Zayas, Harland. 'As financial institutions prepare to take advantage of Check 21, CheckQuest will position them for growth through highly competitive, cutting edge technology, backed by the proven stability of Harland.'

IBM branch data flow software 11/29 AB IBM has 2 new software products meant to facilitate the flow of information within bank branches, & the Atlanta banking software vendor S1 is using one of them. Client Administrator for IBM Workplace Client allows branch managers to give employees different levels of access to branch computers. Access can be assigned to remote users - technicians, for example. S1 has developed interrelated modules that can communicate information about customers across multiple channels, IBM said. Imad Mouline, S1, said that the software allows banks 'to easily integrate multiple applications with multiple vendors in a single, open environment,' reducing cost of ownership. The other new software product is Workplace for Branch Banking. It is designed to track performance indicators & sales tools to communicate information about a customer among separate channels & encourage cross-selling.

J&B & Opex AS3600 Scanner 11/29 Businesswire J&B Software announces the integration of Opex' AS3600 scanners, which focus on streamlining exception mail processing. AS3600 compliments the TMS solution suite of smart forms capture, TMS iPage, removing the boundaries separating automated document preparation, forms processing, data entry & the processing of unstructured data. You can scan & capture data from all types of remittance mail on a single Opex workstation & seamlessly integrate transactions of all types within the TMS Image SE 1200, for back-end processing, including image archival, database management & forms processing. J&B's unique suite of options provides flexible workflows, designed to fully integrate payment transactions into the appropriate workflow without operator intervention. This process allows our customers to open & capture transactions at the AS3600, eliminating the need to perform any front end sorting. TMS I-Page provides multiple levels of automating form ID & character recognition, thus enabling operations to handle unstructured documents in the same workflow as structured documents, & optimize any mix of work. With our one pass solution, you can take advantage of Check 21 & ARC. Our powerful decisioning engines allow you to take advantage of depository savings based on the specific payment instrument, while separating converted, from non converted checks at point of capture. 'Over the years we've effectively leveraged technology to automate processing of payments for 80-90% of incoming mail. Until recently, the remaining 10-20% had to be handled outside the typical high-speed check processing environment which slowed down processing cycles, while driving up costs,' said Bala Balasubramanian, J&B. 'That's why we've teamed up with Opex. Together, we can deliver an integrated solution that automates the exception mail processing cycle.' The AS3600 provides the functionality of a high-end production scanner, but with a much lower cost. Equipped with a unique drop feeder it operates as part of an Opex Rapid Extraction Desk for simplified mail handling. Intended for both mail opening & capture, the AS3600 provides image capture for various mail types, including clean payments, exception mail & full-sized documents. Drop & scan technology is the heart of the AS3600 - there's no need to pre-sort. Opex AS3600 eliminates processing steps, paper handling & labor inside & outside the mailroom. 'We are excited about integration of AS3600 into J&B's software platform,' said Jeff Bowen, Opex. 'The combination of technologies is especially promising because Opex & J&B share a common customer base. The integration will open new doors to our customers by providing them with mail processing capabilities at lower costs. Opex is happy to be working with J&B in order to continue improving the mail processing industry.'

Mellon wholesale lockbox network 11/30 PRNewswire Mellon Global Cash Management has begun to implement its new nationwide wholesale lockbox platform at its Chicago site, giving customers who incorporate automated features into their receivables process access to the next generation of technology & processes. The Chicago site is the second in Mellon's 7-site network to use the new platform, following the Pittsburgh site, which was installed earlier this year. Rollout of the platform, which utilizes DMP integraPay technology, to the remainder of Mellon GCM's wholesale lockbox clients is planned for 2005. Among the features of the platform is open architecture, which will allow for future growth & service enhancements, & its core functionality. This includes CAR, LAR, advanced image capabilities & accelerated event notification options. Customers will be able to obtain quicker access to remittance information to assist them in their efforts to improve their A/R posting processes. Once in place at all 7 of Mellon lockbox sites nationwide, the solution will strengthen Mellon's position as one of the few lockbox providers to offer a single platform product in the market.

Modern Banking Systems & Image Exchange LLC 11/23 Brasfield Image Exchange LLC, a provider of electronic check clearing services has signed Modern Banking Systems, a provider of core data processing solutions, to resell its services. Modern Banking Systems has over 50 banks on its core system. iXchange, Image Exchange's digital check clearing network, will be marketed to these customers & others that sign on Modern Banking Systems. 'The experts at Image Exchange have a full understanding of what is involved in the process of clearing checks electronically,' said Russ Smith, Modern Banking Systems. 'In addition to providing a cost effective electronic clearing alternative, they provide customers with extra services that make them an obvious vendor choice.' 'We are pleased to partner with Modern Banking Systems,' said Michael Tilford, Image Exchange. 'This relationship will increase our penetration in the market as we continue to establish our position as the provider of choice for community banks in the Southeast.' Image Exchange LLC provides methods for electronic check clearing through its iXchange solution, which contains features for forward, return, adjustments, & settlement tracking. It is an affiliate of Brasfield Technology LLC. Brasfield develops cutting-edge technology for the financial services marketplace. Solutions include Internet Banking, Telephone Banking, digital surveillance, information systems security. Its goal is to provide community banks in the Southeast with quality data processing services & world-class customer service. Image Centre LLC, another Brasfield affiliate, provides a browser-based, outsourced, check & document imaging solution. Modern Banking Systems is dedicated to providing the industry's finest on-premise, complete banking solution. Superior software, flexibility, ease of operation, quick access to critical management information, reliability & cost effectiveness are key system features.

National City links paper & electronic platforms 12/2 PRNewswire National City announced that business & consumer customers will benefit from the complete integration of the company's paper-based checking account & electronic payment systems. Paper checks have been converted into electronic ACH debits for over 5 years, & for all clients this has meant that checks have been identified on checking account statements only as

(unidentified) debits. For business clients, check conversion has meant that a check appears to be consistently outstanding. When corporate checks are converted to debits, commonly used treasury management services such as ARP & Positive Pay, become unusable. National City is the first bank in the US to so comprehensively link these 2 payment system vehicles. Any paper check converted to an ACH debit is now captured as soon as it is presented. It is recognized as a payment that was formerly a check & is then processed & reported as a check. On checking account statements, the item is reported in the 'Checks' section, complete with check number, & then identified as a 'Converted Item' which is reported in the 'Debits/Charges' section. Clients know the check was paid when accessing online banking or voice response units. Any business check presented on an account that has Controlled Disbursement, Account Reconciliation, Positive Pay or stop payments is passed to those systems for reporting & review. 'Because of the many changes in the banking payments system, we understand that our check could be changed from its original paper form to either ACH debit or to an image exchange item,' said Denise Shaffer, Sterling Jewelers, Akron. 'When that happens, we need it captured & reported through the Positive Pay & reconciliation systems. What National City has done meets these requirements to manage our treasury needs.' 'Check conversion - like Check 21 - is in place to help increase payment system efficiencies,' said Mary Ann Francis, National City. 'Even though check conversion rules indicate only consumer checks may be converted, we know that hundreds of our business clients have checks converted because it is hard to distinguish various check types. We know that our consumer customers may be puzzled over the disappearance of their original paper checks.' Many clients reconciling issued & paid checks have experienced the frustration of having a check reported as unpaid, when, in reality, it was converted to an electronic transaction. For businesses, A/P systems are programmed to record when a check is issued & subsequently paid. If it is not reported as a paid check, it remains on the system as unpaid until research proves otherwise. If Positive Pay has been established on an account, businesses expect to be able to review all checks before they post in order to determine if they are a valid item. If the ACH & Positive Pay systems are not linked, the item will just pay the debit as an electronic transaction. In some cases, clients may place debit blocks on their account to avoid this, which is frustrating for both sides of the transaction. 'Merchants & financial institutions are all trying to take advantage of Check 21 & other opportunities like check conversion to collect payments faster & reduce risks & costs. It is up to financial services providers to make sure that clients' check reporting needs are met.' The tracking & reporting of all converted items eliminates disruption to clients' checking accounts or A/P systems. All National City clients began benefiting from the new reporting feature in 10/04.

Panini looks to double VAR base 11/29 eChannelCanada Panini North America is striving to more than double its VAR base after adding its first Value Added Distributor agreement. The provider of check processing solutions that are designed for item capture for financial institutions, has partnered with Cranel Imaging to distribute Panini's line of My Vision X check scanners. 'Up to a couple of years ago we were addressing the smaller markets, the remittance market & the community bank market, & now with the new My Vision X product line it lends itself to some of the larger VAR partners that are out there,' said Dave Youngerman, Panini. 'We are expanding to those VARs that are addressing the branch automation space with the passage of Check 21 legislation, which seems to be opening a lot more opportunities than we have been presented with before.' Panini has a network of 40 VARs across North America. Terms of the distribution agreement will see Panini leverage 300 of Cranel Imaging's base of VAR partners. 'Cranel has said there are probably 50 or 60 of those VARs that at some point over the last 6 - 9 months have expressed interest in our type of solution.' As the industry moves to automate the document capture process, financial institutions are looking for a reliable & cost-effective check scanner, the company said. My Vision X is available in 3 processing speed versions, which are 30, 60 or 90 dpm that output high-performance for check processing within a small footprint. The My Vision X reads the check code line, & captures the front & back of the check & prints customized endorsement information. Standard features include a three-mode feeder, MICR Plus recognition technology, & a programmable one line rear ink jet. The different devices can be used at the teller window, in back office operations, at merchant locations or in cash vaults. Youngerman said it's looking to sign just one other VAD agreement before the end of the year. Panini added RDM to its base of Canadian VARs. RDM will sell Panini's My Vision X & S1 Vision series product suite. RDM provides electronic payments solutions & systems with an emphasis on electronic check truncation & technologies that enable Check 21 implementations to large financial institutions.

PayByTouch & ATM Direct 11/29 PRNewswire PayByTouch will acquire ATM Direct, the payment processing industry's leading provider of an all-software solution that brings PIN debit to the Internet. The forthcoming acquisition will round out the PayByTouch offering, which includes payment processing services from iPAY & biometric payment authentication services from PayByTouch. 'ATM Direct will allow PayByTouch to facilitate PIN debit purchases online,' said John Rogers, PayByTouch. 'This new addition to the PayByTouch family gives us the ability to provide a one-stop-shop for an end-to-end payment processing solution.' ATM Direct has a patent-pending software-only solution that allows for secure entry of any ATM or check card PIN for purchases made over the Internet. This new solution would allow consumers to securely use their PIN numbers when making online purchases - allowing real-time payments just like cash. Working with major credit card providers worldwide, ATM Direct will be able to authenticate more than 1b ATM cardholders & enable them to securely pay with electronic cash on the Internet.

Ricoh, Rosetta & Check 21 11/29 Businesswire Ricoh Printing Systems, a provider of high-performance printing systems, & Rosetta Technologies, a leader in secure enterprise printing solutions, announced product support for banking customers & financial institutions looking for complete Check 21 printing solutions. Check 21 changes the process by which banks & financial institutions process & reproduce checks, establishing legal support for banks & financial services companies to implement more advanced & cost-effective item processing. RPSA & Rosetta are working to help banks understand & meet the new requirements for the printing of substitute checks. RPSA products, with MICR capability provided by Rosetta, have been designed to meet the needs of Check 21. RPSA MICR printers comply with ANSI & ABA MICR output standards, enabling customers to meet production printing deadlines with high quality magnetic ink documents. The MICR DDP 184 is unique for production IRD print applications in that it prints at a full 184 impressions (or up to 276 IRDs) per minute in duplex (printing on both sides of a page). All IRDs require duplex printing. In combination with the MICR DDP 70e, MICR DDP 92 & MICR DDP 184, Rosetta offers IRD Print Director software to aid in the assembly & printing of IRDs, a Check 21 requirement for banks & other financial institutions. The IRD Print Director is a powerful, fully featured print server solution that assembles & prints IRDs, including check images, associated IRD processing data, & MICR information. It is designed to handle printing in large data centers & service bureaus & small regional bank or branch locations. Other components of solutions offered by RPSA & Rosetta include: A range of printers that can be scaled to meet either high-volume production requirements or distributed on demand configurations. Flexible paper size & stock capabilities for printing a wide variety of checks & IRDs, including custom paper sizes up to 12 x 18 & IRD formats, such as 8.5x17 or 8.5x8.5. Output control software that allows the import of data in ANS X.9.100-140-2004 format from any source to any output device with queue management for multiple printers, workflow optimization, job accounting, selected re-print, security & fail-over capability. Integrated

hardware/software solutions providing re-assembly, assembly, formatting & processing of IRD data files using ANSI standard templates. Focused development of production-level MICR printers & cost-effective MICR printers at speeds up to 276 IRDs per minute, & with duty cycles reaching 2.4m IRD items per month. RPSA products are supported by the Rosetta MICR Guarantee that insures customers receive the highest quality MICR products & services. Support for legacy print streams, custom solutions & on-site service & support. 'RPSA & Rosetta have worked together since 2002 on providing major financial institutions with total solutions. 'Our strengths in printing hardware, MICR printing & software provide efficient solutions & we are committed to providing both our current customers & potential customers with a range of products that can support the printing requirements defined by Check 21.' 'Check 21 represents an important & significant change in our current banking system, & a tremendous opportunity to implement new & more efficient processes & infrastructure that will streamline the way transactions are processed across the system,' said Rob Hullar, Rosetta. 'In close alliance with RPSA & other thought leaders in the industry, we are committed to providing customers with the information & answers they need, & the complete solutions they now require.'

Snowbound & Check 21 11/30 *Businesswire* Snowbound Software, a provider of performance-driven imaging solutions, announced support for ANS X9.100-140-Specifications for an IRD within its product line. The legal equivalent of an original written check, an IRD is a machine-readable substitute document created from the image of the front & back of the original check. With Check 21, banks are able to accept & process the IRD in place of a physical check. Available for the company's entire line of products including its RasterMaster toolkits, SnowBatch conversion tools, & FlexSnap web viewer, the X9.100-140 option provides support for both forward presentment & return presentment IRDs. Snowbound's software not only supports the original scanned check image-both front & back (greyscale & black & white), but the areas that contain identification, endorsement data, & indemnification statements. With minimal engineering effort, customers can implement or develop viewers & conversion applications utilizing Snowbound's software to create, view, annotate & print an IRD then save it to any file formats supported by Snowbound's software including TIFF, JPEG, or PNG. 'Snowbound has been providing solutions to banking & financial customers since 1996. We have been proactive in understanding what impact that Check 21 would have on the document imaging industry & the financial industry,' commented Simon Wiczner, Snowbound. 'Snowbound is focused on meeting our customer's needs & helping them to prepare for future industry developments. By incorporating this support into our product line, we can help customers take advantage of Check 21 & better prepare for any future Standard changes.'

SVPCo online adjustments 12/2 *PRNewswire* SVPCo-Check Services, the check processing business of Clearinghouse Payments Co, announced that its online adjustments platform can accommodate Expedited Recredits & Breach of Warranty/Indemnity, 2 new adjustments mandated by Check 21. Expedited Recredits help consumers quickly resolve payments errors caused by a check conversion, while Breach of Warranty/Indemnity helps banks resolve payments errors caused by the electronic conversion from paper to substitute check. All institutions are required to handle Expedited Recredits & Breach of Warranty/Indemnity. SVPCo Online Adjustments is a powerful, secure, web-based adjustments system for banks, thrifts & CUs that can electronically facilitate both types of adjustments, which result from errors in converting paper checks into substitute checks. SVPCo Online Adjustments is the nation's only adjustments platform that can handle both types of new adjustments, & existing types of adjustments executed by financial institutions of all sizes each day. Adjustments are among the industry's most expensive transactions & have traditionally involved offline, manual intervention that is labor-intensive & time-consuming. 'Expedited Recredits & Breach of Warranty/Indemnity are 2 of the more than 15 types of adjustments that can be handled more cost effectively through a highly efficient platform such as SVPCo Online Adjustments,' said Jerry Milano, SVPCo. 'Our ability to handle emerging & existing kinds of adjustments online will reduce costs & enable financial institutions to reap the anticipated cost-savings as technology continues to streamline the nation's payments system.' Substitute checks are expected to increase significantly over the next decade as more financial institutions create & process substitute checks following the enactment of Check 21, which makes substitute checks the legal equivalent of the original paper item. SVPCo is offering online adjustments for Expedited Recredits & Breach of Warranty/Indemnity to all of its customers in the Eastern, Midwestern & Western Regions.

US Bank - retail lockbox in LA 12/2 *Businesswire* US Bank has opened a state-of-the-art, national retail lockbox site in LA to process payments & receivables information for national & regional corporate customers. US Bank is one of only a few banks nationwide to fully operate a retail lockbox in-house & the investment in this facility in LA demonstrates the focus & commitment by US Bank to provide best-in-class treasury management services to its customers & to support the California market. The new site is 1 of 4 national retail lockbox facilities that US Bank operates, with the other locations in Cincinnati, St. Louis & Milwaukee. Each of these sites provides enhanced exception payment processing & imaging services, increasing the % of payments that post accurately to A/R & the tools available for superior customer service. US Bank operates 12 regional lockbox facilities that provide payment-processing services for companies collecting consumer & commercial receivables. The LA facility will offer customers the latest payment processing technology, which includes the ARC capability, US Bank Retail Lockbox Electronic Deposit. This service automatically converts eligible payments made by check into an electronic ACH debit. These transactions enable the company to receive credit for payments faster while expediting returned items. US Bank Retail Lockbox Electronic Deposit complements other check conversion services that US Bank offers business customers, including US Bank Cash Letter Electronic Deposit & US Bank On-Site Electronic Deposit. Cashletter & On-Site Electronic Deposit are new check electronic products offered to business customers for back office processing solutions. These 3 image deposit products are designed to leverage the advantages of Check 21 with leading edge check imaging & ACH check conversion technology, whether processed at the customer site or through a US Bank Retail Lockbox location. 'The addition of the LA site is part of US Bank's commitment to offer our business customers innovative products & services as the industry shifts to check electronic for faster, safer & more efficient payment processing,' said Jeff Jones, US Bank. The facility is equipped to handle clients with millions of customers & those with a customer base in the thousands. In planning for significant growth, US Bank will have the capacity to easily expand as new business is acquired. US Bank & its legacy companies have been in the lockbox business for 50 years, & it is one of few banks nationwide that continues to process consumer payments in-house versus outsourcing its lockbox operations. US Bank has partnered with Wausau & OPEX for its remittance processing solution.

Zions, Jara Diversified Services & Check 21 12/2 *PRNewswire* Jara Diversified Services, a provider of imaging software & payment solutions, & Zions FNB announced that Jara's check image-capture software is now compatible with Zions' image-clearing network. This partnership enables Jara to offer its clients digitized check clearing capabilities through Zions, utilizing Zions' Electronic Cashletter Clearing solution, powered by NetDeposit software. Stephen Jara says, 'Check 21 opens the door to unprecedented potential for our customers to improve the speed with which

checks can be cleared. By partnering with Zions, Jara Diversified Services' customers will expand their image exchange options & derive many advantages associated with NetDeposit. We are excited to extend this opportunity to our customers.' Financial institutions taking advantage of this offering will reduce courier costs & legal expenses & charge-offs from returned checks. Grant Hurst, Zions, agrees. 'Our relationship with Jara Diversified is an alliance that offers valuable benefits to both companies, but most importantly to Jara Diversified Service's clients. Our focus on reducing float, minimizing fraud & increasing operational efficiency is integral in delivering the services we provide. We are pleased to have an opportunity to work with a company like Jara & its clients.' JDS offers check processing based solutions for Check 21 & Electronic Check Conversion. It has solutions deployed throughout the country for processing checks in corporate accounting departments, lockbox & banking operations. Draft Control Processing System for financial institutions provides full POD processing for both branch & remote capture. Draft Conversion Plus does Check 21 & ECC processing for A/R & retail businesses. Both systems have easy-to-use tools for balancing, reporting & auditing, & are 100% compatible to enhance the corporate/financial institution relationship.

Banking & Payments abroad

Australia - Commonwealth Bank scanning project 12/3 *AustralianFinancialReview* The Commonwealth Bank will turn 100m pages of paperwork into digital images under a vast scanning program that will cost \$20m over the next 7 months. Documents from the bank's branches & loan centres will be scanned & stored as part of the bank's ambitious \$250m CommSee CRM project to simplify the way bank staff work. CommSee is intended to give the bank's staff a single view of all information about each customer, so that staff members can call up an image of a home loan rather than search for the original paperwork. The bank said it had appointed imaging company HPA to scan 100m pages of paper by 6/30/05 in a contract worth \$20m. HPA secured an agreement to provide nightly imaging services over the next 3 years. Each night, HPA will collect documents from bank offices & scan them so they are available to bank staff the next morning. Bank staff have worked on a pilot to demonstrate the scanning system, which has resulted in data from paper documents being fed into the CommSee system each day by HPA, which has been supplying the images on DVDs. But the system is scheduled to go into full production today in Sydney & Melbourne & will next week move away from using disks by connecting HPA's servers directly with those at the bank. The online connection means the images will be available more quickly to bank staff. Scanning is to commence in Brisbane, Adelaide & Perth next year. HPA's Terry Daly said the company had bought more servers & storage equipment from Dell & more scanners from Kodak to support the project. The contract offers another insight into the scale of CommSee, one of the largest & most expensive customer relationship projects in Australia. The bank's head of business services, Michael Katz, said on 11/22 that CommSee would cost \$250m, more than the \$100m previously cited for the project. Katz said he was 'awfully confident' that it would be delivered on budget by its deadline of 6/06. Yesterday's news could be reflected in HPA's share price. Daly said the deal would have only a minimal impact on the company's performance in the year to 12/31, but that it would add to sales next year. 'It'll certainly help in 2005.' HPA shares fell 2 ¢ to close at \$1.57 yesterday before the contract was announced.

India - image based check truncation 10/26 *NCR* Image based cheque truncation went live at PNB after the implementation of NCR's ECPIX (Electronic Cheque Presentment with Image Exchange) solution. 3 of PNB's cheque processing centres (Chandigarh, Ludhiana & Jalandhar) will begin to realize the benefits of image-based cheque truncation. 9 more centres will be operational in the next month. With this, PNB becomes the first bank in the country to implement cheque truncation in India. With NCR's ECPIX solution, PNB will be able to clear inter-city cheques within 48 hours after the cheque is presented. Currently it takes 15-20 days for clearance of outstation cheques. The system will presently be used for intrabank cheques & extended to interbank clearance after getting the necessary approval from Reserve Bank of India. This step from PNB comes before Check 21 goes into effect in the US. Image based cheque truncation means that the electronic image of the cheque rather than the paper cheque is used for clearing & processing. Paper is no longer physically transported between branches, banks & clearinghouses. This eliminates delays of physical transportation, reduces costs for banks & increases operational efficiencies as funds are available to customers sooner. When PNB embarked upon this ambitious project, they looked for a solution partner with deep industry knowledge in the cheque processing business, longevity in the Indian market & state of the art technology. PNB needed a solution partner able to match the bank's vision & leadership in banking with its own vision & leadership in payment processing. Shri SS Kohli, PNB, said, 'Consistent with its commitment to technology for consumer benefit, PNB was the first bank to have Image based MICR centres. It has now taken a strategic decision to implement Cheque Truncation at 10 Image-based Cheque Processing Centers. Offering a significant improvement in service quality to our customers, this technology is the first of its kind in India. In the future, we hope to leverage this architecture to other banks, after due RBI approval.' KC Chakrabarty, PNB, said, 'We are proud of this momentous accomplishment of leading India into cheque truncation - our customers will benefit through faster access to their cash & at the same time enable us to reduce our processing costs. Our implementation of this solution was performed rapidly - in less than 9 months - through the expert guidance of NCR & their knowledge of image based cheque truncation.' Shrihari Bhat, NCR, congratulated PNB on the significant achievement & added, 'PNB continues to display leadership & vision in all facets of banking especially technology adoption. NCR has witnessed dramatic changes in the banking industry in India, & this is the most significant event. India is poised for the rapid spread of country wide image based truncation over the next 3 years - NCR & PNB are ready.' PNB is planning to extend its NCR ECPIX solution beyond the processing centres to its high volume branch locations - realizing that the benefits of truncation are best achieved by removing the paper cheque as early in the payment stream as possible. NCR's ECPIX solution is built on an extensible platform & will provide PNB the ability to consolidate its electronic & paper payment streams, & add new payment products & services to their customers. NCR is the only vendor in India with an end-to-end image based payment processing platform providing for cheque truncation at an ATM, branch or processing centre. Established in 1895 at Lahore, PNB is the 2nd largest network of branches in the country. It offers a wide variety of banking services including corporate & personal banking, industrial finance, agricultural finance, financing of trade & international banking.

Uganda - payment system heads for better days 11/30 *KampalaMonitor* Uganda's payment system may be headed for better days as Bank of Uganda (BoU) institutes major changes in the current system. The move will enable BoU to provide solutions to hurdles related to payments - National Payment System improvement. A payment system is the transfer of value from a payer to a payee. One of the major changes is called the EFT Direct Debit System (EFTDD). Under this system, a customer of a utility company, say National Water & Sewerage Corp, can instruct her bank to deduct money from her account & transfer it to the bank account of the utility company. According to the Director National Payment System Secretariat at BoU, Elliot Mwebya, it is all headed for non-cash transactions through the banking system. So far some utility companies & universities have expressed interest. 'Our aim is to make it efficient, fast & secure. In a good payment system you have different options which you

can use.' Mwebya hopes that by the close of November commercial banks will have completed their preparations to integrate this option. Some commercial banks have introduced their versions of this system by using ATMs to debit a customer's account directly at POS. This though is limited to customers of a particular bank & points of sale synchronised to that bank's system. EFTDD is part of the general system called EFT. It is designed to provide efficient & in some cases an alternative to the use of cheques. This system generally permits transfer of money between parties but within the banking system. 'The first thing we did is to develop a strategic plan. We first carried out a survey for the strength & the weaknesses of Uganda's payment system. We found that in using cheques they bounce & another reason why people are not using cheques a lot is because of the very long clearing.' While alternatives might be provided for cheques, because cheques are still relatively much in use, something had to be done to improve their functionality. The central bank developed a National Cheque Standard because originally every bank had its own which made cheques susceptible to forgery & affected efficiency. 'All banks in Uganda issue cheques in line with these standards. Each, cheque has a code line - a feature which enables it to be read by machines.' This is to improve efficiency besides the security features. To date it takes at times weeks to finalise payment of a cheque from upcountry. Even in Kampala, it takes 4 working days to get paid. The issue of time is a constraint for the cheques. Mwebya is upbeat about the the electronic cheque clearing system. 'The introduction of electronic cheque clearing system is sort of improving the system. We now want to cover the country. We think that when the whole country is covered, it will be possible to be paid from Gulu when you are in Kabale & get your money in 3 or 4 days.' Next February BoU will introduce RTGS. This operates on the principles of the EFT system, but transactions are completed in seconds. 'We are going to call it the Uganda National Inter-bank Settlement System (UNISS). This is a large value transfer system. Still in this case the payer initiates the payment to the payee but transactions happen between banks & individual accounts directly. 'It is going to be a network of sophisticated computer systems connected together. Bank A will transfer cash through the Central Bank to bank B in matter of seconds. Everything is automated.' The RTGS is envisaged to expedite large transactions especially within the private sector. Companies can pay one another in time & things like ordering for raw materials will be done in good time. Mwebya believes this will spur economic growth at least in the transfer of value. The RTGS will employ SWIFT software, world renowned for provision of fast & safe transactions & interface.

E-Billing & E-Procurement

P-cards new velocity *12/1 BusinessFinance* Companies are enjoying growing benefits from their p-cards, thanks to better technology & carefully designed programs. When the quartet of hurricanes whipped through Florida this summer, Ft Lauderdale needed to immediately deploy emergency response personnel to cities harder hit by the storms. Those employees did not have permission to put their travel expenses on their city-issued p-cards. A few years ago, this might have caused serious delays in Fort Lauderdale's disaster-response effort, but Kirk Buffington, director of procurement services, was able to remedy the situation right away through the Web-based software from Works that he uses to manage Ft Lauderdale's p-card program. 'Within 2 to 3 minutes, we could change their profiles so they could make emergency purchases.' Few other organizations are likely to need p-cards to respond to natural disasters. Buffington's experience demonstrates how far the cards have come. A decade ago, most p-card programs were paper-based & required a fair amount of manual intervention. 'You would get a paper statement at the end of the billing cycle & go to accounting to key it in,' says David Cramer, Visa. Many programs today capture transaction information at POS & electronically transmit it to the purchasing organization, often within 24 - 48 hours. They enable employees to view their purchases online. When properly designed & controlled, today's purchasing-card programs can help companies streamline their payables processes & save a good deal of money. Mac Schuessler, AmEx, says the savings from p-card initiatives fall into 3 categories. Process savings result when a company reduces the paper pushing inherent in the manual processing of invoices. P-card programs can be a mechanism to convince employees to do more business with preferred vendors with which the company has negotiated discounts. & finally, the reports generated by p-card software generally provide information that helps the organization negotiate even larger discounts with preferred vendors. According to a 2002 study by AmEx, using a p-card shaves an average of \$11 off the cost of a transaction. The study revealed that employees of companies which offer p-card programs purchase 90% of their indirect supplies from preferred vendors. Indirect supplies are items not directly used in the manufacturing or development of the organization's products or services. By comparison, only 2/3 of indirect supplies are purchased from preferred suppliers in companies that don't have a p-card program. This difference is significant because companies negotiate price discounts of 11%, on average, with their preferred suppliers. It's hardly surprising that a study sponsored by the industry would show savings, but the corporate implementers of p-card programs have come to similar conclusions. Ernie Dodman, Dana Corp. His company completes 30,000 transactions each month via Citigroup p-cards; 5% of the organization's purchases run through the program. Dodman estimates that each transaction completed using Dana's purchase order system costs \$20, compared with \$2 for a p-card transaction. 'If a person has a card, it costs a couple of dollars & a few minutes.' Dana is not alone in taking advantage of p-cards' savings potential. The value of transactions completed with p-cards doubled between 1/01 & 1/03, jumping from \$40b to \$80b, according to Visa. Even so, only 5% of business purchases are completed via p-cards, says Leslie Dukker Doty, Mastercard. Celent suggests that 80% of purchases are completed via checks, while ACH payments & wire transfers account for 13% of purchases. Much of p-card spending today pays for indirect supplies. While these purchases make up only 40% of corporate dollars spent, they account for 70% of transaction volume. That's according to a 2003 study by Accenture. 'I think the market for p-card spending will grow dramatically because of the need for information & the need to cut costs,' explains Dukker Doty. That's especially true for small & midsize companies. 'If you go to companies below \$1b in revenue, the penetration rate of p-cards is reasonably low,' says Dub Newman, JPMorganChase. He predicts market growth of 20% - 25% annually, as companies move transactions from checks & ACH to p-cards. P-cards' cost savings & other benefits are not a given. To realize them, treasury & finance executives spearheading a p-card program must be careful about how they structure the program & how they communicate with employees. Plus, before they distribute a single card, they should ensure that their senior management team is committed to the program. 'The most critical factor is vocal, continuous high-level support.' Even if the p-card has strong executive backing, some employees may not embrace the idea right away. Sherri Crabtree learned this lesson when her employer, Ohio University, introduced a p-card program in 1998. She heard complaints that the purchasing department was off-loading its work to other employees. Most of the holdouts came around when they saw the convenience the cards allowed. 'People quickly found that they liked having the ability to order small-dollar, high-volume purchases quickly & bypass the paper forms,' says Crabtree, Ohio University. The university puts 9,500 transactions on its p-cards each month. In the program's 6 years, the dollar value of the school's average purchase order has jumped from \$4,351 to \$40,000 & the volume of POs has dropped by 80%. The person who has direct responsibility for the program is important in winning employee buy-in. 'Often the person overseeing the program is within a relatively narrow part of purchasing or finance,' says Steve Harrison, Mastercard. He or she should be a seasoned professional in a managerial capacity. Lockheed Martin's p-card program is overseen by Molly Chung. Rick Swartwood, Lockheed-Martin., oversees & champions the program throughout Lockheed's 50 locations. Giving employees adequate training & setting appropriate policies are critical. Before anyone

receives a card, he or she needs to know how to - & how not to - use it.

'You need to have policies that are in place, mandated & communicated throughout the organization,' says Dukker Doty. 'It's not something that you can just put out there.' Ohio University employees have to complete a 45-minute training class before they can participate in the p-card program. This requirement holds for everyone from the school's president to the custodial staff. During the class, Crabtree or one of her colleagues reviews the do's & don'ts of the card program, which are outlined in a 53-page manual that is available online. For instance, employees can't use the cards at certain 'sin merchants,' such as massage parlors. They can't use the cards to buy personal items, even if they plan to reimburse the university. 'We just can't float those loans.' After they complete the p-card class, employees sign agreements saying that they understand the policies. Employees who know the rules may still be tempted to break them. To minimize the risk of misuse of their organization's p-cards, treasury & payment executives need to establish certain controls. Centralizing program administration is typically most effective, says Jennifer Steinmann, Deloitte. At Ohio University, p-card bills are sent not to individual cardholders but to the finance department, which reviews & pays them. Cardholders are required to provide finance with itemized receipts for all purchases. Crabtree's department regularly reviews 5% of all p-card transactions, along with every purchase over \$5,000. Plus, once a year, they audit all transactions in each department for an entire month. Safeguards like these are critical in minimizing the risk of fraud. Some managers assume that p-card transactions are inherently riskier than purchases made using other procurement methods. 'When you get a company card program, some people think that they're opening up the vault & throwing dollars out the window. That's not the case. When using proper controls, p-cards are no riskier than any other payment system.' To be sure, people who are determined to circumvent controls will probably find a way to do so. Companies may actually be better protected with p-cards than with other procurement methods. Employers can restrict both the amount employees spend & the purchases they make by programming the cards to be used only at certain types of merchants & for limited amounts. What's more, some p-card reporting tools enable company officials to quickly detect misuse by electronically posting transactions hours after they're completed. Following the audit trail on a check can take days because the controls are on the back end, notes Gary Schneider, Citibank. In the handful of cases of p-card misuse among Ohio University workers, management quickly discovered that the individual had been abusing the school's other purchasing system. 'The card was a black-&-white statement.' When organizations implement p-card programs, they often find it pretty easy to cut the low-hanging fruit. They can almost immediately move transactions for items like office & cleaning supplies to p-cards, which will eliminate many POs. To get the most from their program, though, they need to extend the card to as many transactions as they feel comfortable putting on it. In Ft Lauderdale, Buffington is issuing cards to contractors with whom the city is working. The cards start with a balance of zero dollars. When contractors are ready to buy supplies, such as pipe, they will electronically request permission for the purchase. Once that permission is granted, the city will fund the card for the amount of the purchase. Because the city actually makes these purchases, the transactions are tax-free. To see maximum gains from a p-card program, treasury managers need to use the information the system gathers as leverage in their negotiations with suppliers. P-card reporting tools have improved dramatically over the past few years, but treasurers may still find that they're better off customizing the systems provided by their issuing banks. That's what Lockheed Martin did. Among other changes, Swartwood altered the application's handling of sales & use tax so that it mirrors the company's purchase order process. Ft Lauderdale installed new p-card reporting software in 2003; departmental card coordinators can allocate purchases to the appropriate expense category. That wasn't possible under the city's previous system. All purchases flowed into one line item - 'p-card purchases.' Before an organization can use p-cards, its suppliers must be willing & able to accept the cards & pay the transaction fees imposed by the issuing networks. These fees typically fall between 1% & 3% of the amount of the purchase. The rate increases as the purchase volume decreases. But suppliers who accept p-cards know that they'll receive their cash in 36 to 48 hours, rather than having to wait several weeks. Another benefit for suppliers that are accommodating: Some treasurers steer spending toward companies which accept p-cards. The amount of data that suppliers can provide about customers' p-card transactions varies; it's generally sorted into 3 categories. Level 1 data includes only the transaction date, supplier name & dollar amount of the purchase. Level 2 data adds to these facts information about the sales tax paid & a variable data field that can show an order number. Level 3 information includes the most detail. In addition to level 2 data, level 3 includes items' product codes, descriptions, quantities & price. 'It's like a cash register receipt.' At this point, only 2% of merchants provide this amount of detail. That number is growing, but slowly. Treasurers are asking suppliers for more information on their buying habits, but providing level-3 data requires vendors to change their information systems. That costs money. Companies that place a high value on transaction data are giving their suppliers incentives to make the switch. Lockheed Martin includes in the online catalog from which employees make purchases only those suppliers that can provide level 2 or 3 data. 'They're required to be level 2 to be in the program.' The next frontier in most p-card programs is outside North America. Harrison says that most of the requests for quotes he's received in the past few years have required the card issuer to accommodate international business. But few international p-card programs exist, & the cards face a number of obstacles to global expansion. It's unclear how cross-border transaction disputes would be resolved, says Lee Krotseng, International Purchasing Service. 'If you use a credit card, you can stop the transaction. That's not necessarily true with p-cards.' Many of p-cards' shortcomings can be worked through, says Diane McGuire, National Association of P-Card Professionals. 'The traditional processes have been in place forever,' she points out. 'Over time, the systems & relationships will evolve.' Krotseng questions how long p-card programs will actually have to develop, because he doesn't think the cards will make sense much longer, even for domestic transactions. 'P-cards are like alligators. They're alive, but no one is sure why.' As procurement moves to the Internet, employees will soon be able to simply enter their passwords from their PCs to order supplies. Down the road, biometric readers may scan employees' irises or thumbprints to control their purchasing. Years from now, p-cards may have gone the way of typewriters & VisiCalc spreadsheets. For now, properly administered p-card programs offer companies substantive hard-dollar savings & streamlined processes.

Cards, ATMs & Networks

Citigroup introduces card with transit chip 12/1 *CardForum* In the first major US test of combining transit fare payment with a credit card, Citigroup began mailing customers in the Washington, DC, area a platinum card they can use to pay transit & parking fees. Embedded in the conventional magnetic-stripe credit card is the same type of contactless smart card chip that allows 750,000 Washington-area commuters to use their SmarTrip tap-&-go cards to pay subway & bus fares & parking fees at 33 lots operated by the Washington Metropolitan Area Transit Authority. 'Citi's research indicates strong customer response to the concept of a combined credit & transit card.' Citi plans to mail 8,000 of the new cards to existing customers this week, says Greg Garback, WMATA. Starting in 2005, Citi plans to offer the card to new customers. In all the plan is to issue 20,000 cards in the pilot. Garback says commuters will be able to load the transit chip with value at vending machines in subway stations, charging the value to their Citi card. Citi will replace fare value remaining on the chip if the card is lost. Citi hopes to benefit 'from gaining customers & from 'top-of-wallet' card presence.'

Malaysia - Siemens cash recycling ATMs *edgedaily.com 12/2 Siemens*

Malaysia Sdn Bhd hopes to see 2 or 3 financial institutions begin deploying the dual function Rondo 4cashcycle + ATM from next year. The ATM had received the approval of Bank Negara & the company would be working closely with its anchor bank clients to run pilot tests before implementation, Siemens Malaysia's Ling Chee Hoe said. He said unlike the current ATMs in the market, the Rondo 4cashcycle + was capable of dispensing cash & recycling the money deposited by customers for cash withdrawals. 'We are targeting to deploy the machine at 2 or 3 banks in the country within the first year of its launch.' Another feature of the machine was its ability to detect counterfeit notes. The system was able to trace the depositors of the fake notes, which should help banks eliminate losses arising from such transactions. The machine was able to cut down on ATM cash refill frequency & receive notes in different currencies, sort & convert them into the host country's currency. He expected good sales for the machine based on the feedback from Siemens' clients. The Rondo 4cashcycle + ATM was developed by Austrian-based Keba AG, which specialises in innovative products for industrial, banking & service automation sector. Siemens Malaysia is the marketing arm for Keba in the country. Keba's Horst Burger said Malaysia would be the first country in Southeast Asia to use the recycling machine. The machine had been deployed successfully in other countries including China, Germany & Austria.

Purchasing with PIN may cost you *11/30 WSJ*

You may want to pay attention to how you use your debit card shopping this holiday season. When paying with a debit card, consumers generally can choose to sign their name or punch in a PIN. Banks prefer signature transactions because they get more revenue from processing them than with PIN transactions. Many have long charged a fee for PIN transactions, but now some are rolling out rewards to get more consumers to sign for purchases. According to a recent report by the Board of Governors of the Fed, 14% of financial institutions that offer debit cards charge at least some customers fees for debit transactions made by punching in a PIN. 15% of all customers with debit cards had accounts that were subject to PIN fees in the past year. Consumers like debit cards because they are more convenient to use than writing checks. Plus, paying directly out of a bank account can serve as a good budgeting tool, since consumers can't spend more than they have. Merchants like the cards because they pay less to accept them than credit cards. For banks, debit cards cost less to issue than credit cards & provide a source of extra fee revenue, especially when customers sign. Many banks are using reward programs to push consumers toward signature transactions. Wachovia in August began a program that rewards users of its Visa check card only when they sign. BofA launched a program in Florida & Tennessee that offers credit toward a new GM vehicle to check-card users who sign. At some banks, consumers who don't meet minimum balances or other requirements often are hit with fees for using a PIN. KeyCorp charges certain account holders 25c for PIN-based transactions when their total deposits are below required minimums. BoNY charges some customers in NJ & CT transactional fees if they don't meet a minimum balance. The PIN charges stem in part from the fact that banks collect more revenue when customers sign for debit-card purchases. 1/4 of financial institutions in the US with \$5b or more in deposits charge PIN fees. The fees are most prevalent in the Northeast & Midwest, & tend to range from 10c to \$2 a transaction, with the average fee being about 75c. The Fed report comes as the use of debit cards is surging. The report estimates there will be 18.6b debit-card transactions at POS this year, 53% of all card transactions. 11.8b will involve a signature. According to a survey from the National Retail Federation, 35% of shoppers say their debit or checking-account card will be their primary form of payment during the holidays, up from 31% last year.

Restaurants serve up reloadable gift cards *12/2 USA Today*

Your wallet is about to get fatter. So is your tummy. The restaurant world is finally wising up to an insatiable hunger for plastic gift cards. After watching the rest of the retail world get fat on the popularity of reloadable gift cards, the restaurant industry is jumping into the fray just in time for the holidays. Everyone from McDonald's to Dunkin' Donuts to Jack in the Box has added, or soon plans to add, 'stored value' cards you can reload with more bucks. 'It's become the greens fee for being a serious player in the restaurant business,' says John Glass, CIBC World Markets. Why not? Gift card sales at all retailers are expected to top \$17.3b this year, reports National Retail Federation. Gift cards will be the top holiday gift this year - even surpassing apparel, reports Deloitte & Touche. Restaurants were slow to nibble. But the success of the Starbucks Card - it accounted for 11% of Starbucks' North American revenue in FY2004 - changed everything. In a new, likely to be lucrative holiday twist, Starbucks started a program that lets parents reload kids' Starbucks cards monthly, tied to a bank card. With Starbucks as a driver, restaurant gift card sales nationally jumped 30% from 2002 to 2004, says Tara Weiner, national managing partner of consumer industries at Deloitte & Touche. Among the latest on board: McDonald's. It's testing stored value cards in three markets: Bakersfield, Kansas City & western Washington. Next year, they go national. Dunkin' Donuts. The chain is rolling out reloadable cards in 1,000 stores in the Northeast. Executives say they like them because stored value keeps folks coming. That's one reason for their new slogan: Bring yourself back. Many consumers who come to buy the cards as gifts buy additional cards for themselves, says John Gilbert, Panera Bread. Panera Card sales are up 200% so far this year vs. 2003, when they were launched. Jack in the Box. Reloadable gift cards, with a picture of Jack, are new this month at the 2,000-restaurant chain. Since Jack has icon status, the card has become a collectible 'for our loyal Jack followers. Chili's. The chain's gift cards are sold at retail outlets including Safeway, CVS & Walgreens. BackYard Burgers. The chain just introduced stored value cards. Michael Myers likes them because '64% of those who get a gift card will spend above the amount on the card.' Smoothie King. The fruit shake chain with 364 stores in 32 states replaced gift certificates with cards & is seeing a 4x increase in gift sales.

UK - plastic cards a favorite in holiday shopping *CreditManagement 12/2*

UK consumers are expected to spend \$27b on debit & credit cards in the next month, or £15b on debit cards, & £12.3b on credit cards, according APACS. In October, the UK's plastic card spending totaled £23.8b, with debit cards comprising £13.3b of this total, & credit cards, for £10.5b. APACS' figures tie in with an advisory that UK consumers are likely to spend more on plastic this month than ever before, due to the greater security of chip & PIN card payments, & that debit cards will facilitate most holiday gift purchases. Within the retail sector, technology vendors are launching kiosks suited to self-service & unattended payment transactions, which can be installed at shopping malls, grocery stores & general retail outlets. The new Encounter Digital Photographic Kiosk from NeoProducts, is an example of the type of interactive kiosks with chip & PIN card security, that will increasingly be used in retail environments. As a device that accepts multiple payment options & can support remote product ordering, the kiosk allows retailers to extend store product ranges, while giving consumers the ability to serve themselves & avoid lines. UK high street retailer Argos is meantime using detailed ePOS transaction analysis to minimize losses to fraud by analyzing the millions of POS transactions in its stores each week. Implementing an anti-fraud solution across its store network gives Argos a single overview of any significant sources of losses that may occur, while quickly & accurately identifying any exceptions that arise. The retailer is confident of achieving annual savings from its operational loss-prevention system, which offers actionable alerts, automated workflows & links to CCTV systems to reinforce its investigative analysis functions.

E-Commerce & M-Commerce

PayPal & Paymentech 12/2 AB PayPal, whose main business is providing the back-end payment engine for eBay, has added a deal with Paymentech LP to an expansion plan that emphasizes small businesses. The strategy could be a response to a looming potential threat: free money transfer services from banks. Starting next year Paymentech will offer PayPal as a payment method for its merchant customers. Paymentech, a company owned by JPMorganChase & First Data, claims to handle more than 1/2 of all Internet transactions. PayPal's Sara Bettencourt said the eBay subsidiary wants to serve more small businesses & hopes to use its customer relationships as a springboard. 'Many of the sellers that use PayPal to accept payments on eBay have small businesses off eBay.' PayPal is thought of as a P2P money transfer service, but its real strength is its core constituency of small-business clients, especially those that market most of their products on eBay & process their payments through PayPal. eBay purchases generate 70% of PayPal's transaction volume, & PayPal is offered as a payment option on 91% of eBay auctions. 'PayPal's success is directly related to eBay's success. We achieved fast growth early on because we met a unique need on eBay.' PayPal, founded in 1998 & bought by eBay in 2002, wants to diversify. It is courting eBay sellers & nonauction customers. In October the company unveiled its first print marketing campaign, advertising in *Fortune Small Business*, *Internet Retailer* & *Entrepreneur* targeting owners of small businesses. Gwenn Bezard, Celent, said the Paymentech deal is 'critical.' It 'gives access to the hundreds of thousands of e-commerce merchants that Paymentech' serves. That is especially important now because banks are moving into PayPal's turf. BofA & Wells Fargo have rolled out free P2P money transfer services. Wells & BofA are positioning their services as a convenient way to send money to friends & family members - they both suggest that parents could use it to send funds to their children at school - & to date neither has given any sign of hoping to capture PayPal's business. Their services' chief limitation is that transfers can be made only to other individuals within the bank - a Wells Fargo customer cannot send cash to a BofA customer through this service. Customers can send money to & from other banks, but only to accounts they own. E-Trade & Citigroup allow customers to move money between their accounts at different banks for free, & Citi charges a fee for customers to route funds to other people's US or international Citi accounts. 'Banks could crush PayPal' with their transfer services. PayPal has overpowered other online payment providers, including one owned by eBay. Citi shuttered its c2it P2P payment system in 11/03, & Yahoo closed down its PayDirect payment service in October. With 17.4m active online users worldwide, PayPal is now the dominant mechanism for P2P auction payments. BofA has 12m online banking customers, Wells Fargo has 6m, & Citi has 1.9m. That adds up to a potential market of 18m people for the banks' money transfer services. Bezard said that for all its success in the US, PayPal has sometimes struggled when venturing into other countries - in part because it has had to compete against entrenched bank transfer services. 'When PayPal started to deploy in Germany, they had a rough time, because most people were paying for online auctions using an A2A transfer. PayPal is 'picking up some market share because they are deeply integrated with eBay, but it's only because banks are not paying attention yet.' Germany is the 2nd biggest market for eBay after US. PayPal has not disclosed where Germany ranks among its markets. Bezard said that to make their online transfer services more formidable, US banks will have to do what their overseas counterparts do - offer transfers to anybody rather than a limited pool of accounts. 'To crush PayPal they would have to deploy an account-to-account transfer ability that offers a lot of the capability that PayPal has.' In their current form, the banks' transfer services threaten only the 10% of PayPal's volume generated by noncommercial P2P transfers, which are free through PayPal. 'They don't charge for that, so it's 10% of unprofitable transactions.' That 10% represented \$464m moving between people in just IIIQ, & PayPal uses that free service to attract new customers. If PayPal loses that business, it could lose that hook. 'They want people to be comfortable with it, just to drive usage. They want to get you addicted.' Avivah Litan, Gartner, said PayPal's focusing on the small-business market is a good move. 'They need to go beyond eBay. 90% of their payments go to 10% of their enrollees, & those are all small merchants' operating businesses through eBay auctions & sales. 'They need to get to the general merchant market.' Banks could find themselves in a tough fight if they take on PayPal. 'There has always been talk about banks threatening PayPal or PayPal threatening banks, & the reason banks haven't pulled it off is banks don't have a big merchant community.'

Other

While you were sleeping 11/15 APA Science has long been occupied with understanding our unconscious, & what is going on when we dream. A study of dream & sleep state activity has revealed that when we dream it's usually about social interactions, & that our emotional state in those interactions - whether we're friendly or aggressive - varies predictably depending on the stage of sleep we're in. These findings are presented in *A Jekyll & Hyde Within: Aggressive versus Friendly Interactions in REM & NREM Dreams*, by Patrick McNamara, Deirdre McLaren, Dana Smith, & Ariel Brown, Boston University School of Medicine & Veterans Administration Boston, & Robert Stickgold, Harvard Medical School. It has become relatively common knowledge that sleep involves 2 very different types of brain states: rapid eye movement sleep, or REM, & non-REM sleep, or NREM. What may not be as widely known is that in REM sleep there is intense activation of emotional centers, while NREM involves patterns of synchronized activity across the sensory & cognitive centers of the brain. The researchers looked at whether these differing brain activation patterns for REM & NREM meant that dreams were different. Using the 'Nightcap' monitoring system, in which a specially-designed apparatus is worn on the head during sleep to record eye movement patterns, research participants were randomly awakened at different times of the sleep/wake cycle & immediately tape-recorded their dreams or thoughts. These dream & wake reports were later scored for number & variety of social interactions. The researchers found that social interactions were more likely to be depicted in dream than in wake reports; dreamer-initiated aggressive social interactions were more characteristic of REM than NREM or wake reports; & dreamer-initiated friendly interactions were more characteristic of NREM than REM. These findings indicate that simulations about social interactions are performed while 'off-line' during the dream state, with REM specializing in simulation of aggressive & NREM of friendly interactions. It is not yet known whether these dream simulations have any effect on, or consequences for daytime social interactions.

Sleep disorders traced to genes 11/30 wired If you like to go to sleep after Conan O'Brien or wake up shortly before lunch, you may have your ancestors to blame. Researchers at 2 universities suspect that night owls inherit their sleep patterns, & they're launching a study that could lead to new gene therapy for everyone from insomniacs to early birds who can't help but hit the sack before prime time. It may be years, even decades, before gene-based drugs compete with the traditional insomnia remedies of sleeping pills, warm milk or hot toddies. Researchers only began to seriously explore the genetics of sleep in the mid-1990s, & they're far from determining which genes are in charge of the body clock. There appears to be a general consensus that many of us don't voluntarily choose to be short sleepers or long sleepers, morning people or night people. 'For some time now, doctors who see people with sleep disorders have been documenting a familial relationship in these things. That's commonly the first way that people start thinking about a particular disease as being genetic, by seeing it cluster in families,' said Walt Klimecki, University

of Arizona who is working with sleep researchers at UC San Diego.

Researchers have discovered that some people seem to inherit a pesky early-to-sleep/early-to-rise syndrome. A notorious sleep disease - the rare fatal familial insomnia, which robs people of sleep until they die from lack of it - runs in families. Researchers at UCSD are recruiting Southern California night owls to undergo monitoring & genetic testing to see if their condition is inherited too. The participants have a condition called delayed sleep-phase syndrome & typically prefer to go to bed in the early hours of the morning & wake up after 9 or 10 am, when many people are caffeinated & ready for work. This sort of behavior won't sound unusual to countless college students or teenagers. But in the most severe cases of the syndrome, simply trying to go to bed earlier doesn't work, according to UCSD's Dan Kripke. 'Some people are quite disabled by delayed sleep phase if their school work or employment requires them to get up early. They could voluntarily get up in the middle of their sleep period, but after a few days, they become so sleep-deprived, they can't continue to do it for the long run.' Perhaps 1% of the population has the disorder. For reasons that aren't clear, it's much rarer for people to have the opposite condition - advanced sleep-phase syndrome - & be unable to postpone sleep past 7 or 8 pm. Researchers elsewhere have identified at least one of the genes that appear to cause that problem. Extremely bright light boxes, which try to reset our internal clocks by making our bodies think it's morning, are a common treatment for sleep-phase disorders. Some patients take melatonin, a signaling hormone that can manipulate the body clock by tricking it into thinking it's dark & time for bed. University of Arizona's Klimecki suspects that, as in so many other medical conditions, sleep problems appear when genetics interact with other factors. Just as in illnesses like asthma, genetic predispositions don't necessarily doom someone to an unusual sleep pattern. Years ago, 'we used to think of all these diseases as purely genetic. But now, we're realizing that the environment is really important.' Evolution could conceivably play a role too. Natural selection frequently affects the development of diseases & resistance to them. An inherited trait that protected people from smallpox in the Middle Ages appears to keep their descendents from getting AIDS. Klimecki pointed out that some blood disorders may have survived over time because they kept people from getting malaria. But many more ailments appear to have developed independently from the pressures of evolution, & sleep problems may be among them. Once researchers figure out which genes affect sleep, they'll try to understand exactly how they affect the mysterious body clock, which typically resets itself after 24 hours, & starts our daily cycles - eating, sleeping & so on - once again. Hence the term 'circadian rhythm' - 'circadian' means 'about a day.' Gene research in humans will provide insight into the daily rhythms of animals. 'Nature uses the same genes & the same code to create the body clock in human beings as it does to create the clock in fruit flies,' said Gregory Belenky, Washington State University. But body clocks aren't independent timekeepers: They depend on sunlight & darkness. In people who are kept away from the cues of light & dark, such as blind people, body clocks often boost the period of a 'day' slightly beyond 24 hours, said Al Lewy, Oregon Health & Science University. In such people, the right time to go to sleep runs later & later each night, causing major disruptions to their lives. For the blind, who are immune to the effects of light boxes, melatonin may be the only treatment. If researchers do get a handle on the genetics of sleep & the body clock, they may do more than produce gene-based treatments. Doctors could test people like pilots & special armed forces units to determine how they would handle sleep deprivation. The tests might even give the lie to people who like to think they can easily skip sleep when they're actually not built to miss snooze time. 'People tend to think, 'Oh well, I'd like to get 8 hours, but I can manage with 6. But that's not true.'

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