

## **REMITTANCE PROCESSING BENCHMARKING STUDY**

The remittance processing world is going through a period of change. Remittance processing technology has continued to improve, and the payment environment has been dramatically altered by the emergence of ARC and ACH eChecks, Check 21, banks providing free online bill payment, the rapid deployment of biller Web sites accepting credit and debit cards, and the continuing adoption of ACH direct payments and telephone bill pay. These electronic payment alternatives have emerged and converged on the traditional mail and paper-based remittance environment, and have become increasingly important over the past few years.

As a result, many organizations are in the process of retooling their operations and are working to obtain executive approval for their funding requests. Remittance processors need updated information about throughput rates, best practices, system performance, and cost per item—which have never been higher.

To support these efforts, The Association for Work Process Improvement (TAWPI) and Dove Consulting teamed up to conduct the 2005 Remittance Processing Benchmarking Study, a follow on to a TAWPI study conducted in 2001, to provide TAWPI members with the information they need to manage their businesses in the new environment.

This article draws from the study results to address a number of key questions being asked by remittance processors:

- How do our processes compare to others?
- What is the average industry throughput (payment items processed per hour)?
- What are current industry best practices?
- How have changes in character recognition changed workflows?
- What is the average cost to process a payment?
- How rapidly are alternative remittance payment methods growing?
- When, if ever, will Web payments overtake paper payments?

The study information, and the associated analysis, provides the basis for remittance processors to re-evaluate their current strategy and operations, and ensure that they are—and will remain—competitive in the future.

### ***Study Background***

TAWPI/Dove Consulting's 2005 Remittance Processing Benchmarking Study was designed to collect new benchmark data to help remittance processing managers assess their volumes and costs, and identify opportunities to improve their operations workflow, productivity, quality, and cost effectiveness. The study was made possible by the sponsorship of AFS, Jack Henry, JB Software, JPMorgan Chase, OPEX, Unisys, and Wachovia Bank.

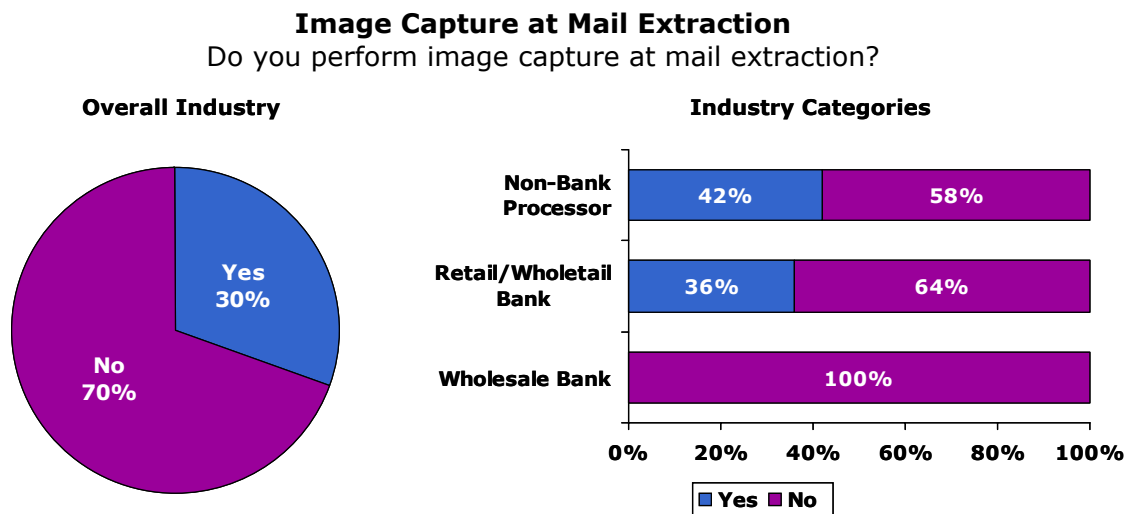
72 remittance processors—41 non-banks, 14 retail/wholesale banks, and 17 wholesale bank lockboxes—participated in this study, all of which focus on processing paper payments at their 118 sites. The study sample represents a cross-section of remittance processors from the highest-volume industries: including utilities, telecommunications, cable providers, insurance, financial services firms, government agencies, and bank lockboxes.

Study participants included a mix of mid-sized and higher-volume remittance processing operations with 54% processing more than one million payments per month. On an annualized basis, participants' collective volume is nearly 4 billion payments, which would represent approximately one-quarter of the total U.S. lockbox volume.

### How do our processes compare to others?

Although the study provides comparative data along many dimensions, one of the biggest areas where remittance processors have been able to achieve increased speed and productivity is their adoption of image capture at mail extraction, which combines steps that traditionally have been separated. Although it may not provide the same ROI for all shops, for processors with large percentages of ARC eligible items, combining mail opening, imaging, and ARC check conversion in a one-pass environment holds the potential to dramatically increase throughput and productivity.

As shown in the chart below, 30% of respondents report performing image capture at mail extraction. At a segment level, none of the wholesale bank lockboxes report performing image capture at mail extraction, while 42% of non-bank remittance processors and 36% of banks with retail/wholesale lockbox operations report performing image capture at mail extraction.



The percentage of respondents performing image capture at mail extraction has more than doubled since 2001—image capture is beginning to take hold in the high-speed processing categories as non-bank processors and retail/wholesale banks install image-based systems.

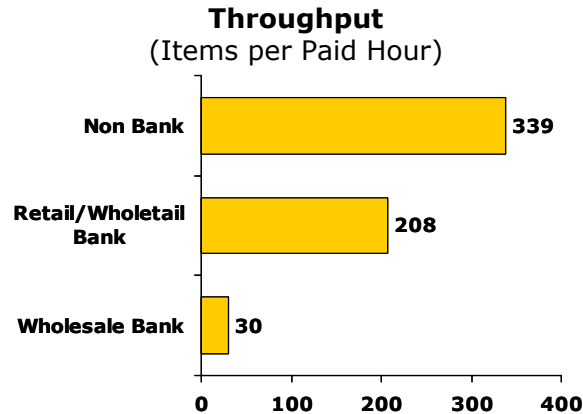
### Capture at Mail Extraction Comparison, 2001 vs. 2005

	Yes	No
<b>2001</b>	14%	86%
<b>2005</b>	30%	70%

Although a handful of non-bank and retail/wholesale processors identify checks and sort out ARC transactions at mail extraction, most processors are not performing this activity today. 25% of the overall respondent base converts consumer checks to ARC today (43% of retail/wholesale banks and 18% of non-bank processors). None of the wholesale banks convert consumer checks into ACH debits via the ARC process, which is presumably because their volume is primarily business checks (which are ineligible for conversion to ACH under NACHA rules). However, the majority of participants that handle retail remittances expect to consider implementing ARC over the next two years.

### What is the average industry throughput?

Processors' throughput—the number of payment items processed per paid labor hour—is directly related to the nature of the payments to be processed. Non-banks, typically in-house operations for large billers, have the highest average throughput, with 339 items per paid labor hour. This is followed by retail/wholesale operations with an average of 208 items, and wholesale operations with 30 items per hour.



### What are current industry best practices?

At a high level, best practices for retail lockboxes tend to involve higher-speed opening and image capture systems which permit processors to ARC payments, truncate checks, and reduce the number of passes required. Not surprisingly, higher levels of biller-controlled documentation and envelopes are associated with higher levels of clean mail and high read-rates. These approaches contribute to top quartile throughput, kill rates, fewer errors, and lower costs.

*More detailed descriptions of 'best in class' systems, workflows and methods used at the processor's site are available in the full report.*

## How have changes in character recognition changed workflows?

In 2005, the median CAR/LAR read rate reported by respondents was 80%, an improvement of 5 percentage points over 2001. The transaction kill rate (the percentage of remittances where the OCR/ICR system is able to read the amount on the check and match it to the scanline on the remittance stub or bill coupon) also shows a large improvement: the median rate reported in 2005 was 67%, up from 60% in 2001 – an 11% improvement.

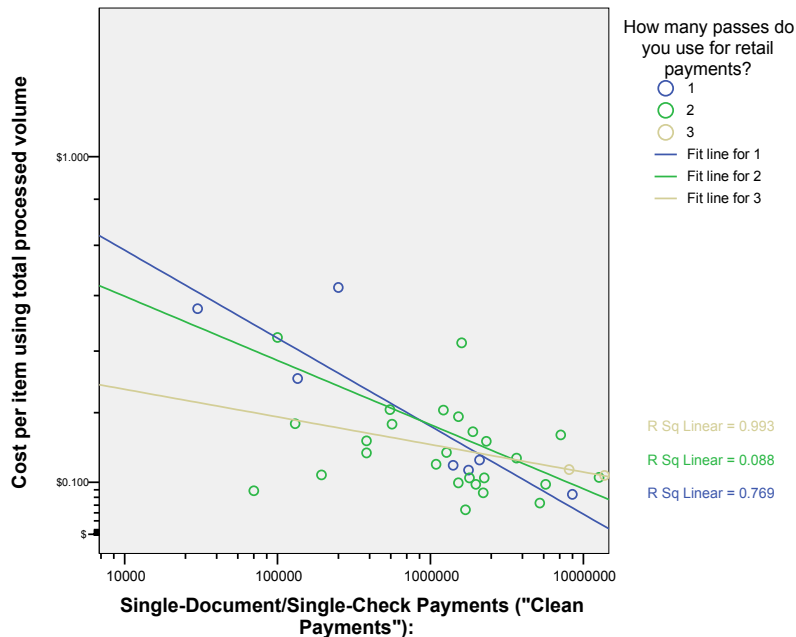
### Character Recognition, 2001 vs. 2005

	2001 Study (Median)	2005 Study (Median)
CAR/LAR Read Rate	75%	80%
Transaction Kill Rate	60%	67%

Improvements in character recognition have made it possible for some non-bank processors to change their workflows and adopt one-pass processes for retail payments. As might be expected, clean payment volume drives down the cost per item most significantly in one-pass environments. In fact, many participants report that they are looking to adjust their workflows after their systems have been upgraded.

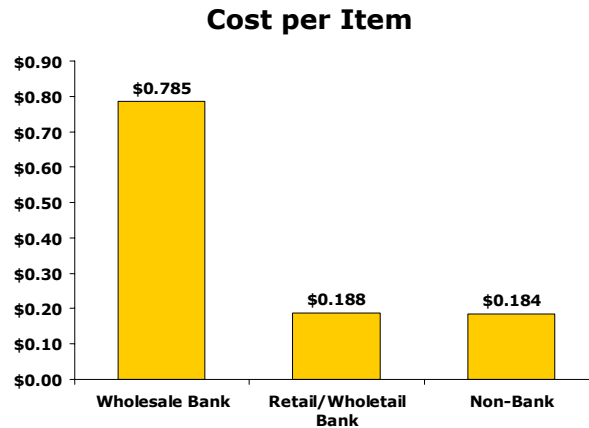
The chart below shows the statistical relationship between cost per item and clean payments for three payment environments. The regression results confirm the intuitive conclusion that reducing the number of passes should reduce per-item processing costs at higher volume sites.

### Relationship between Cost per Item and Clean Payments



### **What is the average cost to process a payment?**

In contrast to the differences in throughput, retail/wholesale bank operations' per-item cost of \$0.188 is on par with non-bank processors' cost of \$0.184. It should be noted that wholesale banks' average cost of \$0.785 per item was achieved in a much more complex and lower speed operating environment.



### **How fast are alternative remittance payments growing?**

The majority of retail remittance respondents now offer Web-based payment alternatives, with 69% of the responding sites currently processing Web payments (up from 48% in 2001). 56% of non-bank processors and 50% of retail/wholesale banks offer Web payments through their own Web site, while 26% and 21% offer it through a third-party consolidator, respectively. In contrast, 67% of the wholesale lockbox respondents do not offer Web-based payment methods.

Alternative, non-paper based payments represent a small portion of their remittance processing volume, and these payments are generally processed at a single location, which may not be at the remittance processing site. Volumes are increasing, however, with remittance processors reporting a 7% median growth rate over 2004, and the top quartile seeing a year-over-year growth rate of 25%.

#### **Web-based Payment Alternatives**

Does your organization currently offer Web-based payment alternatives?

	<b>Non-Bank</b>	<b>Retail/Wholesale Bank</b>	<b>Wholesale Bank</b>
Yes, on our own Web site	56%	50%	13%
Yes, through a Third-Party Consolidator	26%	21%	20%
No	18%	29%	67%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Going forward, volume is expected to continue to increase as more and more processors offer alternative Web-based payments. Of those that do not currently process Web payments, 41% expect to add it within the next two years.

## ***When, if ever, will Web payments overtake paper payments?***

Although processors are seeing growth in electronic bill payment volumes, less than one-third of the respondents expect Web-based payments to overtake traditional systems within the next six years—the expression “the check is in the mail” will continue to be a popular phrase for the balance of this decade.

### **Timeframe for Web-based Payment Overtaking Paper**

When, if ever, do you expect Web-based payment processing to overtake traditional systems as the primary remittance processing method?

	<b>1 to 3 years</b>	<b>3 to 6 years</b>	<b>6 to 9 years</b>	<b>10+ years</b>	<b>Never</b>
Non-Bank	12.9%	16.1%	9.7%	29.0%	32.3%
Wholesale Bank	11.1%	11.1%	55.6%	22.2%	0%
Retail/Wholesale Bank	27.3%	18.2%	18.2%	27.3%	9.1%
<b>All Processors</b>	<b>15.7%</b>	<b>15.7%</b>	<b>19.6%</b>	<b>27.5%</b>	<b>21.6%</b>
<b>2001 Study</b>	<b>3.4%</b>	<b>10.3%</b>	<b>34.5%</b>	<b>27.6%</b>	<b>24.1%</b>

## ***Implications for Payment Managers***

As technology evolves and the industry migrates from primarily paper payments to electronic forms, new challenges and opportunities face remittance processing managers and system providers who must find ways to increase productivity and quality with limited resources.

For all industry participants, one trend is clear – the complexity of remittance processing operations has increased exponentially. The changes occurring in remittance processing—and the payments industry at large—make it absolutely essential for remittance processing managers to be key players in the development of their organization’s payments strategy and execution.

As consumers and businesses increasingly utilize multiple payment methods, there will be strategic and competitive benefits for the remittance processing organizations that can effectively coordinate and manage this critical aspect of customer interactions and relationships. With the adoption of late fees by many billers, remittance operations may be able to generate incremental revenue by offering electronic means to expedite payments that are not within the normal mail remittance processing window. On the cost side, managers should evaluate ARC and consider adding this capability over the next two years as their peers do the same. Remittance processing managers should also explore Check 21-based opportunities to truncate checks and save on transportation costs—but more importantly, check image capture may enhance remittance processors’ ability to manage workflow across departments and facilities, simplify exceptions processing and accelerate returns.

None of these decisions are easy, but the 2005 Remittance Processing Benchmarking Study provides external data, which managers can use to evaluate their business case for new remittance processing systems and technologies to support their customers.

*An executive summary of the 2005 Remittance Processing Benchmarking Study is available on TAWPI's Web site at <http://www.tawpi.org/remittanceStudy.html>. To purchase the full report, please contact Melissa Comeau at TAWPI, 617-426-1167.*

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