

Why Your Company Should Consider Lockbox Services

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Though introduced decades ago, bank lockbox services remain relevant today and continue to provide an array of benefits to companies worldwide. In addition to enhancing cash flow, lockbox services can also increase efficiency in data processing, offer greater security, and more.

A Prevalent Payment Option

Despite the growth of electronic payment alternatives, such as credit cards and Automated Clearing House (ACH) payments, a recent AFP Electronic Payments Survey indicated that a typical organization still receives 44% of its B2B payments by check.¹ The prevalence of check payments means that lockbox remains a relevant and valuable cash management service for many companies.

A lockbox service may use one or more U.S. Postal Service P.O. box addresses—or even separate facilities across the country—to collect check payments sent to a company. By positioning lockboxes at central, high-volume postal facilities, banks can make multiple pick-ups and deposits in a day. This accelerates processing time and allows lockbox customers to receive both credit and data information for the payments one or more days sooner than if they had checks mailed to their physical address or to a local P.O. box for pick-up on their own.

This enhanced efficiency is particularly useful for companies that have a dedicated staff for processing check payments and physically delivering them to

the bank for deposit. Lockbox services have enabled companies to redeploy accounting staff to higher-value tasks, in addition to saving time.

Avoid Fraud and Enhance Payment Data

An outsourced lockbox solution contains built-in secure processing and can help minimize fraud concerns. It increases payment security by decreasing the potential for internal check fraud perpetrated by accounting staff who have access to information that could be used to circumvent internal controls. While outfitting a facility with up-to-date controls—such as security cameras and key card access—can come at a significant cost and take capital away from a company's core operations, a lockbox system is a comparably inexpensive preventative measure.

While efficiency and security benefits have always been available to lockbox users, today's superior image capturing and information processing systems harness data enrichment to provide greater advantages. Both

front and back check images, payment stubs, and even the envelopes themselves can be digitized and stored by the bank for several years. Lockbox software can detect and segment basic data beyond the amount of the payment, but also the identity of the remitter, invoice numbers, and account codes. Handwritten notations accompanying payments are also digitally preserved and accessible.

Payment data is securely transmitted to a company's accounts receivable (A/R) and general ledger systems, eliminating the need for information to be manually entered.

Leverage New Technology

Today's lockbox systems have advanced technology that can help identify problematic checks and accelerate payment posting processes.

For example, when payment envelopes arrive at the lockbox without checks or if inconsistencies occur between the invoice and enclosed checks, lockbox systems can automatically detect and flag these "exceptions." If a check contains a minor flaw that causes it to be rejected by the system, it will be physically diverted to an "exception" slot and processed manually, if possible. Exception items can also be reported to customers, online or otherwise, allowing them to decide and to direct the

bank to process these items. This reduces the number of exceptions sent back to the customer and speeds check processing.

Lockbox systems can also perform certain analytical functions. For example, the system can be programmed to recognize when a customer has taken advantage of an early payment discount. Along similar lines, the system can also track late payment patterns and important information for a bank's periodic customer credit review.

Who's a Good Candidate for Lockbox Services?

The economics of a lockbox service are particularly favorable for companies that receive a high volume of checks, particularly those with customers who submit them on a regular basis. Property management companies with a monthly stream of rent payments are common lockbox users, along with utilities and insurance companies.

However, thanks to the ever-growing efficiency of lockbox providers, these services are often economical for companies with lower check volumes as well. Companies that receive a low volume of monthly check payments but for large dollar amounts are also potential candidates for lockbox.

To learn more about lockbox services and whether your company could benefit from them, please contact your Santander relationship manager.

¹2016 AFP Electronic Payments Survey, results available at: www.afponline.org/epayments



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