

Checks as Single-Use Debit Cards

Changes in ACH rules turn **POS check acceptance** into credit card processing

BY PATRICIA A. MURPHY



check fraud is a multi-billion dollar drain on retailing revenues that increases even as consumer check usage wanes. “Every retailer has challenges with bad checks,” says John Swygert, CFO for Ollie’s Bargain Outlet. Headquartered in Harrisburg, Pa., Ollie’s operates 48 stores that sell closeout, surplus and salvaged merchandise and is the first multi-lane retailer to implement an enhanced line of check services from Nova Information Systems.

Leveraging recent changes in check handling rules, along with enhanced risk analysis and back-office check imaging capabilities, Nova’s new electronic check service (ECS) makes POS check acceptance at multi-lane retailers as safe and efficient as accepting card payments, says vice president for strategic market development Amy Gutierrez. “We’ve designed it to mirror the credit card process,” right down to the account funding process.

Faster access to funds ranks high on the list of benefits Ollie’s has reaped since rolling out ECS across the entire chain in October. Another benefit: “Our checks no longer go to the bank,” Swygert says. That’s because the checks customers present for payment are transformed into electronic payments in the back office.

Sales associates handle checks as they always have – running the paper through existing POS MICR readers to support real-time authorization and/or guarantee routines, then placing it in the cash drawer. But instead of preparing paper check deposits and trundling them to local banks, Ollie’s store managers run each day’s checks through high-speed check-imaging devices, uploading the images to Nova.

After receiving uploads of imaged

checks, Nova determines how best to clear each payment: direct debiting of a customer’s checking account; image-based check clearing; or converting checks to electronic debits that clear through the ACH system. Nova manages the entire process, including all exceptions handling, invisible to merchants and customers.

Evolving rules changes

The appeal of ACH to retailers has been limited by rules requiring cashiers to return checks to customers once the information needed to create an ACH debit is captured and the paper is marked “void.” The voided check serves as written disclosure that the paper check was used to create an electronic payment.

But returning voided checks to customers renders merchants vulnerable to bad checks, absent investments in POS imaging technologies and staff retraining. POS check conversion also can create troubling fraud opportunities, as Houston police discovered last year when they broke up a scam in which fraudsters were re-using checks that had been converted to electronic debits.

Many of the problems should be eliminated beginning next month, when new ACH rules allowing merchants to accept

checks for batch handling of the conversion process later in a back-office environment go into effect. In lieu of handing back voided checks, the new rules say a merchant need only post a sign at check-out informing consumers that checks may be converted to electronic debits.

One sticking point of ACH check conversion that doesn’t change is that only consumer checks qualify for the process. Nova’s ECS overcomes this and any remaining challenges to check conversion by supercharging the service with image-based electronic check clearing and direct debit access to nearly a third of Americans’ checking accounts. With all of the clearing and presentment done electronically, paper checks effectively become single-use debit cards.

Nova’s ECS service employs enhanced decisioning tools for real-time authorization using existing POS MICR terminals, as well as to support check guarantee options. All of the decisioning is invisible to cashiers and customers, and the all-in per-transaction cost for ECS is generally less than the cost of accepting credit cards, Gutierrez says.

ECS guarantee services – which Gutierrez likens to traditional check guarantee “on steroids” because it relies on real-time, online access to checking accounts – are priced at a percentage of check amount, the same as with paper checks. “We can even cater our risk services down to the individual store level,” she says.

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