X9 EXCEPTIONS MANAGER

Working with the New

Federal Reserve Bank Reg CC

Time is Money

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Executive Summary

The Federal Reserve Bank recently changed Reg CC rules, which will be effective, July 2018. One of the changes reduces the amount of time allowed for Returns. Efficient exception processing can ensure regulatory compliance.

Return and Exception check items represent a significant number of items and dollar value. 99.9% of check items are now electronically processed either by electronic image exchange or converted to ACH payments according to ECCHO and a Federal Reserve Bank Report. The de facto standard mechanism for routing check items internally and externally is the check image cash letter (ICL) file.

Although check item processing software solutions support forward presentment ICL files, they do not embrace the ICL file as a mechanism for processing returns and exceptions. Consequently, the architecture of most item processing systems is still based on the traditional Day 1 and Day 2 item processing model. In fact, many organizations still process paper items such as IRD's and printed PDF files for these types of items.

During the business day, sorted batches of transit and deposit items are sent to the item processing software.

Many benefits can be realized by moving exception processing and decisioning from Day 2 to Day 1. More items can be processed in a shorter amount of time by using automatic rule-based routing and decisioning technology. X9 EXCEPTIONS MANAGER will automatically process most returns and route other exceptions to the correct business group for decisioning on Day 1. The application works with all inclearing and deposited items.

The challenge that faces many financial organizations is how to justify the investment required to upgrade the legacy item processing system during a time of decreasing volume of check items.

Many exceptions can be routed to the proper work queue for decisioning response automatically. Specialty exception items can be routed to the appropriate business groups such as the credit card, mortgage, loan, accounts payable, fraud and other departments within the bank. Routing rules and configurations can be easily created and modified as needed.

Every financial institution requires a customizable, dynamic and efficient way to research items. X9 EXCEPTIONS MANAGER uses a web-based browser model for research screens.

X9 EXCEPTIONS MANAGER is designed and architected to complement any financial institution's item processing system. Using industry standard file formats like X9.100-187, a SQL database and standard browser user interface screens for research and administration ensures the financial institution's long-term capability of support.

All My Papers has a suite of item processing software applications built on the X9 Image Clearing Platform. Time is money. Financial organizations can increase transaction throughput by enabling same day exception decisioning and returns with All My Papers X9 EXCEPTIONS manager software.

Exception Processing Today – Processing Paper Returns and Exceptions

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Although check item processing software solutions supports forward presentment ICL files, they do not embrace the ICL file as a mechanism for processing returns and exceptions. This is primarily due to the evolutionary development of dealing with the transition from paper to electronic item processing.

Many organizations still process Returns and Exceptions as paper items (e.g. IRD's and printed PDF files) for these types of items.

Day 2 Exception Processing Issues

Consequently, the architecture and workflow of most item processing systems is still based on the traditional Day 1 and Day 2 item processing model.
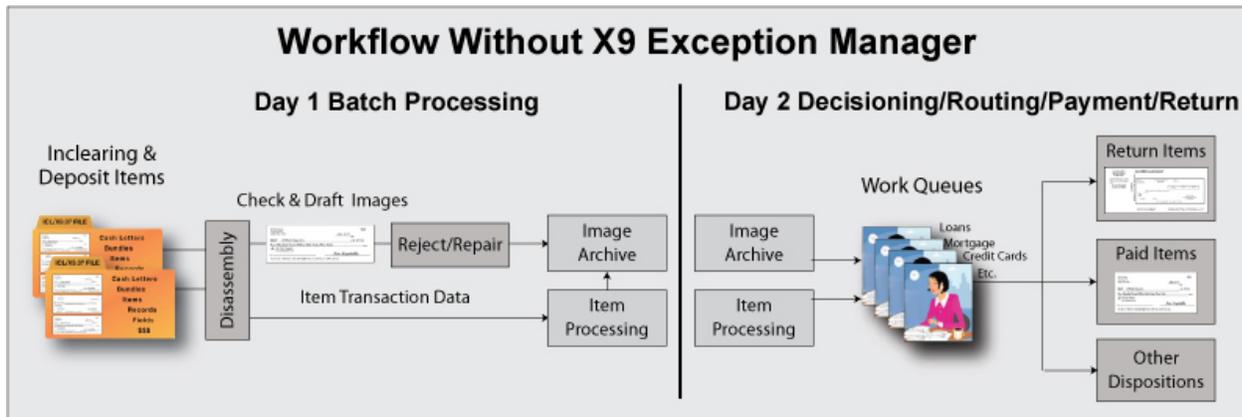

Day 1 item processing accepts all the deposit and inclearing items during the business day, and then posts them into the financial system's accounting application and general ledger accounts. Images are then archived for short-term use, which migrate over time to long-term storage.

Exceptions such as customer returns, administrative adjustments, foreign items, credit card convenience checks, and fraudulent items are not processed until Day 2.

Day 1 Exception Processing & Decisioning

Many benefits can be realized by moving exception processing and decisioning from Day 2 to Day 1.
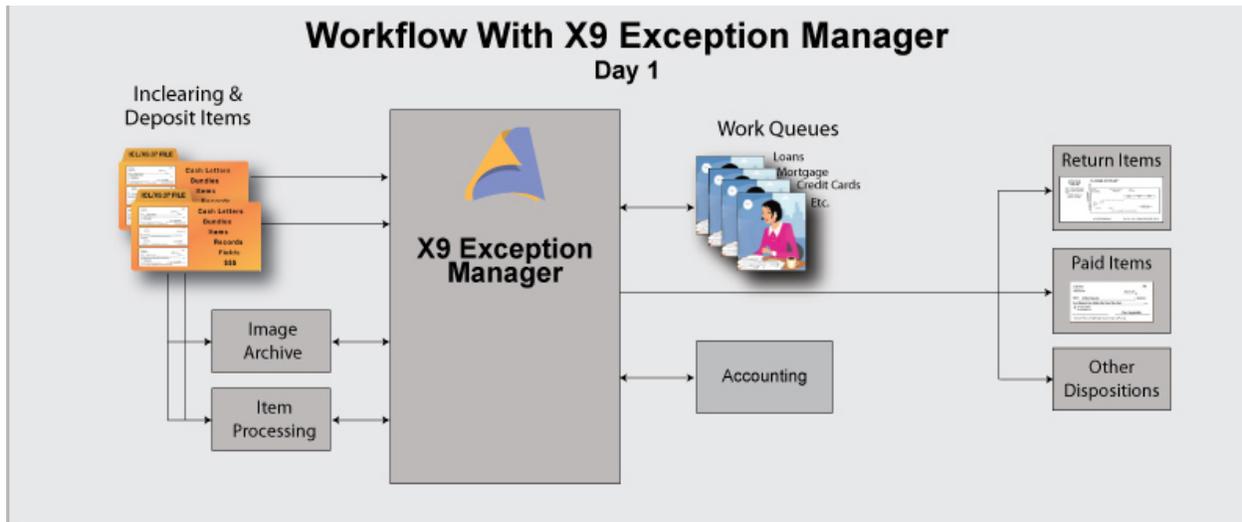
More items can be processed in a shorter amount of time by using automatic rule-based routing and decisioning technology. Due to the inverse relationship between volume and price, as check volume is decreasing, the processing cost per item is increasing. This is especially true with exception items.

1. Regulatory Compliance

Efficient return processing can ensure regulatory compliance. The Federal Reserve Bank recently changed Reg CC rules and the changes will be effective, July 2018. One of the changes reduces the amount of time allowed for Returns. To those financial organizations still using paper based workflows for returns this new rule will have a significant impact.

2. Mitigate Fraud

More efficient returns processing can mitigate fraud exposure risk. The financial organization that is more efficient with Day 1 exception processing will be able to minimize the reserves required for uncollectable funds on exception items and improve float management.

Inclearing check items are presented to financial organizations every day and arrive from a variety of different exchanges. Clearing networks such as the Federal Reserve Bank, SVPCO, Endpoint Exchange and Viewpointe as well as regional exchanges and correspondent banks present both forward presentment and return transit items. The Universal Companion Document has a table of unique field and file validation differences for each organization.

Deposited items may arrive at the financial organization from a variety of channels such as branch teller stations, ATM machines, mobile deposit software applications, commercial remote deposit applications and wholesale and retail remittance service centers. Some bank's item processing software converts batches of the items into the bank's proprietary image cash letter file format for internal routing.

The challenge that faces many financial organizations is how to justify the investment required to upgrade the legacy item processing system during a time of decreasing volume of check items.

Traditional Day 1 and Day 2 Item Processing

During the business day, transit and deposit items are processed by the item processing software. It will take until late in the day to complete item processing, generate posting files, and transfer the images to the image archive. Every check item received by a financial organization is either associated with a deposit account (On-Us) or another institution (transit). Each of those categories must be recognized and dealt with differently.

Not until Day 2 are Items flagged as exceptions by the accounting systems and exception processing module or software. This software routes the exceptions to be returned or reviewed by different business groups.

An effective exception processing system must be adoptable to the many different types of Returns and Exceptions. There are 5 general types of exceptions:

1. Customer (monetary) returns i.e. non-sufficient funds, closed account, etc.
2. Administrative adjustment returns i.e. missing image, illegible MICR codes
3. Duplicate/Item – paying the same item more than once
4. Specialty items as defined by the financial organization – credit card convenience checks, pre-approved loans, positive pay, HELOC and other types of drafts
5. Flagged items based on dollar amount or potential fraud status, mismatched MICR between ICL file field and check image, duplicate items, foreign items, etc.

Solution Moving Exception Processing to Day 1

The balance of this white paper will explain the All My Papers' ICL file based solution architecture and application, X9 EXCEPTIONS which allows exception processing to be moved to Day 1. This application can be added to legacy item processing software without going through expensive upgrades and working with proprietary formats and can be implemented in a short amount of time.

X9 EXCEPTIONS MANAGER Enables Day 1 Decisioning and Returns

X9 EXCEPTIONS MANAGER will automatically process most returns and automatically route other exceptions to the correct business cue for decisioning on Day 1. The application also works with all inclearing and deposited items. No need to change your current workflow for non-exception items.
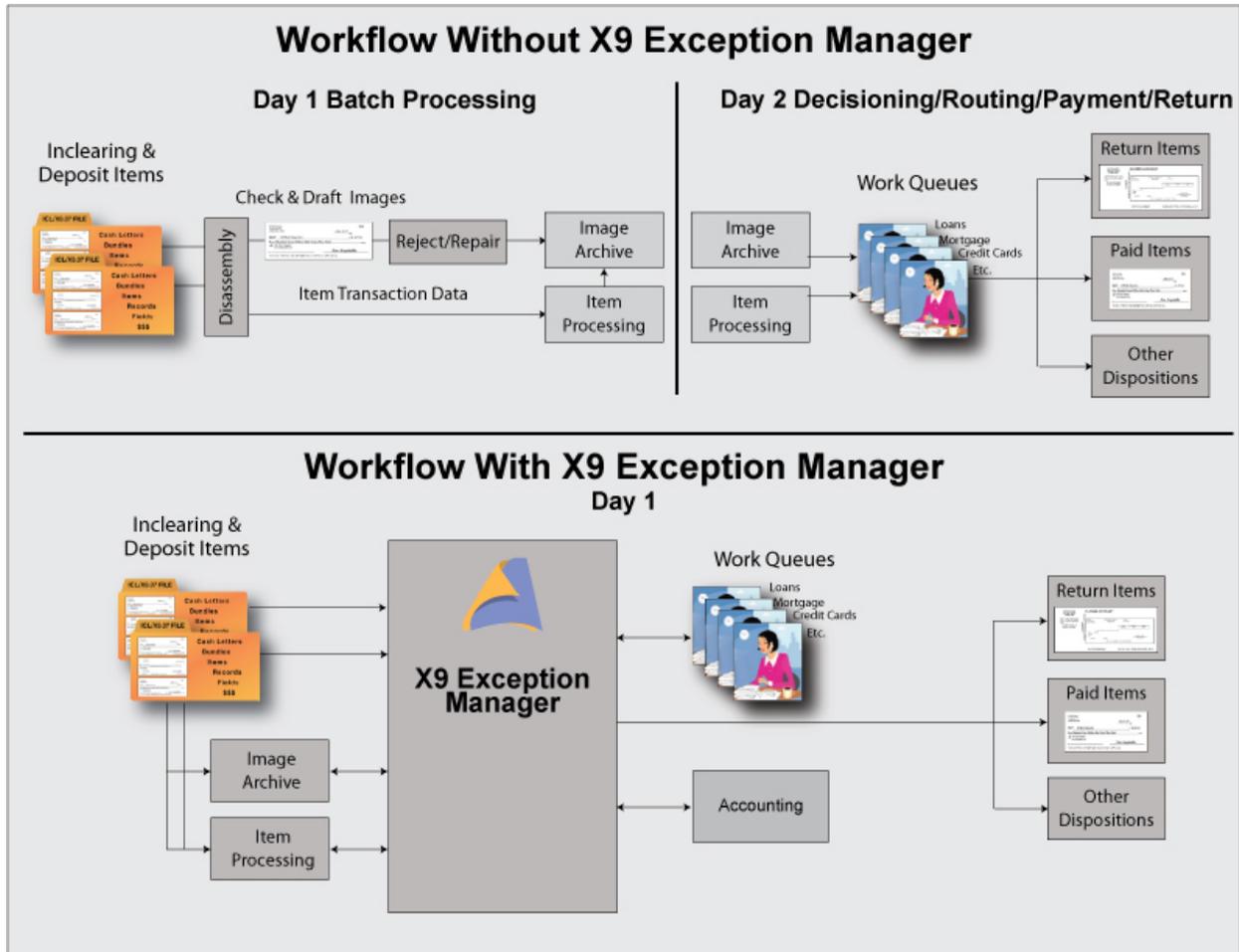

X9 EXCETPIONS MANAGER will work in parallel with your current legacy system components such as the item processing, image archive and accounting system.

Auto-Routing

Many exceptions can be routed to the proper work queue or decisioning response automatically. Returns can be placed in Return ICL files the same day for re-presentment with separate files for designated On-Us or transit items. A configurable short time image archive for return items can be created for efficient item research and then eventually migrated to long term image storage. Image Replacement Documents (IRDs) can be printed with advice letters for those items requiring that type of resolution.

Specialty exception items can be routed to the appropriate business groups such as the credit card, mortgage, loan, accounts payable, fraud and other departments within the bank. Routing rules and configurations can be easily created and modified as needed.
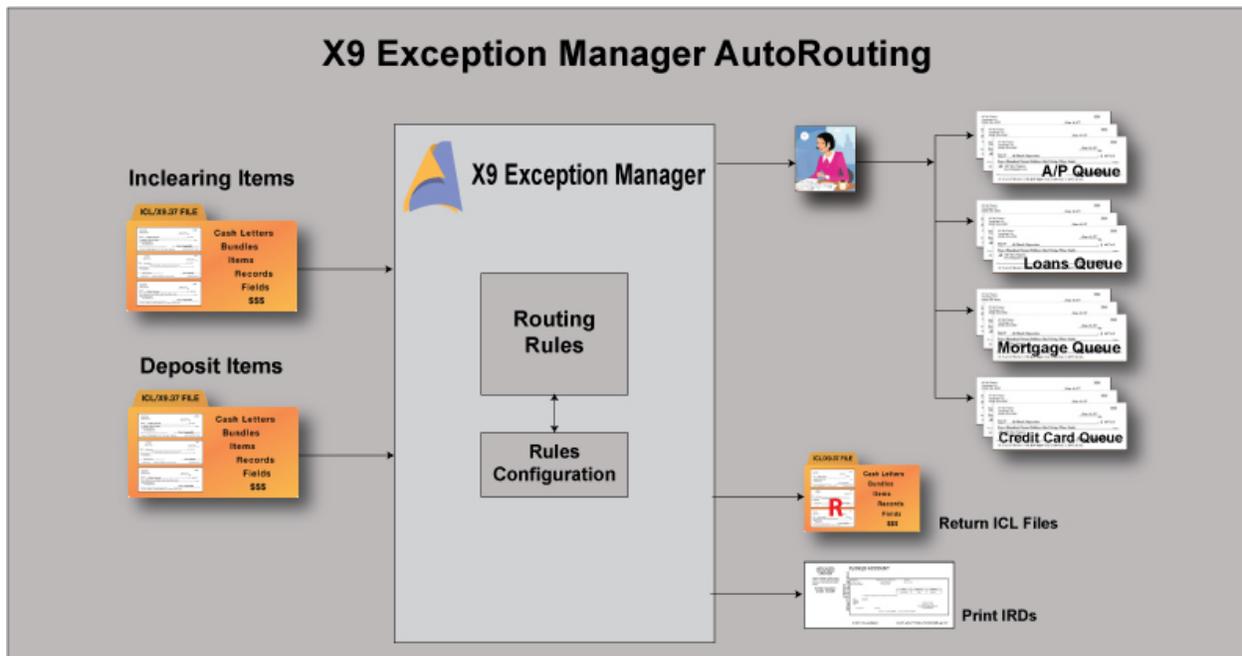
Configurable Research Screens

Every financial institution requires a configurable and efficient way to research items. X9 Exception Manager uses a web-based browser model for research screens. Browser based screens can make a dynamically sized work group more efficient. On some days, the work load will be heavy with many users needed to access and process the exceptions and on other days a smaller work group can get the process accomplished without using thick client computer workstations. All the necessary information is presented for efficient decisioning. View the check images, transaction data, MICR code, clearing history, additional records, and disposition tasks can be configured for your institution to make exception processing quick, easy and efficient.

X9 EXCEPTIONS MANAGER Architecture – Image Cash Letter File Based

X9 EXCEPTIONS MANAGER is designed and architected to complement any financial institution's item processing system. Using industry standard file formats like X9.100-187, an SQL database and standard browser user interface screens for research and administration ensures the financial institution's long-term capability of support. Technology risks are minimized by using standard database and file formats.

All My Papers has an experienced professional services group who will quickly and accurately scope out the required interfaces required to seamlessly integrate with your existing legacy check processing systems. There is no need to go through the time-consuming process and expense of an item processing system upgrade to gain automation, efficiency and speed in processing exceptions.

All My Papers professional services team will develop system and platform requirement specifications. Everyone will agree on specifically what will be delivered and when. All My Papers has a history of rapid deployment and robust dependable software.

The SQL database is designed to hold only textual information for fast response times and minimal storage requirements. The check images are retained in the ICL files with a pointer back to their location. Stored SQL procedures mean industry standard maintenance and support, now and in the future instead of proprietary file structure of most closed item processing systems. Duplicate item and file detections ensure data integrity.
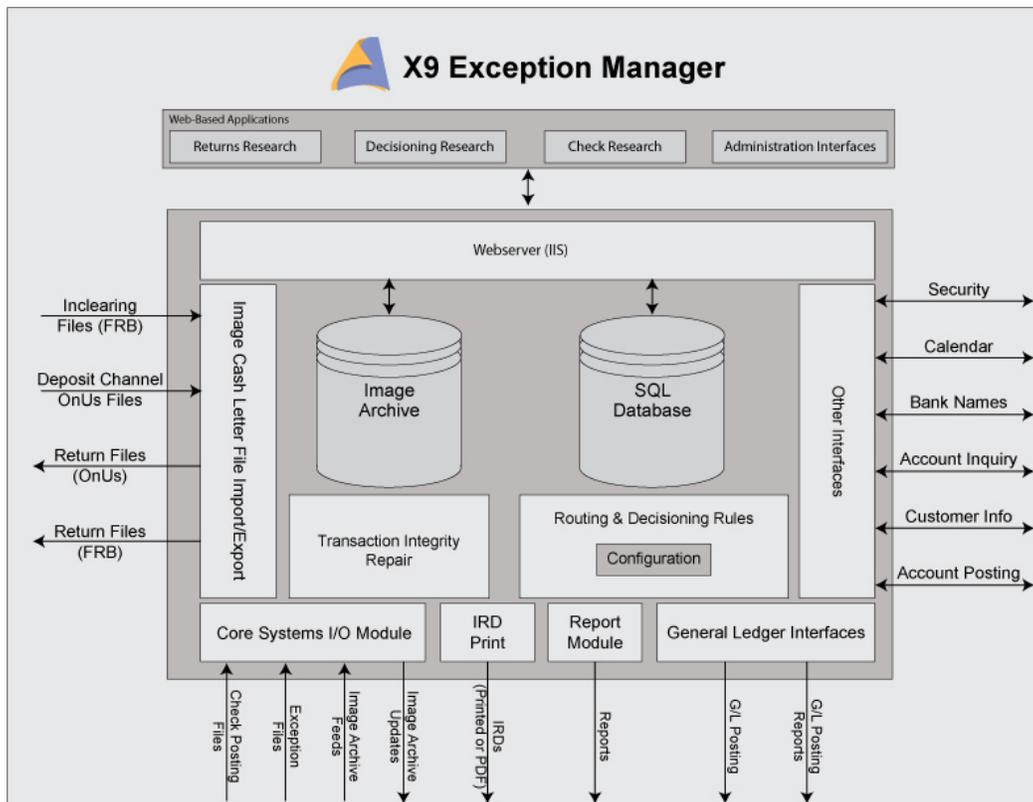
Solution Deliverables

All My Papers will deliver a complete solution including

- System Definition
- Implementation
- Software licenses and manuals
- System Integration Services
- User and Support training
- User Acceptance Support
- Go Live Support
- Long Term support and maintenance.

Item Processing Solutions from All My Papers

All My Papers has a suite of item processing software applications built on the X9 Image Clearing Platform. Other applications include an enterprise return management system, a returns consolidator, and an Image Cash Letter management system.
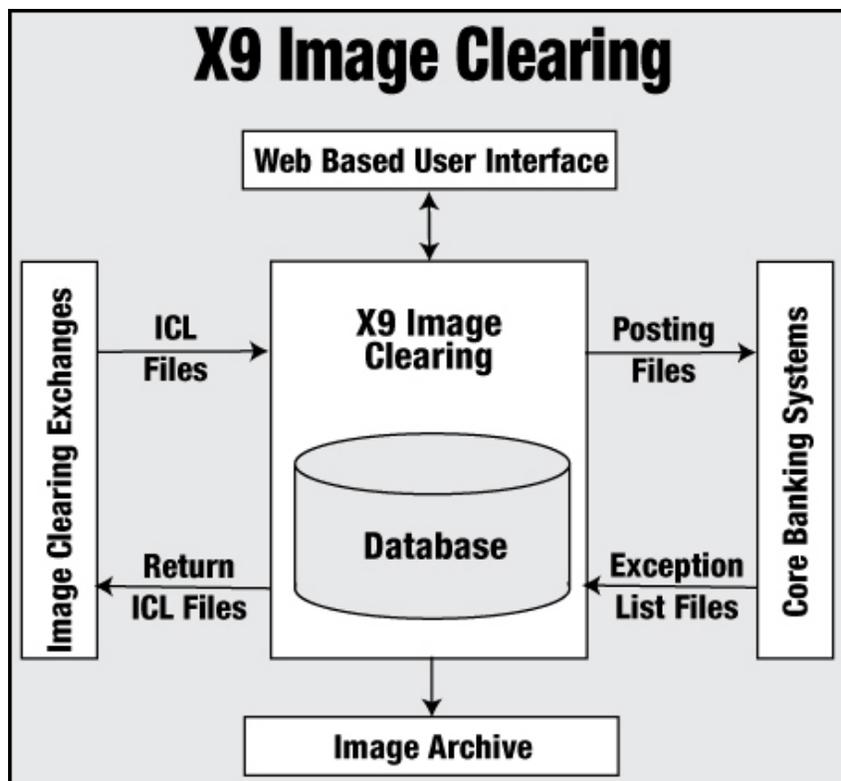
Conclusion & Summary

The Federal Reserve Bank recently changed Reg CC rules and the changes will be effective, July 2018. One of the changes reduces the amount of time allowed for Returns. Efficient exception processing can ensure regulatory compliance. Time is money. Financial organizations can increase transaction throughput by enabling same day exception decisioning and returns with All My Papers X9 EXCEPTIONS MANAGER software.

X9 EXCEPTIONS MANAGER enables legacy item processing and payment systems to move from Day 2 to Day 1 without going through expensive and time-consuming upgrades or replacements. X9 EXCEPTIONS MANAGER is a scalable solution meeting the needs of large and medium sized financial institutions and departments.