THE SPEED OF
AUTOMATION

Payment processing systems offer agencies
increased flexibility and streamlined workflow

By Anne Rosso

As consumers hunker down to weather the turbulent economy and collection professionals struggle to improve or even just maintain current recovery rates, the last thing agency owners want to worry about is how long it will take to process payments once consumers agree to settle their accounts. Automating the collection process from start to finish can save collection agencies both time and money, and payment processing products increasingly play a big part in that effort.

Payment processing companies can help streamline collection agency functions by eliminating many of the manual work involved in the payment process and allowing agencies to offer multiple payment options to consumers. Checks, debit card payments and credit card payments can be taken over the telephone, Internet or an IVR system. Additionally, payment processing products can be seamlessly integrated with collection software systems, enabling agencies to manage the entire collection process through one application.

Payment processing vendors can not only help you accept the payment, but they can post it, too, reducing the legwork behind manually posting new payments and ensuring returned items are represented quickly and efficiently for funding.

"Traditionally, collection agencies have limited consumer payment options to cash, cashier's checks and money orders," said Bonnie Finley, vice president of specialized sales for the collection industry at EFT Network in Hawthorne, N.Y. "The emergence of electronic payment technologies has helped payment processing companies assist agencies in providing a variety of electronic payment options to consumers—simplifying their payment process while dramatically increasing recovery rates and procedural efficiency."

Gary Adams, president/CEO of Advanced Payment Systems in Douglasville, Ga., estimated that more than 75 percent of collection agencies currently use some form of payment processing service. He noted there are still some agencies, though, that operate without one—taking payments from consumers over the phone, printing their own drafts and taking those drafts to the bank.

"You can imagine how much that slows down the process," Adams said. "Especially when, with a payment processing company, you could take payment information over the phone, enter it into the payment processing system that you have chosen to utilize, and never have to do anything else. No paper, no waiting, no time away from the office."

Electronic Check Payments

In spite of the numerous payment options available to consumers, good old-fashioned checks are most likely still a staple of your business. Today, however, collection agencies can use electronic payment data transmission and image capture technologies to more quickly and efficiently process traditional paper checks.

The Automated Clearing House (ACH) network links financial institutions across the United States to help businesses transmit funds electronically and debit consumer bank accounts for single or recurring payments. It's an increasingly popular system: More than 18 billion ACH payments were made in 2007, a 12.6 percent increase from 2006, according to NACHA—The Electronic Payments Association.

To use ACH processing with paper checks, agencies simply enter the information from the check into the payment processing system. Payment processing companies can help agencies search, view or duplicate any ACH transaction and are often able to batch track and view transaction status in real-time. ACH processing takes place 24

hours a day and can be integrated with most collection software systems.

Agencies can also use the ACH network to receive and process payments by telephone. In this case, the consumer would grant a one-time authorization for the agency to withdraw funds from the customer's account and deposit the money into the collection agency's account. Transactions are processed as TEL debit transactions. This process also allows for automatic recurring billing from a consumer's bank account, if the consumer wishes.

Web checks, also known as e-checks or Internet checks, enable agencies to process online electronic check transactions directly from their Web site. Web checks are governed by NACHA and can bounce just like paper checks. Consumers can pay by entering the requested bank and account information on the agency's Web site. Some payment processing companies even offer interfaces that look like a traditional paper check so customers can easily identify the information they are required to enter.

"Web check payments are gaining in popularity," Finley said. "We now receive more inquiries from agencies regarding Web checks than any other electronic payment method. A significant portion of the population either doesn't have a credit card or have reached their credit limit. However, almost everyone has access to a checking or savings account."

The Check Clearing for the 21st Century Act (Check 21) provides another way for agencies to process paper checks. Most payment processing companies offer remote check capture applications, which allow agencies to use an integrated scanner to create a digital version of each paper check they receive in order to deposit checks electronically through the payment processing company. This decreases fund transfer times and the amount of manual labor required to process paper drafts, reduces
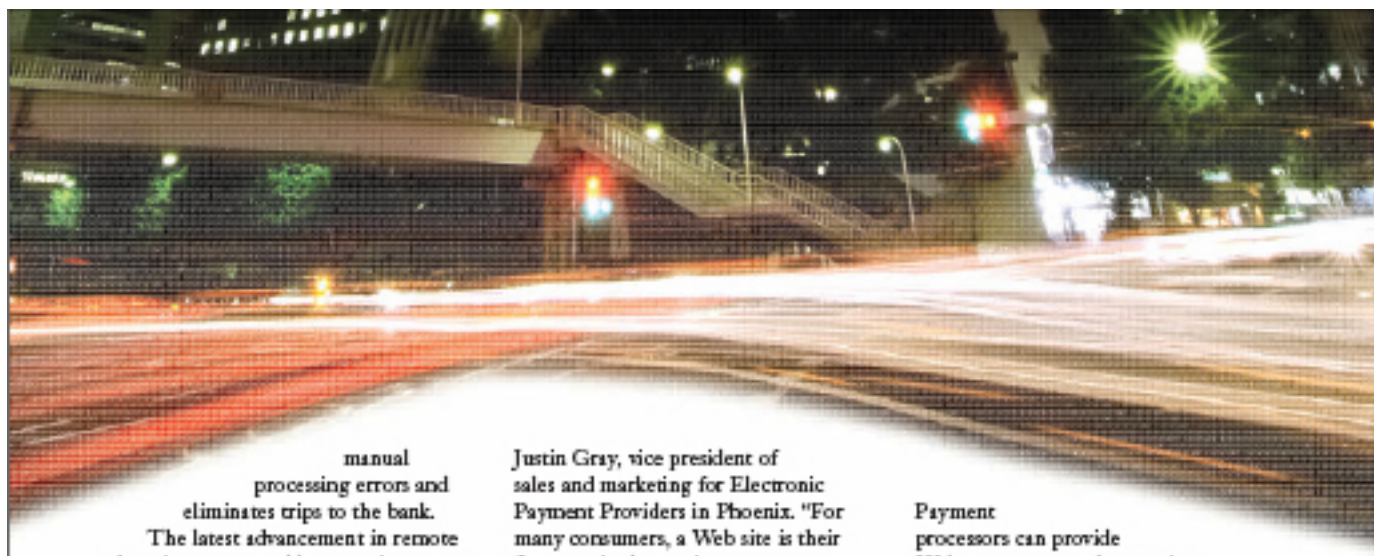
manual processing errors and eliminates trips to the bank.

The latest advancement in remote deposit capture enables agencies to use a fax machine for check imaging rather than a scanner. Finley noted that while this technology is currently patent-pending, it may be an affordable alternative for many collection agencies.

Additionally, payment processing companies can help collection agencies quickly process bounced checks. The agency's bank forwards the returned checks to the payment processing center, which converts them into electronic transactions and represents them electronically via the ACH network. The checks can be represented to the consumer's bank for payment within just a few days. Payment processing companies can even help agencies avoid nonsufficient fund fees altogether by setting up a check verification program, which enables agencies to verify the availability of funds for a transaction.

According to Electronic Payment Providers, electronic check representment and recovery results in 40 percent to 50 percent higher collection rates over manual check collection methods.

Online Payments

Web sites and online payment portals continue to gobble up a large piece of the payment pie. "Online payment solutions have drastically shaped consumer preferences and have far outpaced traditional remittance channels, not only in terms of convenience but also in exposure," said Justin Gray, vice president of sales and marketing for Electronic Payment Providers in Phoenix. "For many consumers, a Web site is their first stop in the remittance process, whether driven by technology preference or electronic billing. Customers often view paper or telephone transactions as a last resort."

Consumers today not only want online payment options, they expect them. According to a 2008 survey sponsored by CheckFree, 47.9 million U.S. households use biller Web sites to pay bills, and online bill payments made at both bank and biller Web sites rose to 42 percent of the total volume of household bill payments made each month, up from 39 percent in CheckFree's 2007 survey.

Online payment channels are appealing to consumers because they can be accessed 24 hours a day and eliminate the need to speak directly with a collector. For agencies, they can help increase recovery rates while reducing labor costs and remittance-processing expenses.

"When an agency takes on an account and submits an initial validation notice to a consumer, the response may vary," said Jennifer Brummett, collection industry specialist and project manager for Advanced Payment Systems. "But if the consumer is able to go online to schedule a payment, then essentially you could secure payment just from that one validation notice without having to roll out further collection efforts."

Agencies can handle online payments though their Web site or use a vendor's Web portal as a stand-alone site.

Payment processors can provide Web payment portals or entire hosted sites designed for the look and feel of the agency. Most sites let consumers review their balance and select their preferred method of payment. Portals can also be customized to dictate how the information is presented and what each consumer sees on the page. Online debt negotiation is also an option through some vendors.

"There may be a minimum payment that is acceptable for each consumer, for example," Brummett said. "Sometimes a debtor may have multiple debts they have to apply payment for. We work with clients to customize their debt negotiation suite to offer the opportunity to settle that payment or settle with a payment plan based upon the debtor's profile and each individual client."

Consumers can use Web checks, credit cards or debit cards to make an online payment, the latter of which now surpasses credit cards as the most frequently used electronic payment type, according to a 2007 Federal Reserve study.

"Payment via ATM bankcard is the next new payment tool for agencies to utilize," said Stephen Price, general partner for Regal Technologies in New Market, Md. "Bankcard transactions are secure, instant and guarantee funds at next to no cost to the agency."

Credit Card Payments

Americans have long relied on plastic to make purchases and cover expenses,

and many expect to do the same to pay off their delinquent accounts with collection agencies.

Adams said his company receives more requests for credit card services than anything else because most collection agencies have such a hard time finding a company to provide them with a merchant account.

"Most providers out there will not do a credit card merchant account for a collection agency," Adams said, pointing to Visa and Mastercard's stringent rules and requirements for collection agencies. Credit issuers categorize collection agencies as "high-risk."

"A lot of it is the perception that it's risky to offer an account to an agency because they think there's going to be a high incidence of fraud and charge-back," Adams said. "But this is a misconception. Some of the agencies we've provided services for have had some of the lowest charge-back ratios of any industry we've been involved in."

Agencies that choose to offer credit cards as a payment option should seek a payment processor with experience in the collection industry.

IVR Payments

Several payment processing companies offer Interactive Voice Response (IVR) payment portals, which route in-bound calls through a programmed telephone menu. Consumers hear a pre-recorded interactive message that relays account data and allows them to make a full or partial payment on their account via touch-tone prompts.

Gray said though IVR is still in its infancy, it has shown promise amongst the early-adapters and is a successful and economic alternative to traditional collection methods.

Adams noted that IVR may not be currently popular due to consumer perception that automated systems are impersonal and confusing.

"IVR is probably the least requested service we offer," Adams said. "It was popular some years ago, but interest in it has diminished a great deal."

What To Look For in a Payment Processor

A collection agency should be able to rely on just one vendor to meet all of its payment processing needs. However, not all payment processing companies are familiar with the collection industry, which differs dramatically from the traditional retail market. Make sure the company you're interested in is well-versed in the needs and challenges of a collection agency.

"I've heard of several agencies that went looking for a payment processing company, but the salesperson for that company never communicated with the agency that there would be a problem with them being a collection agency," Adams said. "I've had agencies come to me who have been underwritten, approved and processed, and only then did the payment processor realize what they do and cut them off because they don't work with collection agencies. And when that happens, either the processor or Visa and Mastercard may not only terminate the agency's account, but they may blacklist the agency so it can't ever acquire a merchant account again."

As with most vendor partnerships, it's also important to request client references. Ask to speak with a few of the company's collection agency clients to get a sense of how well the applications are working for other industry members.

Verify the company's credentials and security measures. Payment processing companies must use the latest encryption and security tools to ensure your payment data is secure. What tools does the company use to protect sensitive information, such as bank account and credit card numbers? Is everything encrypted? Does the company offer fraud detection for Web payments? How does the company store its data and what exactly does it store? Does the company maintain a comprehensive emergency disaster recovery plan?

Compliance with SAS 70 and the Health Insurance Portability and Accountability Act are important, as is compliance with PCI standards, Visa's Cardholder Information Security Program and MasterCard's SDP Program, if your agency accepts credit cards.

Customer service also plays a key role in the selection process. Will you have a personal contact at the company if there is an issue or concern? Does the vendor offer 24-hour tech support? Can the vendor help you process transactions outside standard business hours?

The vendor must be able to accept files from your collection software. Find out if and how the vendor's products can be integrated into your specific system. The end results should allow real-time data flow and payment approvals.

"The more seamless the transition to electronic payments is, the shorter the adoption cycle which means less training, fewer management headaches and ultimately a more homogenous environment," Gray said.

Your payment system should be able to change quickly and seamlessly to accommodate increased transaction volumes, so your system grows as your business grows. Ask not only if the vendor can set up the payment options you need, but whether it can customize its options for your specific agency. Does it work with all the leading Internet merchant accounts, allowing you to switch your banking relationship and not have to worry about installing new software or performing new integrations?

The payment processing software should be easy to use and efficient—if it doesn't help simplify your payment process, there's no point in having it. How long will it take to get started with services? Will the setup period necessitate any downtime for your business? Aside from the basic cost of the system, find out if there are any additional setup fees or minimum processing fees. Some companies charge a monthly maintenance fee for certain functions, such as IVR.

Take a look at your wants and needs. How is your current payment processing set up? How do you want your transactions run? Do you want each transaction to run in real-time or do you want everything uploaded in a batch at the end of the day by your accounting department?

By carefully examining your current operations and technology, as well as your business goals, you will be better able to communicate exactly what you want and need from a payment processor.

"The more I understand about your needs and procedures and business model, the better," Brummett said. "Then I can determine which of our processors, providers and programs is the best fit for you." cm

Anne Rosso is associate editor of *Collector*.