



BSG

# BANKING SERVICES NEWSLETTER

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

March 2005

## 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.



### U.S. Payment System

As you can see from several of the articles in this newsletter, the U.S. payment system is changing rapidly....and things can get very confusing. Not only is the system comprised of paper, plastic and electronic components, it is not unusual to have an instrument change from paper to electronic and back again! The risk in the entire system must constantly be reviewed, assessed and addressed appropriately.

Recent Changes in the U. S. Payment System:

- Check 21 – see related article in this issue
- eCheck ACH Applications:
  - WEB* – authorization via the Internet for debits from consumer accounts
  - TEL* – verbal authorization by telephone for debits from consumer accounts
  - ARC* – Accounts Receivable Conversion - checks received via mail or drop box and converted to ACH
- Plastic Applications – Credit, Debit and stored value
- ATM Activity

Please contact Banking Services if you wish to learn more about any of these subjects.



## Cyber Crimes/Identity Theft

Internet commerce continues to grow by leaps and bounds. Doing business via the Web has proven to be both a boon to retailers, as well as a very convenient means to obtain goods and services. Unfortunately, the Internet has also spawned a new and very lucrative era of cyber crimes and identity theft. Now, more than ever, consumers and businesses alike must be particularly careful with how confidential information is safeguarded and shared.

According to the Federal Trade Commission, identity theft is the nation's fastest growing crime. Identity theft affects more than 12 million new victims each year, and claims \$6.1 billion in estimated consumer losses. Company losses are even more dramatic, climbing to an estimated \$66.5 billion in 2003.

In the corporate world, Internet hackers are continually looking for opportunities to compromise a company's security in order to gain access to confidential banking and financial information. E-commerce sites, online banks, and brick and mortar facilities are all susceptible to attack.

According to FBI Special Agent David A. Thomas, "It is very important that companies enforce incident response policies within their organizations that focus on security and response issues. These policies provide guidance on what to do when faced with attacks on your system, and describe what level of power and discretion you have in responding."

Each of us needs to be wary when any solicitation is received asking for confidential information such as a password, credit card number or Social Security number. Though many scams look legitimate, no UC business partner should ever solicit this kind of confidential information.

## Electronic Payments Surpass Checks

For the first time, the use of credit cards, debit cards, and other forms of electronic payments exceeded the use of paper checks in 2003. Highlighting a trend that should not diminish any time soon, a total of 44.5 billion electronic transactions were processed in 2003, compared to 36.7 billion checks that were paid during the same period. These figures were outlined in a Federal Reserve study that was released last month.

In contrast, a previous study conducted by the Federal Reserve in 2000 revealed that electronic payments totaled only 30.6 billion compared to 41.9 billion consumer and business checks paid during the year.

According to industry experts, the shift toward more electronic payments can be attributed to the increasing role of technology in the retail, financial, and banking industries. Huge amounts of money have been spent to make these options more convenient, and there has been a significant increase in the level of consumer trust.

The findings revealed in the most recent Federal Reserve study further illustrates a trend that began in the 1990's when the number of checks issued began to decline while the number of electronic payments increased significantly. Other noteworthy findings in the 2003 Federal Reserve study are as follows:

- The 44.5 billion electronic payments in 2003 had a dollar value of \$27.4 trillion; 36.7 billion checks paid during 2003 had a value of \$39.3 trillion.
- Credit card payments totaled 19 billion, with a value of \$1.7 trillion; debit card transactions totaled 15.6 billion, with a dollar value of \$600 billion.
- ATM withdrawals totaled 6.1 billion, with a value of \$520 billion in 2003.

## Office of Foreign Asset Control – Reminder

All units responsible for disbursing funds need to be aware of the US Department of the Treasury – Office of Foreign Asset Control (OFAC) restrictions on sending funds to sanctioned countries. Authorized payments made with a license in place are not a problem. Our Foreign wire system contains the capability to include both the license number as well as the expiration date. If you need to get a license, be aware that you will need to apply well before the payment is due. For more information, and a list of current sanctions see:

<http://www.treas.gov/offices/enforcement/ofac/>

## Wells Fargo “Greenville” Accounts

In March of 2003, Wells Fargo Bank sent out notification to UC that “Greenville” controlled disbursement accounts, drawn on Wachovia Bank, would soon be facing account number conversions. This announcement was the result of the earlier merger between First Union National Bank and Wachovia Bank. This merger does not impact the corresponding Wells Fargo “shadow” account numbers associated with the Wachovia bank accounts facing retirement.

As a result of this announcement, the Wachovia bank account number appearing on checks would increase from nine to thirteen digits. Although this change was to become effective as of May 9, 2003, campuses were initially advised that check stock reflecting the nine digit account number would have through the end of 2004 to exhaust their supplies.

Hopefully, all checks now drawn on UC Wachovia/Greenville controlled disbursement accounts are using the thirteen digit account number. Any departments that might still be using old check stock should begin using checks reflecting the new thirteen digit account number as soon as possible. Checks drawn on the old account number that are still outstanding have until May 1, 2006 to clear.

## Fraudulent Checks – Holder in Due Course

With the proliferation of low cost, high quality printers, it is no wonder that there are so many more fraudulent checks being negotiated. UC uses the best quality paper available, and every control capability offered by Wells Fargo Bank (WFB), our paper disbursement services provider. To name a few, all major accounts have positive pay with a return default and inclusion of the payee name on our issue files to insure that checks cashed at a WFB teller will be cashed by the payee we issued the check to.

Recently several campuses have been approached by the holders of fraudulent checks (often check cashing agencies) that we rejected for payment, requesting reimbursement for the item under (Uniform Commercial Code (UCC) Holder In Due Course Regulations: U.C.C. - ARTICLE 3 - NEGOTIABLE INSTRUMENTS § 3-302. HOLDER IN DUE COURSE.

Though the UCC code is somewhat vague (it was written over 50 years ago when commerce was a tad different), case law has established that we are only responsible to the holder in due course when **the original instrument is negotiated**. The holder of a bogus or fabricated item may take us to court, but if the court bases their decision on relevant case law, we should prevail.

## New Wells Fargo Bank Client Service Officer

Angie Escobedo, who has been our primary contact, has accepted a new position at the Bank. Our new officer is:

### Jose Valadez

Phone - 213-614-3278

Fax - 213-614-3109

Email [valadezj@wellsfargo.com](mailto:valadezj@wellsfargo.com)

We thank Angie for three years of superior service!

## Don't ignore those NOC's (Notifications of Change)

A Notification of Change is a message sent by the bank receiving an ACH transaction, which could be either a payment to or a debit from one of their account holders. An NOC is generated when incorrect information was used to route the payment or debit. Typically the transaction was able to post, but the bank is communicating that the information is outdated or required manual intervention to post successfully. According to the NACHA (National Automated Clearing House Association) Rules, we, as the Originator of those transactions, are required to correct the routing we are using for that account holder before sending subsequent transactions to that person or entity. Ignoring the NOC's could result in payment delays and ultimately, fines of up to \$10,000.

## BUS 49 - Cash Receipt Policy Revision

With the rapid changes in banking and technology, a task force was formed to revamp Business and Finance Bulletin 49 (aka BUS-49) to provide up-to-date guidelines and policy for today's environment. The new BUS-49 will include sections for internet collection of money, receipts of funds via wire transfer and ACH, and brand new sections for credit and debit card collections. The new BUS-49 will also combine information that is currently found in certain sections of the Accounting Manual, so there will be a single source of information for all "Payments Received" policies and procedures.

The Task Force (along with BSG participation) is composed of:

Participant	Campus
Peggy Naegeli (Hoos)	UCD
Marsha Lovell	UCLA
Bent Nielsen	UCI
Jane Powers	UCSF
Norman Chan	UCSF
Debbie Rico	UCSD

Look for future updates on this monumental undertaking.

## Web Payment of Student Bills Update

In our August 2004 newsletter we reported on the various campus solutions for electronic/web presentment and payment of student bills (EBPP). We're excited to report that all three schools that participated in last year's RFP for this functionality have successfully launched their systems.

UC Irvine, which already had been posting their student bills on the web, stopped sending paper bills to their students starting with the September statements. They began taking payments via eCheck over the Web in October. By the end of December, 35% of their cash paying students paid using Irvine's ePayment system, equating to over \$7 million. This was well ahead of the 15% of collections they expected by the end of the first year!

UC Davis launched their EBPP system at the end of November. They received their first eCheck payment four hours after launching the site, and within a week had taken close to 60 payments with little to no advertising. Their advertising campaign started in December, and they now have 99.93% of students electing the eBill over a paper statement (only 20 student opted out). The last mass-produced paper statements were sent in January. For Spring Quarter, 41% of students paid via e-check, 57% paid by paper check, and 2% paid using a Discover Card.

UC Berkeley is currently pilot testing their EBPP system, and hopes to launch their system in earnest by the second quarter 2005.

The EBPP solutions implemented at these campuses are being provided by Sallie Mae Solutions (Berkeley and Irvine) and Touchnet Information Systems (Davis), who are both preferred providers for these and related services with systemwide contracts available to all UC entities.

Contact Stephanie Dang for more information.

# Receivables / Card Services

## Check 21 (which went into effect 10/28/2004) Update

A recent article by Robert Stasik of Mellon Bank discussed the myths and realities of the Check Clearing for the 21<sup>st</sup> Century (Check 21) Act:

**Myth:** Check 21 authorizes the exchange of images for check clearing.

**Reality:** Check 21 authorizes the creation of substitute checks for presentment, not the exchange of images

**Myth:** Substitute checks are just as secure of the originals they replace.

**Reality:** Substitute checks retain few of the security features of checks they represent.

This is why all major Regents accounts have positive pay (matches presented items to UC's issue records).

**Myth:** Check 21 eliminates float.

**Reality:** Check 21 may reduce processing float, but will not impact mail float.

**Myth:** Check 21 will save you money on clearing fees.

**Reality:** Check 21 may initially be more expensive due to the cost to print substitute checks before large volumes are generated.

**Myth:** Check 21 is less expensive than accounts receivable (ARC) check conversion.

**Reality:** Check 21 will not be cheaper than ARC.

**Myth:** Check 21 will eventually replace ARC.

**Reality:** This is not likely. The two will be most beneficial when used in conjunction.

**Myth:** Corporations can truncate checks and pass images to a bank without additional risk or responsibility.

**Reality:** Accepting bank must agree to warranties defined under the law.

**Myth:** The benefits of Check 21 are immediate.

**Reality:** The benefits of check 21 are evolving.

The full article is included in Mellon's 4<sup>th</sup> Quarter update at:

<http://www.mellon.com/cashmanagement/newsletter/2004q3/update2004q3.pdf>

## Update on Credit Card Acceptance and Convenience Fee Guidelines

The credit card industry has undergone several significant changes in the last couple of years since the UCOP issued the guidelines published in August 2002. In particular, the use of convenience fees has become more prevalent in the higher education industry and some of the credit card companies have modified their rules on convenience fees. To see the updated guidelines, refer to

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

## Credit Card Information Security

In our last newsletter, our article on "Credit Card Data Security" referred to the Visa Cardholder Information Security Program (CISP) and the Mastercard Site Data Protection (SDP) programs and requirements. Effective December 2004, Visa and Mastercard have joined forces to come up with a single information security program called the Payment Card Industry (PCI) Data Security Standard. The cooperation between Visa and Mastercard is unprecedented, and a much-welcomed remedy to the confusion caused by the separate programs that were put in place in 2001/2002. Information on PCI can be found at:

[http://usa.visa.com/business/accepting\\_visa/ops\\_risk\\_management/cisp.html?it=12|/business/accepting\\_visa/ops\\_risk\\_management/cisp\\_merchants%2Ehtml|Cardholder%20Information%20Security%20Program](http://usa.visa.com/business/accepting_visa/ops_risk_management/cisp.html?it=12|/business/accepting_visa/ops_risk_management/cisp_merchants%2Ehtml|Cardholder%20Information%20Security%20Program)

BSG is working with our credit card acquirer, Chase Merchant Services and senior-level management in Information Resources & Technology (IR&C) and Business and Finance to come up with a systemwide approach to PCI compliance. There will be much more to come on this topic.

# In Closing...

## Nixing Bad Checks

If your business suffers from bad checks, know that UC is evaluating a systemwide relationship with TeleCheck, one of the largest providers of check verification service. Telecheck offers a variety of services, including check verification, check guaranty, check conversion and check conversion with guaranty. Pricing depends on the level of service, and systemwide preferred pricing has already been established. To learn more about Telecheck, contact Stephanie Dang.



## Strategic Sourcing Initiatives

### Travel Task Force is Newest Strategic Sourcing Initiative

A Travel Task Force is being formed, under the leadership of the UCOP Financial Management Procurement Group. As with all Strategic Sourcing Initiatives, this effort has received support from the Campus Vice-Chancellors and Lab Directors. The Task Force will include Campus and Lab subject matter experts who acquire Travel Services for UC. The ultimate goal of the effort is to harness UC's considerable purchasing power in order to achieve economies through revised policy, improved systems and use of strategic relationships. BSG will participate on this initiative and we will keep you up-to-date on its progress.

## Charissa Ha moves on

Charissa Ha, a Banking Specialist in the Banking Services Group has ended her employment with the university. Those of us who worked with Charissa will certainly miss her.

## 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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