



# Lockbox in the Electronic Payments Age

## New and Emerging Business Benefits

Lockbox services have been a workhorse among financial management tools for decades. The high-interest-rate environment that spawned them to accelerate receivables has faded, but technological advances and competitive market forces have made lockbox services more versatile for all users and affordable for smaller enterprises.

A competitive business climate always drives companies to look for efficiencies. Outsourcing tasks to specialized providers has been the answer for many, enabling enterprises to focus on core competencies. Rapid, versatile and secure payment processing is an example of a capital-intensive business need that lends itself well to outsourcing.

One factor giving lockbox services ongoing appeal is the enduring popularity of checks. Checks for consumer and business-to-business (B2B) payments are not disappearing as quickly as predicted. One survey found check use for B2B payments rose by one percent during a recent three-year period.<sup>1</sup> That being the case, companies that rely on internal resources to process checks manually might not be making the best use of their accounting departments.

### Lockbox Basics

Here's how lockbox services work: A bank-managed post office box serves as the entry for check-based payments and remittance detail, and the lockbox is strategically placed at high-volume, centralized mail collection points. That approach typically accelerates receipt of mailed checks by a day or two.

Also, the lockbox provider makes multiple, daily collections and deposits into the client's bank account to further reduce float. Often, consumer paper checks generated by online bill-pay systems received at lockbox locations can be converted to electronic format and merged or appended to the lockbox posting file.

Lockbox services continue to provide value because of the enduring popularity of paper checks.

<sup>1</sup> Source: Rimilia, a payments technology company, <https://www.rimilia.com/blog/the-arrival-of-the-intelligent-lockbox-using-ai--/rpa>



Here's a summary of basic lockbox benefits:

- Checks are rapidly credited to client accounts and funds availability is accelerated.
- Internal staff time is liberated for more productive purposes.
- The risk of delayed deposits due to an absence of the employee who processes checks is eliminated.
- The probability of theft or fraud is greatly reduced because internal workers are not handling checks.
- Service Organizational Control 1 (SOC-1) compliance standards and related reviews of lockbox providers assure strict adherence to rigorous security-maintenance procedures.

Beyond those basic functions, data processing and analytic capabilities included in today's lockbox services enhance their value. Received checks can be combined with other payment types, including electronic Automated Clearing House and wire transfer payments, to create a single posting file data stream for matching to open accounts receivable invoice files.

## Key Capability: Customization

A hallmark of a quality lockbox provider is its willingness to consult with clients and customize a service package. For example, clients who desire heavy front-end sorting should be easily accommodated.

Also, because checks and remittance documents are scanned upon receipt, their images are available for prompt online client viewing. Supplemental data accompanying payments is incorporated into the reporting, and transactions are easily searchable online by the lockbox client. This facilitates exception processing based on client business rules and prevents exception items from posting.

Another benefit of customization is the multiple layers of access that lockbox services can provide, allowing companies to manage their security requirements. As an example, the company administrator has the ability to assign access to associates to view detail or decision exceptions on some lockbox accounts, but not all.

Artificial intelligence (AI) technology likely will soon be harnessed by most top lockbox service providers. Systems combining optical character recognition technology with AI to scan and match data will, over time, achieve greater speed and efficiency. Also, as more payment data is amassed, predictive analytics will enhance cash flow forecasting for lockbox users.

AI and analytics are a growing capability among top lockbox providers.



Paper check volumes are only one component of assessing a need for lockbox.

## Assessing Your Needs

To find value in a lockbox service, your organization must receive a reasonable number of remittances in paper check form. A high volume of low-value checks or a small volume of large-value checks can make lockbox use appropriate. However, “large” and “small” can only be defined on a company-by-company basis.

Your organization’s suitability for particular lockbox services will be determined by six principle factors:

- 1. Cost of in-house receivables processing.** This can be determined by comparing the cost for the current, staff-based system (or a limited capability lockbox) with the cost of using a top-notch lockbox service. Apples-to-apples comparisons can be difficult, however. Chances are your in-house approach is not only more costly than an outsourced solution, but doesn’t deliver the same functionality.
- 2. System capabilities.** Companies will find that an investment in even the basic lockbox services can provide increased insight into their receivables status at any point in time.
- 3. Segregation of duties concerns.** When evaluating small enterprises, auditors frequently alert boards of directors to the company’s exposure to embezzlement risk when one or more financial executives can invoice, authorize payments and oversee receivables processing (including receipt of paper checks).
- 4. Disaster recovery.** Another risk management issue is vulnerability to disruption caused by natural or man-made disasters. Using an off-site, secure receivables processing facility could mitigate that risk substantially.
- 5. Cash flow needs.** If you are incurring interest costs for short-term financing needs, a lockbox service could reduce some of or eliminate that expense.
- 6. Paper conversion to electronic format.** Inherent in lockbox services is the efficient conversion of a large volume of paper items, both checks and accompanying documentation, to electronic format. This service provides value to companies desiring electronic document storage but lacking an efficient internal means of scanning such documents.

## Comparing Providers

Multiple evaluation criteria need to be considered when comparing lockbox services. A primary consideration is the provider's service philosophy: Is it a consultative approach to assessing a prospective customer's needs or to highlight service packages that may or may not meet those needs? Or is the provider simply selling a service?

Other comparison criteria are perhaps easier to assess. They include:

- **Bank resources.** Has the bank made a substantial investment in its lockbox service, in personnel and technology?
- **Availability schedule.** How soon will you have access to funds after a check is received?
- **Deposit frequency.** How many times a day are checks collected and deposited? And, will checks be deposited on weekends?
- **Deposit account segmentation.** Can the provider's service automatically route crediting of checks to multiple demand deposit accounts, according to your customer segmentation criteria?
- **Payment data reporting capabilities.** What information about payments is available and how quickly?
- **Analytic tools.** Does the lockbox service facilitate assessment of payment patterns by customer?

Successful enterprises stay current in technology to meet their clients' needs. Banks that maintain that standard with their lockbox services can contribute to your company's financial success. Now might be a good time to see what a versatile and customized lockbox solution can do for your business..

## Putting Lockbox Services to Work: Two Tales from the Trenches

### Case Study 1: A Midsize Collection Company

The company used a remote deposit capture system, which relieves the burden of physically delivering checks to a bank branch. However, remote deposit capture still involved time for manual processing – including scanning items to transmit to the bank.

Despite having multiple locations, the company's finance department is very small. All remittance mail came into its main office, where it was one associate's job to open and sort the mail, prepare it for deposit and post payments to the accounts receivable software. This associate was on sick leave for several days, and the responsibility for these tasks fell to the CEO. Previously, the CEO had refused recommendations to use a lockbox service, concerned with the capability of a bank to do the job accurately, efficiently and affordably.

The firsthand experience prompted the CEO to re-evaluate lockbox services. After a fresh look, she decided to use the service and is now a satisfied lockbox client.

### Case Study 2: A Utility Company

The utility had once processed customer payments through a lockbox. But after an internal review, the company decided to take the payment-processing function back in-house.

Soon thereafter, the company realized it had underestimated the manpower required. The company was also being prodded by its auditor to outsource check processing again, due to segregation of duties concerns. When the utility company began the process to set up a new lockbox, it learned there were more service options than when it first used a lockbox and chose a more advanced service package.