

# Checks – The Final Frontier

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Brian Mooney  
President, TeleCheck  
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# Industry Trends

# Current Check Industry Trends

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- ▶ **Checks at POS are Declining**
  - 15% of POS Sales in 2003/2004
  - 11% of POS Sales in 2005/2006
  - Only 4% would stop taking checks
  
- ▶ **Electronic Conversion - Rapidly Increasing**
  - Generational Trends
  - Technology Advancements
  
- ▶ **Check Fraud - Steadily Increasing**
  - Requires Greater Partnership and New Thinking



# TeleCheck's Current Experience

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## ▶ **TeleCheck's Trend:**

### – **1st 9 Months of 2006**

- ▶ Smaller Regional Merchants Declining 5 – 7% YOY in POS Checks
- ▶ National Merchants Declining 10-15% YOY in POS Checks

### – **Latter Part of 2006**

- ▶ Smaller Regional Merchant Decline Accelerates to 7 – 9%
- ▶ National Merchant Decline, Depending on Industry, Accelerates to 12-17%

### – **Increase in check conversion by 100MM checks in 2006**

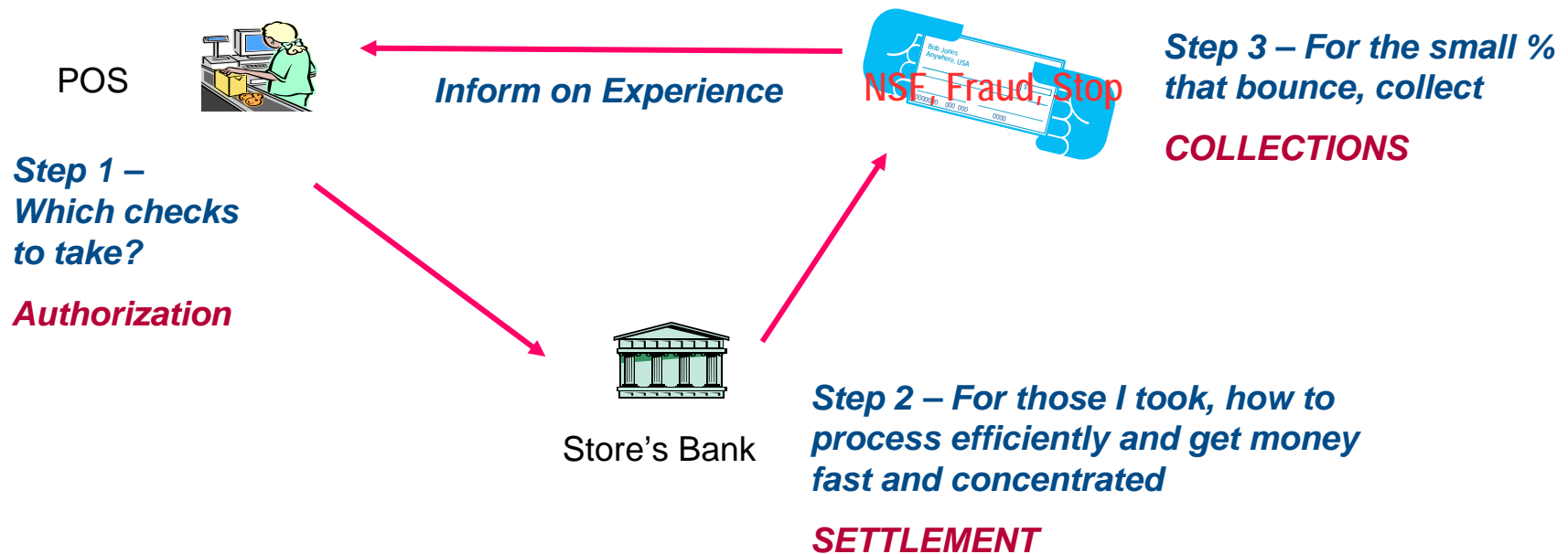
- ▶ Our Focus – Making Every Transaction Electronic

### – **Substantial Decrease in Returns Due to Fraud**



# Merchant Trends in Choosing Check Options

## Current Trend is to Migrate to End-to End Processing – Mostly Electronic

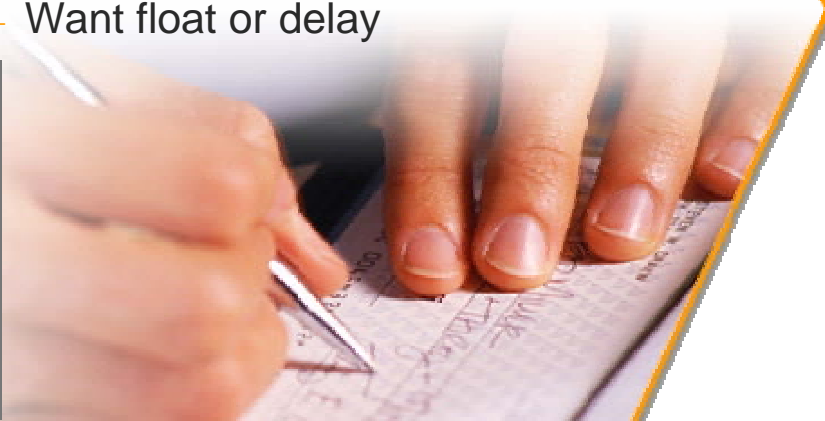




# Electronic Check Processing Options

# Consumer and Merchant Check Trends and Considerations

- ▶ Consumers continue to write checks at the point of sale
- ▶ Top three reasons
  - Habit
  - Receipt record keeping
  - Want float or delay



- ▶ Because of this, merchants continue to offer check payment options to their customers
- ▶ Considerations when offering check options
  - Look at total cost of accepting check payments – not just check losses
  - Warranted / verified checks are seen as lower costs than credit, debit, or unverified checks
  - Electronic checks are now mainstream and growing

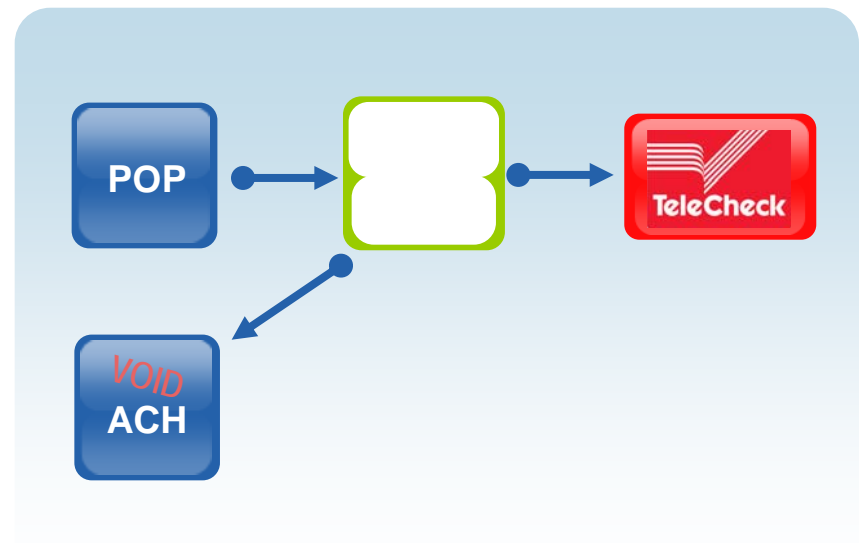
TeleCheck Proprietary Study, "Consumer Payments Usage", 3/2004





## Electronic Check Options – Point-Of-Purchase

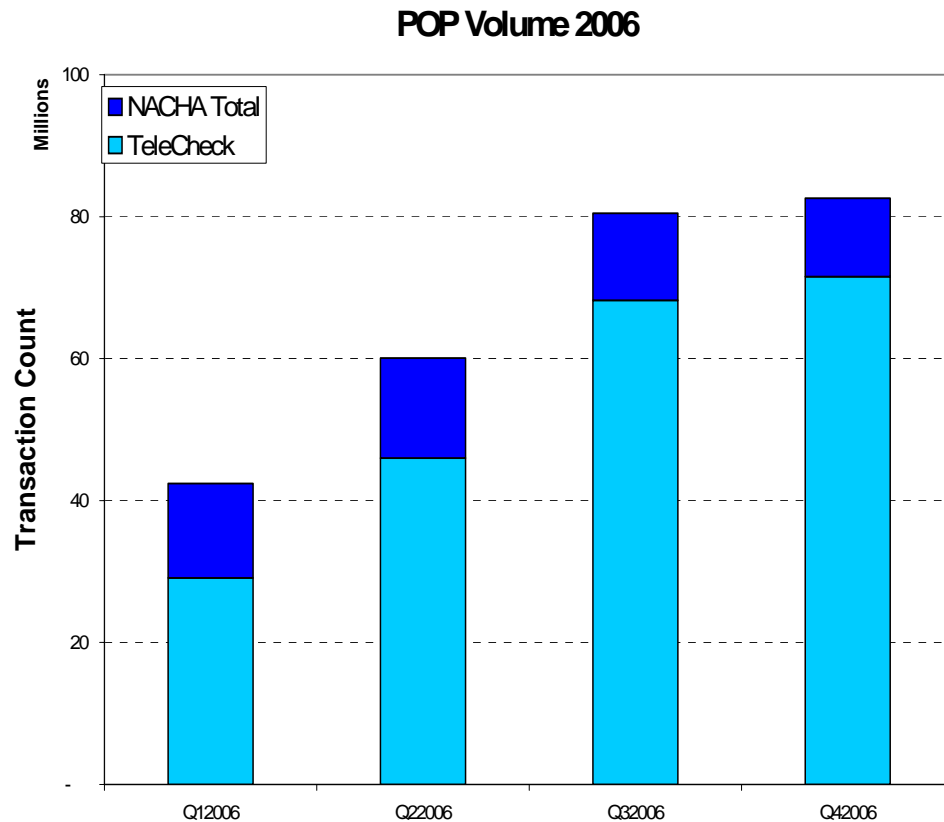
- ▶ Point-of-Purchase (POP) / TeleCheck Electronic Check Acceptance<sup>®</sup> (ECA<sup>®</sup>)
  - Consumer presents check to merchant
  - Merchant authorizes and converts check with TeleCheck
  - Merchant gives check back to consumer
  - TeleCheck processes check as ACH



- ▶ Requires POS Programming
- ▶ No Capital Investment
- ▶ No Storage Facility or Security Process Needed



# POP Check Conversion Volumes – 50%+ Growth in 2006



**Major National retailers are driving the increase in Electronic Check:**

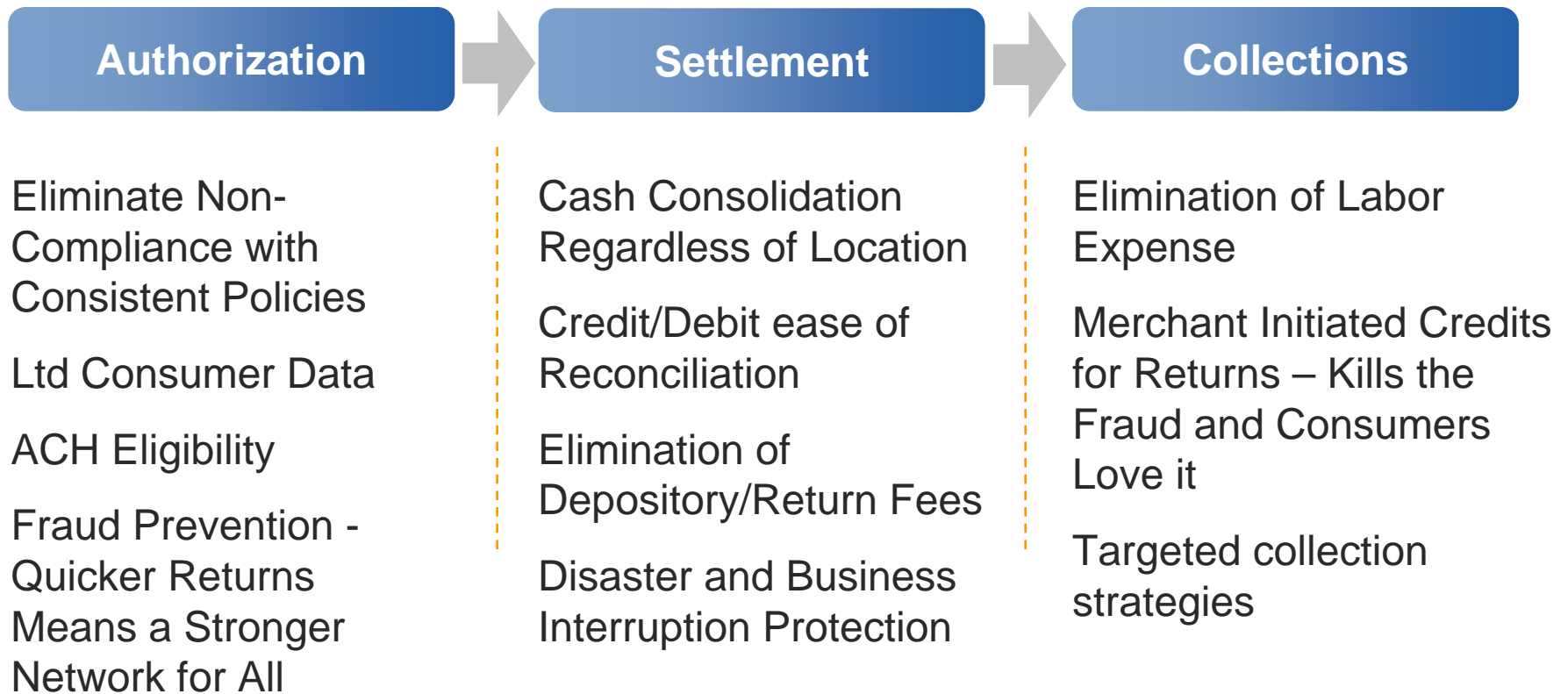
**Wal-Mart  
Office Depot  
AutoZone**

**Specialty and Retailer:  
Bridgestone/Firestone  
Brandsmart  
HR Block  
Mens Wearhouse  
Sprint/Nextel  
New York and Co.**

**Convenience/Small Dollar  
Valero  
Dollar Tree**



# The Merchant Perspective – Why POP Works



**Offering checks as a payment method requires a solution that provides security, speed, and ease with check acceptance.**



# Confusion Related to POP Transactions

## Myth

**High Equipment Costs**

**Customer Confusion**

**Cashier Confusion**

**Lane Speed**

**Checks Are Going Away**

## Reality

**\$0 For Most Multi-Lane Merchants**

**100,000 Locations; Virtually No Issues**

**Minimal Training – Non-Issue**

**Same or Better In a Few Weeks**

**What % of your \$ sales are checks?**



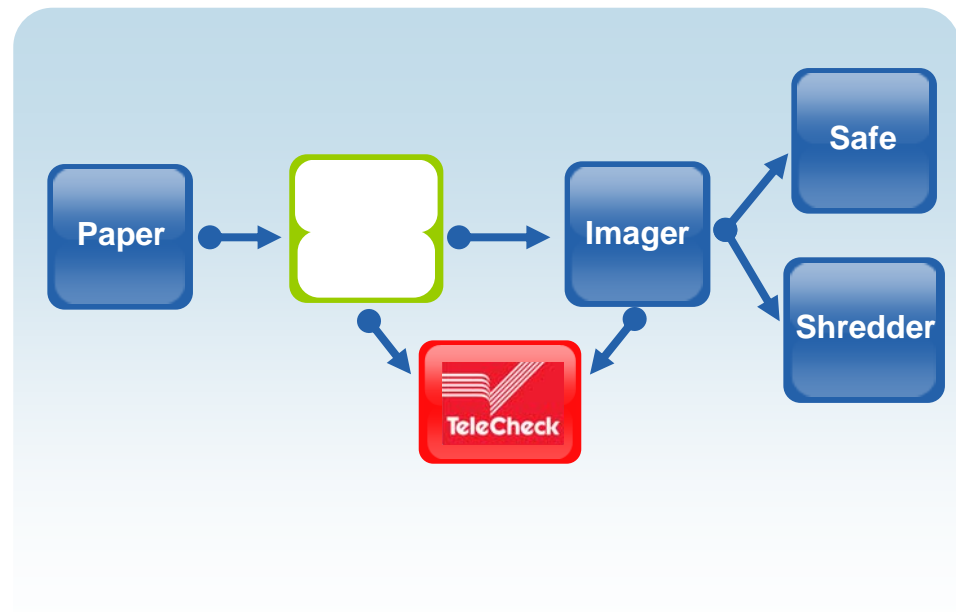
TeleCheck® ECA® adoption numbers provided by TeleCheck averages



# Electronic Check Options – Back Office Conversion (BOC)

## Back Office Conversion (BOC)

- ▶ Consumer presents check to merchant
- ▶ Merchant authorizes check with TeleCheck
- ▶ Merchant consolidates daily checks and scans in batch to TeleCheck
- ▶ TeleCheck processes check as ACH



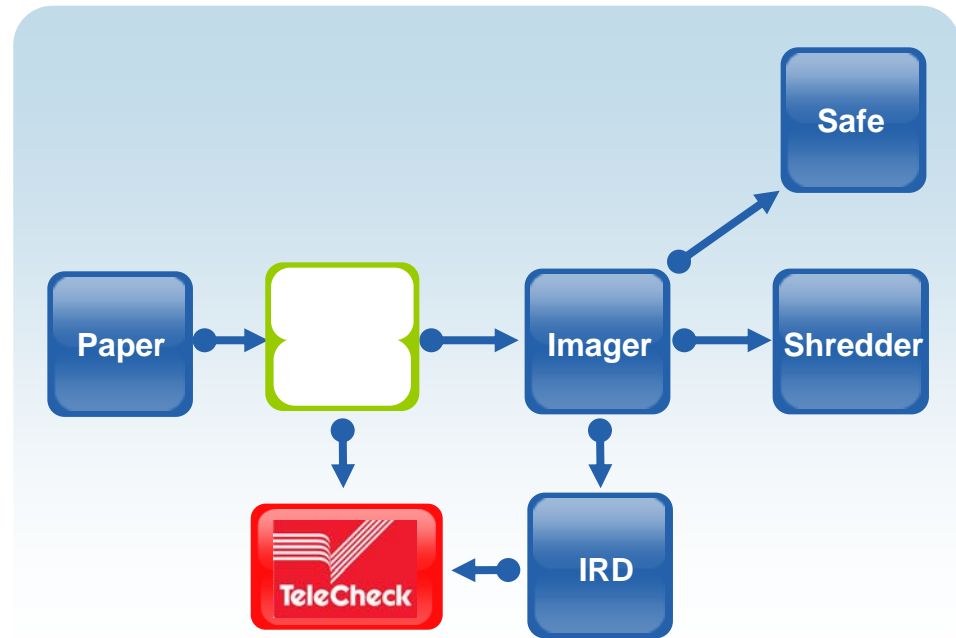
- ▶ Requires Capital Investment
- ▶ Need to Store or Destroy Checks



# Electronic Check Options – Check 21

## Check 21

- ▶ Consumer presents check to merchant
- ▶ Merchant authorizes check with TeleCheck
- ▶ Merchant consolidates daily checks and scans in batch to TeleCheck
- ▶ TeleCheck processes check as Check 21



- ▶ Requires Capital Investment
- ▶ Need to Store or Destroy Checks





# Stopping Fraud In 21<sup>st</sup> Century

# Stopping Fraud

## *People who commit fraud:*

- ▶ Look for easiest target
- ▶ Want predictable patterns
- ▶ Are creative
- ▶ Easily frustrated – path must be easy
- ▶ Looking for cash
  - Gift card
  - Returned merchandise
  - Fenceable items
- ▶ Will be bold
- ▶ Always leave a mark

*Are you a target?*

## *People who stop fraud:*

- ▶ Actively attempt to prevent
- ▶ No discernable pattern
- ▶ Are creative
- ▶ Adapt to pattern of fraud and stop it
- ▶ Understand fraudsters
  - Products
  - Patterns
  - Price points
- ▶ Stand firm on “no”
- ▶ Find the telltale signs

*Who has the pattern?*

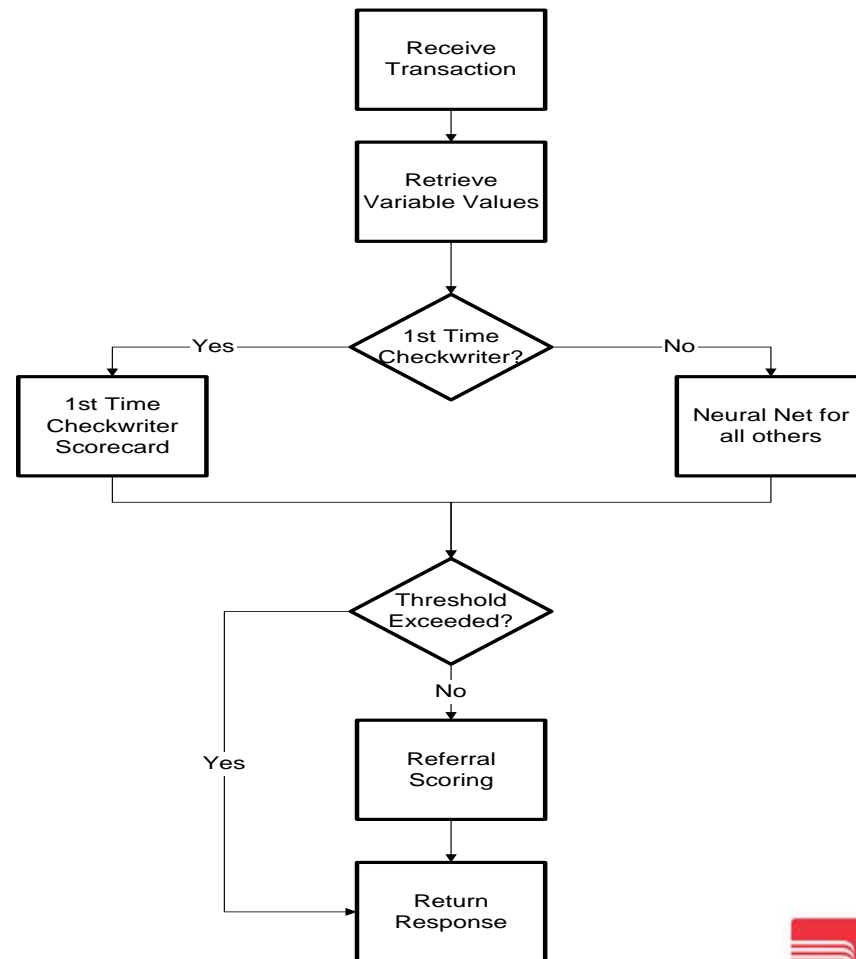
## *Fast Facts:*

- ▶ Three must-haves:
  - System
  - Data
  - People & More people
- ▶ Least accurate declines
  - Negative and Velocity
  - Gut, in-store
- ▶ Most accurate declines
  - Predictive
- ▶ Average fraud is between \$200 - \$450, yet can occur even below \$20

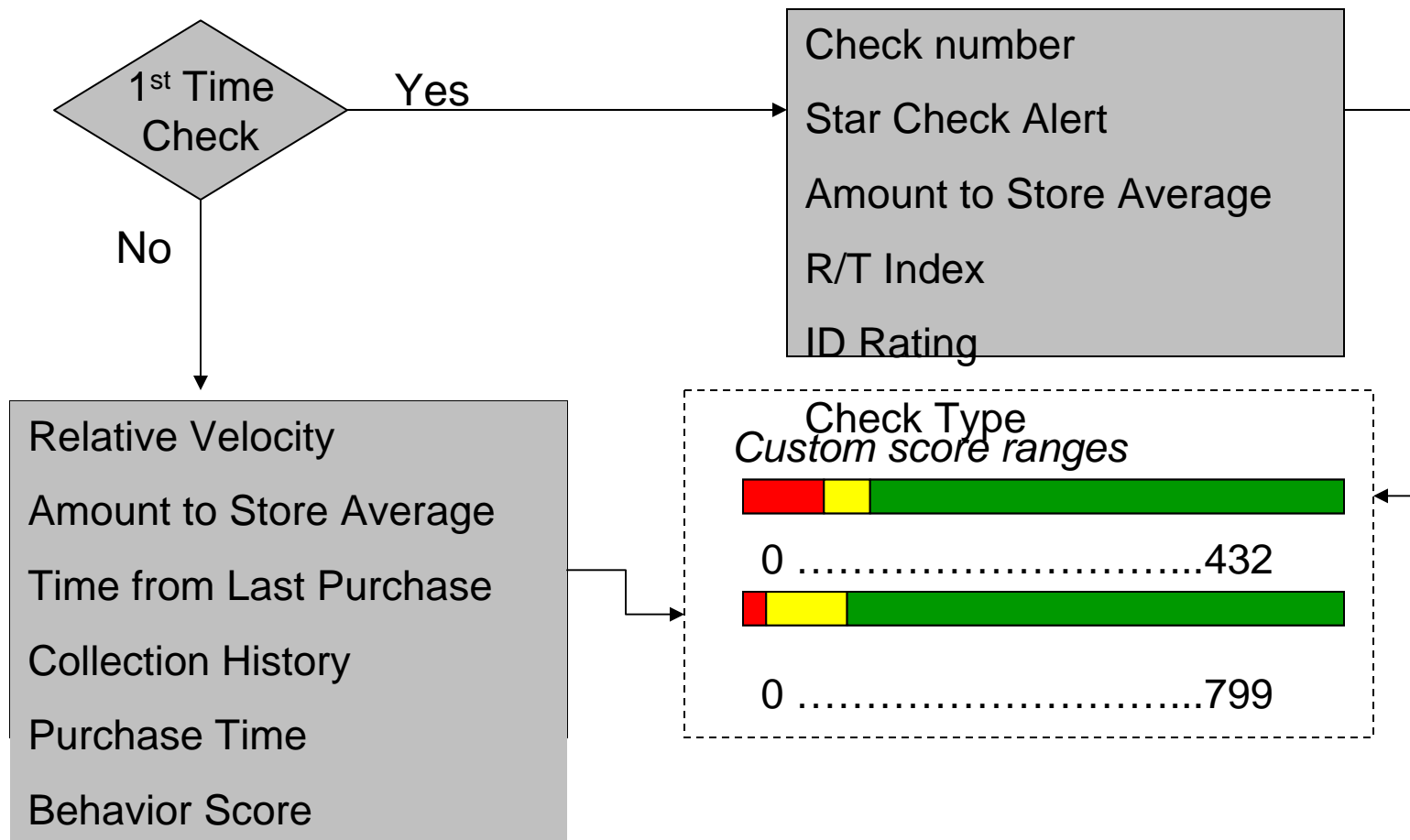


# Adaptive Decisioning – Stopping Fraud Before it Happens

- ▶ Decision flow adapts to transaction
- ▶ Use power of segmentation
- ▶ System Options
  - Set flows
  - Set action and flags
  - Champion/Challenger Models
- ▶ Use Analytics to the fullest
- ▶ Customize by merchant location



# Adaptive Decisioning – Scoring in Real Time



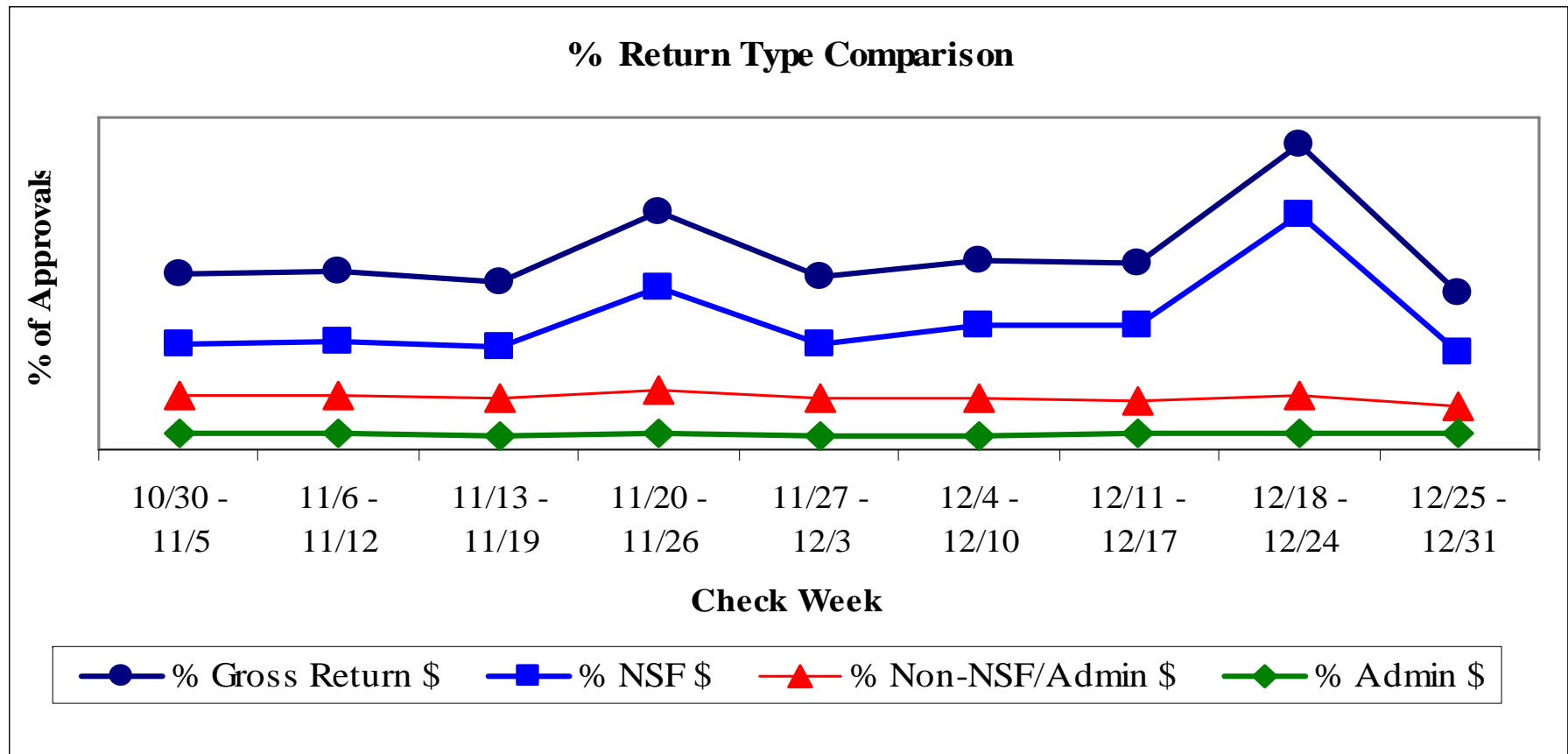
# To Catch A Fraudster

## Example of Fraud Algorithm Declines Issued

Date	Time	BN		DL	Amount	Chk Num
12/09/2006	9:07 AM	BNxxxxxx48191010852	<b>81</b>	AA <b>0671303</b>	\$370.33	4386
12/09/2006	9:56 AM	BNxxxxxx48191010852	<b>82</b>	AB <b>0071803</b>	\$256.26	4387
12/09/2006	4:57 PM	BNxxxxxx48191010852	<b>84</b>	AB <b>0313986</b>	\$226.34	4389
12/10/2006	11:03 AM	BNxxxxxx48191010852	<b>85</b>	AB <b>6313936</b>	\$564.18	4390
12/10/2007	12:57 PM	BNxxxxxx48191010852	<b>86</b>	AB <b>3643936</b>	\$372.00	4391
12/10/2006	2:57 PM	BNxxxxxx48191010852	<b>87</b>	AB <b>6314993</b>	\$258.15	4392
12/10/2006	3:50 PM	BNxxxxxx48191010852	<b>88</b>	AB <b>6313976</b>	\$383.70	4393
12/10/2006	5:00 PM	BNxxxxxx48191010852	<b>89</b>	AB <b>6318986</b>	\$354.26	4394
12/10/2006	6:02 PM	BNxxxxxx48191010852	<b>94</b>	AB <b>2313936</b>	\$363.12	4399
12/10/2006	9:42 PM	BNxxxxxx48191010852	<b>93</b>	AB <b>2318930</b>	\$193.71	4395
12/16/2006	2:43 PM	BNxxxxxx48191010852	<b>92</b>	AB <b>2314993</b>	\$400.00	4397
12/22/2006	5:36 PM	BNxxxxxx48191010852	<b>91</b>	AB <b>5018930</b>	\$390.18	4396
12/20/2006	3:18 PM	BNxxxxxxxxxxxxxxxx0272	<b>54890</b>	CZ <b>B2353131</b>	\$348.00	106
12/20/2006	4:12 PM	BNxxxxxxxxxxxxxxxx272	<b>75490</b>	CZ <b>A5531313</b>	\$211.61	103
12/20/2006	9:32 PM	BNxxxxxxxxxxxxxxxx27	<b>754890</b>	CZ <b>B5423134</b>	\$288.67	108
12/21/2006	1:18 PM	BNxxxxxxxxxxxxxxxx272	<b>4890</b>	CZ <b>B5943348</b>	\$280.55	1153
12/21/2006	6:20 PM	BNxxxxxxxxxxxxxxxx272	<b>757890</b>	CZ <b>A7417848</b>	\$226.54	2207
12/22/2006	11:24 AM	BNxxxxxxxxxxxxxxxx272	<b>7580</b>	CZ <b>A6454843</b>	\$197.87	208
12/22/2006	11:29 AM	BNxxxxxxxxxxxxxxxx272	<b>7480</b>	CZ <b>A5534348</b>	\$189.98	157
12/22/2006	11:30 AM	BNxxxxxxxxxxxxxxxx272	<b>7480</b>	CZ <b>A5534348</b>	\$189.98	157
12/22/2006	12:46 PM	BNxxxxxxxxxxxxxxxx272	<b>5490</b>		\$198.12	210
12/22/2006	1:47 PM	BNxxxxxxxxxxxxxxxx27	<b>5490</b>	CZ <b>A6451313</b>	\$199.96	211
12/22/2006	5:15 PM	BNxxxxxxxxxxxxxxxx2727	<b>540</b>	CZ <b>B5423131</b>	\$188.39	162
12/22/2006	5:16 PM	BNxxxxxxxxxxxxxxxx2727	<b>540</b>	CZ <b>B5423131</b>	\$188.39	162
12/22/2006	6:46 PM	BNxxxxxxxxxxxxxxxx272	<b>580</b>	CZ <b>B5423134</b>	\$200.00	160



# Making the Right Decision at POS – Protecting Customers



# Summary

- ▶ **Checks are Decreasing at an Accelerated Rate – Still Important at POS**
- ▶ **Merchants are:**
  - **Adopting Electronic Check to Reduce Back Office Costs, Banking Costs and Provide Cash Flow Benefits**
  - **Transitioning the Risk of Checks to Check Acceptance Providers**
  - **Experimenting with alternative DDA access products**
- ▶ **Non-Authorized Fraud is on the RISE – And Will Get Worse**
- ▶ **Financial Institutions will Continue to Try to Exchange Images To Eliminate Costly Check Processing Infrastructure**

## **Most Common Solution**

*Electronic, Warranted Check With End-to-End Support*





Thank You.