



BSG

BANKING SERVICES NEWSLETTER

University of California • Office of the President • Banking Services Group

March 2004

Keeping You Up-to-Date on Banking Developments Throughout the UC System

We bring you this newsletter to share news, ideas, successes, and lessons learned in the Banking Services area.

Our Mission

1. Provide oversight, expertise, and leadership system-wide with respect to banking and related services used in the administration of UC funds. Recommend policies and services that promote "best practices" for all UC organizations.
2. Support clients (campuses, medical centers, labs, other UC departments) in their needs and in support of their goals by maintaining high levels of customer focus, by being responsive, and being effective in matching organizational needs with appropriate service providers.
3. Manage banking and related vendor relationships to ensure optimal pricing, consistently high levels of service and state-of-the-art services.
4. Fulfill the duties of the President, as described in the Standing Orders of the Regents, with respect to:
 - Vendor selection for banking, credit card, and related services;
 - Bank account administration and control;
 - Bank system oversight;
 - Contract negotiation and execution for services used in the administration of UC funds.



Treasury Cost Reduction Initiatives

Given our collective charge to be good stewards of public funds, University of California employees with fiscal responsibility are continually looking for ways to increase service quality, ensure appropriate internal controls and reduce costs related to operations. With the current state of tight budget conditions, we are more focused than ever on exploring ways to further advance our stewardship roles. In the Treasury area, the Banking Services Group, in coordination with key customer groups from around the University of California system, is working on several revenue enhancement and cost reduction initiatives. The following is a brief summary of some of the opportunities that are being pursued.

PURCHASE CARD PROGRAM

Each campus and laboratory has implemented a purchase card program to maximize efforts to procure low value items. In addition to the operational benefit of streamlining paperwork for these types of transactions, the purchase card program provides valuable incentive dollars that flow directly back to each participating program. As you may know, the Banking Services Group helped lead a University-wide Commodity Team that recently surveyed the market to find a partner that will provide us with the latest technology and ensure the highest level of controls surrounding the card program, as well as to generate the greatest opportunity for incentive dollars. Coupled with recent advances in the University's Strategic Sourcing Initiative, the new purchase card program is poised to further reduce administrative expenses related to low dollar and vendor contract purchases, which will in turn increase revenue opportunities through higher volumes and beneficial incentive formulas.

What's New...



ACCEPTING CREDIT CARDS FOR TUITION AND FEES

Campuses are investigating ways to streamline the process of presenting invoices and collecting payments for student fees. Last year, a document was issued to provide guidance on how to minimize costs related to accepting credit cards for these types of fees. While several campuses have been working in this area for some time, other campuses have expressed interest in further developing this functionality. The Banking Services Group coordinated a series of cost effective web demonstrations with potential service providers for web bill presentment and payment, giving interested University employees a chance to learn more about current technologies and capabilities. A request for proposal has been issued, which should result in selecting a solution that will be efficient and cost effective for the various campus needs.

BANKING FEES

Fees for depository and disbursement accounts represent a significant cost to the University. These costs can be controlled and, in some cases, reduced through analysis and monitoring. The Banking Services Group has recently implemented a system to electronically analyze all banking fees for appropriateness and compliance with contract terms and conditions. In the event that bank fee invoices appear to be in error, the banks are contacted and appropriate adjustments are made. Each month, campuses and some laboratories receive reports of this analysis to help better understand where fees are incurred.

In addition, the Banking Services Group has formalized the practice of reviewing our pricing annually with our partner banks. In many cases, through this annual negotiation process, the banks are reducing fees to reflect overall transaction volume and the value of the University of California banking relationship.

CREDIT CARD MERCHANT FEES

The University of California has over 750 separate merchant locations that accept credit cards as payment for services or merchandise. Although maximum pricing discounts are negotiated centrally with Chase Merchant Services, these discounts can quickly erode and cause higher than necessary costs if merchants accept cards

using methods that are less than optimal. The Banking Services Group is working with Chase Merchant Services to create reports that will help campuses analyze merchant acceptance issues, propose improvement strategies, and reduce costs.

As with many other initiatives across the University system, successful execution will require your guidance and assistance. If you have any questions about these items, or have suggestions for additional areas to pursue in the treasury area, please do not hesitate to contact a representative from the Banking Services Group.

New Stop Pay Release Policy

Effective immediately, only bank account check signers can have the ability to release a stop payment order on a check. In other words, if a stop payment has been placed on a check and then it is later determined that the stop payment order should be cancelled, only check signers will be able to release the stop payment order with the bank. Typically, these functions are performed via CEO, the online system provided by Wells Fargo Bank.

To set up an individual with stop pay release authority, the request must be made through UCOP Banking Services. All other stop payment functionality can be requested directly with the bank. The University considers releasing a stop payment to be the equivalent of issuing a check, and therefore, UCOP must authorize this functionality.

Please contact Charissa Ha or Jeffrey Donahue for more information.

We have Updated Our Website!

Looking for an ACH Primer or want to know what a Lockbox is? Then check out our updated website...For up-to-date reference materials, including service descriptions, forms, and helpful links, please visit our website:

<http://www.ucop.edu/finmgt/banking/welcome.html>



Strategic Sourcing Initiatives

Formerly the Material Management group at UCOP, Financial Management has re-engineered this function to what is now Strategic Sourcing. As a vision to add value to all of UC, it is based on a successful model used in progressive organizations (including several UC campuses). Although this system-wide, collaborative Strategic Sourcing function is not yet fully staffed, it is already benefiting UC!

Strategic Sourcing Mission:

To develop and implement an effective system-wide, collaborative purchasing process designed to increase customer satisfaction (by enhancing product quality and internal service levels) and significantly lowering total cost by coordinating and leveraging common purchases across the UC system.

The new group, led by Stuart Davis, has hit the ground running and is involved in not only products like dormitory furniture, but also services. Banking services is working very closely with them on several projects, including the Procurement Card and Web Payment of Student Fees initiatives. We are very excited about this new function.

Fraudulent E-mails

Recently, we have been made aware that a number of fraudulent emails were sent to random individuals, asking them to take action on their bank account. Perpetrators have "masked" emails so that they appear to have come from various financial institutions and have sent them to unsuspecting individuals, whether or not they were actual bank customers. These emails have usually contained instructions to follow a given link to enter some personal information in order to validate, activate or confirm a bank account. Although the link appears to be directed to a bank's web page, it actually points to a page designed by the perpetrator to collect the requested data, possibly to be used for fraudulent purposes. Since a link can display any text, the visible text may not necessarily point to the actual web address that is imbedded.

Should you receive any such email or question an email's authenticity, do not click on the link or take any action. Rather, please contact the Banking Services Group or the sender/bank directly.

Procurement Card RFP Update/Status

We anticipate that the Procurement Card contract with U.S. Bank will be executed by mid- April. The contract has a five-year term and in total, is expected to be used for more than one billion dollars in purchases. Though the incentives earned by using the card are substantial, procurement professionals note that the more significant savings are achieved through reduced paperwork and more efficient processes. In recognition of the need to maintain exemplary internal control over this process, the Bus 43 Manual has been revised to include a new section (8). If you are responsible for any facet of the Procurement Card Program, please make sure you are familiar with the new policy requirements:

<http://www.ucop.edu/ucophome/policies/bfb/bus43r.pdf>

One of the benefits identified by the Commodity Team (*see December 2003 Newsletter for more information*) was that U.S. Bank is also our preferred Travel and Entertainment Card partner. We are expecting to benefit from the common partner. One negotiated benefit has already been achieved. We will receive incentives for the corporate liability portion of the T&E program based on the Procurement Card Incentive Schedule. For more information on this program, contact Banking Services or your Procurement Card Administrator.

Web Payment of Student Fees

The RFP for Web Bill Presentment and Payment of Student Fees for UC Berkeley, UC Davis, and UC Irvine was issued to 10 vendors on March 2. Eight proposals were received by the March 29th due date. The solutions proposed will enable these campuses to present to and/or allow their students to pay their monthly billing statements over the web, beginning in Fall 2004. Because of differences between the campuses and their desired solutions, multiple vendors may be selected through this RFP process. The contract(s) that result from this RFP are expected to benefit future activity that may come from campuses that do not currently have solutions for web bill presentment and payment, but will in the future. Please contact Stephanie Dang if you have any questions.

Alternative Payment Systems/Stored Value Cards

In response to recent inquiries, BSG has taken a closer look at alternative payment systems that might be available for use by campus and medical center departments. Particular attention has been directed toward the possible use of Stored Value or Prepaid Card programs that are currently offered by a number of vendors. Also known as gift, payroll, and campus cards, these prepaid cards are typically available as general-use disposable cards or "reloadable" cards that provide users with access to cash at ATM and POS terminals.

Stored Value Cards have been used with some success by organizations by their "unbanked" employees who cannot accept payroll disbursements through the more conventional and favored means of electronic direct deposit. Stored Value or Payroll cards are also seen, in some cases, as a relatively economical alternative to some paper-based disbursement programs.

In the case of those UC medical center departments conducting ongoing research involving the use of clinical trial participants, Stored Value Cards could be a viable alternative to cash payments. There is some interest in potentially using this payment form instead of the traditional petty cash account system that has historically been used in the past. Besides the security concerns associated with the storage and exchange of large amounts of cash, the reconciliation of these periodic cash disbursements for the various research groups can be problematic. Many of the Stored Value Card programs offer complementary reporting tools that help to streamline and simplify record keeping activities. In addition, Stored Value Card programs with periodic funding requirements can typically be managed from a central location very easily and efficiently over any computer terminal with an Internet connection.

As more information is received and reviewed, we will continue to keep you abreast of developments and opportunities in this area...



Telecheck

The Banking Services Group has started negotiations for a system-wide agreement with Telecheck. While the University of California, in general, does not have a significant problem with bad checks, there are certain merchants within the UC System who are at greater risk of loss than most of our merchants, due to the nature of their activity (e.g. bookstores, surplus equipment sales units, and medical groups come to mind). Telecheck offers several different services that could be cost-effective to these merchants, depending on their particular needs and risk of loss.

Telecheck Guarantee Service: Based on the check writer's driver's license number or the MICR line on the check, this service uses Telecheck's proprietary databases to identify high-risk checks. 94%-96% of check-writers are in these Telecheck databases, and using its proprietary risk management tools, Telecheck presents an "accept" or "decline" message about each check-writer, similar to the accept or decline message a merchant would receive for a credit card authorization. A merchant could use Telecheck for this service only, or could pay Telecheck to fully guaranty the check for an additional cost. With the guaranty service, if an "approved" check ultimately does get returned, Telecheck would reimburse us the face amount of the bad check.

Telecheck Electronic Check Acceptance Service: Using a specific terminal at the point of sale, this service converts checks into ACH debit transactions (POS ACH transactions) which would settle in two banking days. This system uses the same Telecheck data bases and risk management tools described above, but in addition converts that check to an ACH transaction which simultaneously cancels/voids the paper check. Again, Telecheck gives the option of check conversion with verification only, or can fully guaranty the transactions for an additional cost. The terminal that is used for this service can also be used for processing credit and PIN-based debit cards, and would provide a consolidated end-of-day report of debit, credit, and POS ACH transactions.

Pricing for these services is still being negotiated and will be volume driven. If you are interested in these services, contact Stephanie Dang.

Credit/Debit Card Services

PIN-less Debit

Up until now, on-line debit card transactions (those processed through debit networks as opposed to the credit card networks used for signature-based transactions) were restricted to card-present and swiped transactions. This is because the debit networks require authentication of the cardholder through input of a PIN code. For face-to-face merchants, encouraging on-line debit processing versus off-line debit* processing makes sense for many merchants, given that online debit transactions are generally much less expensive than credit card or signature-based debit transactions (see comparison chart in the following article).

Debit networks are now offering an intriguing option for card-not-present transactions that they have identified as low-risk. Payments for tuition, room and board, required fees, and alumni dues have been identified as low-risk transactions, and would qualify for an exciting new type of transaction being called "PIN-less Debit". In a PIN-less debit transaction, the merchant must assume 100% of the liability for the transaction, and generally must have recourse with the cardholder, namely discontinuation of service. PIN-less debit can be used in an internet, live telephone, or IVR (Interactive Voice Response) environment, where the merchant has an existing and ongoing relationship with the cardholder. Pricing for PIN-less debit transactions has not yet been negotiated, but will be in a similar range to current online debit transactions.

See December 2003 Newsletter for additional information on PIN-based or on-line debit. If you are interested in PIN-less debit, contact Stephanie Dang.

* "Offline" Debit Card transactions are those processed through the Visa or MasterCard (credit) network when a PIN is not used (i.e. signature – based).

Visa and MasterCard Interchange Increases – Move to PIN-based Debit Now!

Visa and MasterCard will be revising some of their credit and debit card rates effective April 2, 2004. While the University of California will definitely be impacted by these increases, we are somewhat protected from many of them due to our status as an Emerging Market merchant. Visa, and now MasterCard, have identified certain industries as Emerging Market industries, providing special interchange rates to those merchants. Below is a listing of UC's most prevalent Visa and MasterCard interchange categories and the total cost of those types of transactions, at new interchange rates effective April 2, 2004:

Interchange Category	Credit	Off-Line Debit
VISA		
CPS Retail	n/a	1.143%+\$0.317
CPS Retail 2	1.523%+\$0.217	0.893%+\$0.417
CPS eCom Basic	1.943%+\$0.267	1.693%+\$0.317
EIRF	2.293%+\$0.267	1.903%+\$0.367
MasterCard		
Merit III	1.635%+\$0.265	1.145%+\$0.315
Merit I	1.995%+\$0.265	1.735%+\$0.325
Merit I eCommerce	1.995%+\$0.265	1.735%+\$0.325
Consumer Standard	2.855%+\$0.265	2.055%+\$0.415

More than ever, now is the time for face to face merchants to consider using on-line debit (i.e. PIN-based debit) to reduce their operating expenses. Below is a comparison of cost for credit, signature-based debit, and PIN-based debit card processing at different transactions levels.

Transaction Size	\$10	\$25	\$50	\$100	\$300
Credit					
\$ Cost Per Transaction					
VISA Credit – CPS Retail 2	0.37	.60	0.98	1.74	4.78
MC Credit – Merit III	0.43	.67	1.08	1.90	5.17
Off-Line Debit					
\$ Cost Per Transaction					
VISA Debit – Offline (Signature) CPS Retail	0.43	.60	0.89	1.46	3.75
VISA Debit – Offline (Signature) CPS Retail 2	0.51	.64	0.86	1.31	3.10
MC Debit – Offline (Signature) Merit III	0.43	.60	0.89	1.46	3.75
On-Line Debit					
\$ Cost Per Transaction					
Interlink Network	0.41	.51	0.67	0.68	0.68
Maestro	0.43	.53	0.69	0.70	0.70
Star	0.43	.53	0.69	0.69	0.69
NYCE	0.43	.52	0.64	0.64	0.64

A banner at the top of the page with a blue background. On the left, the text "Credit/Debit Card Services" is written in a large, blue, 3D-style font. To the right, there is a graphic of a credit card and a debit card overlapping each other, with a green and blue background behind them.

Credit/Debit Card Services

Authorize.net Acquired by Lightbridge, Inc.

Authorize.net is one of the two preferred Internet Payment Gateway (IPG) providers selected in the 2002 system-wide Request For Proposal. A number of Campus departments that utilize their services to authorize, settle and manage electronic transactions report good functionality and general satisfaction with the relationship.

We just learned that Lightbridge Inc. of Burlington, MA acquired Authorize.net. Subject to regulatory approval, the transaction is expected to close in the second quarter of 2004.

Some information on Lightbridge:

Lightbridge is a leading provider of technology services and software that manages customer transactions for businesses including offering risk and fraud assessment technologies. They have 15 years of experience running 24x7 application service provider (ASP) - based businesses and providing real-time "decision-ing" services to detect and limit fraud.

We expect that the acquisition will benefit the University, in that the services we use will become even more robust, especially in the areas of risk and fraud assessment, which are Lightbridge's strengths.

Bank of America Direct – Information Reporting

As we have mentioned in previous editions, Bank of America's Information Reporting service is available over the Internet through Bank of America Direct. Users that had been receiving their Current Day and Previous Day reporting through the bank's desktop-based service, BAMTRAC, are gradually beginning to migrate over to the Internet in order to obtain their bank account activity reports.

Initially implemented as an Internet-based Electronic Funds Transfer system for campus Disbursement departments, the Bank of America Direct "Treasury Direct" module is beginning to supplant BAMTRAC as the preferred reconciliation tool for campus and medical center accounting offices, as well as other departments that are involved in the bank account reconciliation process. In the case of some campuses, Information Reporting through Bank of America Direct has eliminated the use of BAMTRAC altogether. As the bank continues to develop and refine its Bank of America Direct product, fewer of its resources will be devoted toward the development of BAMTRAC enhancements. Eventually, the bank will most likely decide to eliminate its BAMTRAC product completely, and convert any remaining users over to its Bank of America Direct platform.

For additional information regarding the suite of services available through Bank of America Direct, please contact Jeff Donahue or Charissa Ha.

Contacts

If you have any questions, concerns or want to learn more about anything in this newsletter, please don't hesitate to contact us!

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