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# Lockbox Assumes a New Value Proposition: From Back Office Commodity to Strategic Information Resource

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Several years ago, banking industry pundits were predicting the impending demise of retail and wholesale lockbox. They argued that paper check remittances would be reduced to a statistical trickle once electronic transactions became the predominant method of paying bills and invoices. And, most predicted that such a transformation would occur in a matter of years. For those who consider lockbox as nothing more than a deposit and check-processing product – this vision has nearly been fulfilled. However, for others, the combined effects of the internet, imaging technology and powerful desktop computing have elevated the lockbox into a valuable tool for corporate customers to accelerate accounts receivable posting and remittance information management. Lockbox has not only survived the transition from paper to electronic processing, it now serves as a valuable vanguard product and benchmark tool for banks during this difficult economy.

## Current Banking Trends and Implications

Banks have been moving away from transaction-based, product-driven strategies delivered through silos to strategies focused on customers, processes, integrated experiences and the enterprise-wide value of information. The new strategic focus is not market share, revenue growth or operating efficiency, but it is customer experience. Banks are investing in the development of tools to strengthen the customer relationship by facilitating real time transactions and self-service.

The better value proposition that banks now offer is in the information they can provide about financial services and transactions. Banks today should not only be prepared to answer, “How accurately does your bank process payments?” But also, “How uniquely does your bank capture, analyze, protect and deliver information that adds value to me?”

Starting from the premise that having a centralized repository of posting and remittance information constitutes the ongoing value, the lockbox model moves beyond its role as a processing utility in the back office. Lockbox is now a captor and integrator of customer information with direct applications for new bank revenue.

A three-stage model takes the lockbox service from its present part paper, part electronic function to its enhanced role as a virtually all-electronic receivables service.

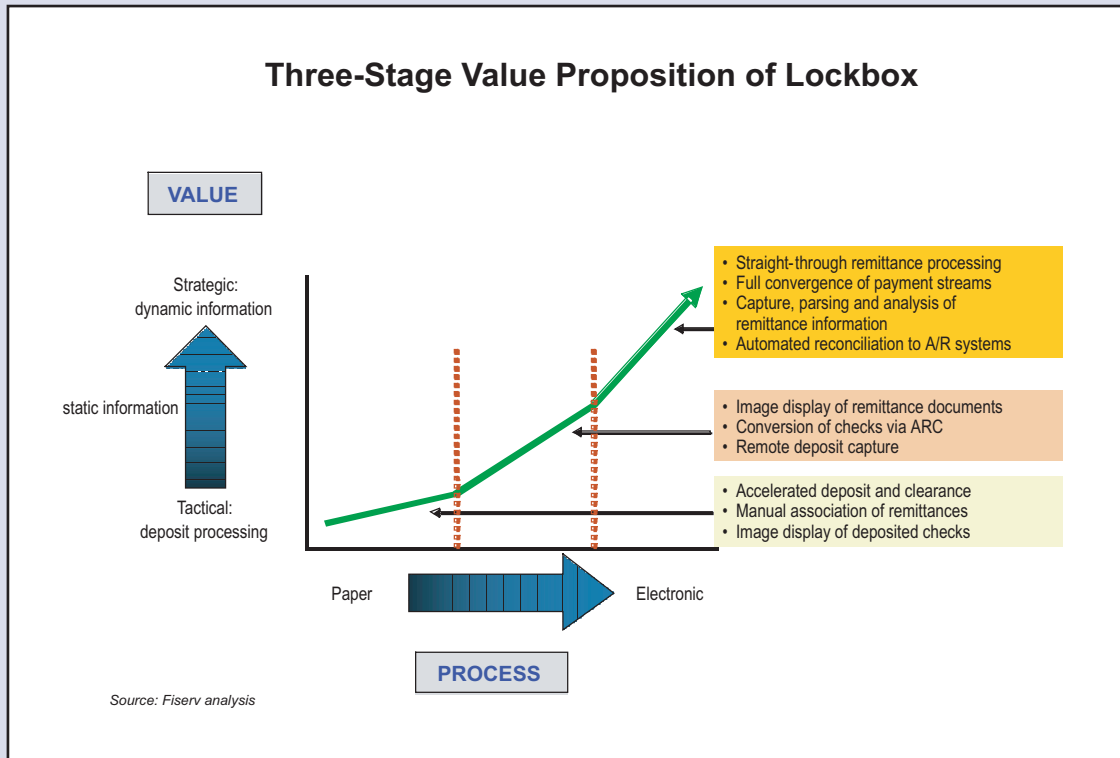
## Stage One: Image and Paper

In the first phase, the lockbox is no longer a float minimization vehicle, nor a banking product in the conventional sense of the word. The lockbox enables banks to separate checks from the remittance processing stream and clear them more quickly. At the same time, lockbox also provides near-immediate access to remittance information by corporate clients.

## Stage Two: Image and Process

Banks are leveraging lockbox to consolidate internal processes for payment processing and data capture. Technology now facilitates the digital capture of remittance as a collection of individual points of information, rather than just an image of the physical remittance. Individual fields can even be “lifted” from remittance documents and saved as data elements for associative or analytical purposes.

To the extent that such capture is automated, banks have opportunities to provide new value-added services such as interactive exception management services or those targeted to specific markets. As a



critical mass of data elements becomes available, banks can feed the information directly to clients' accounts receivable systems.

Imaging capability at banks now enables lockbox customers to scan checks and remittance documents onsite and the data can then be integrated directly into their lockbox stream. Non-lockbox electronic payment streams such as ACH or EDI data, can now also be merged into the lockbox files and a consolidated file produced. The result is that customers now have a single point of truth for all postings and remittances.

### Stage Three: Dynamic, Integrated Payment Information

Stage three is where the full benefit of the new lockbox model accrues to the corporate customer in the form of rich, integrated and analytical information.

Not only can lockbox centralize the collection and application of incoming payment streams for a company, but it can also do the same for outbound payments as well. Incoming payments detail would be automatically reconciled with the original billing data, automatically posted and then converted and cleared by the most appropriate channels. Outbound customer payments can be validated and analyzed to

determine the most economical and/or expeditious routing. By maximizing the information resident within the lockbox, the bank is no longer simply a payments intermediary, but it has become a strategic information broker, vital to the effective functioning of the client's financial supply chain.

Corporate banking analysts have discussed for some time the prospect of banks converging their cash management and trade finance operations as the receivable and payable components of the supply chain become more aligned. Lockbox is the logical center of that consolidation. Banks that can see the value in shifting to an information-based business model will want to reinvent their lockbox products to become data repositories for all posting and remittance detail.

The possibilities for future revenue based on lockbox information include the processing of surveys, census forms and property management data or subscription coupons for non-profits, and are limited only by the imagination.

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