■Back Office Conversion

Back Office Conversion (BOC) is a new method approved by The National Automated Clearing House Association (NACHA) for converting certain checks to ACH debits. BOC allows retailers and billers that accept checks at the point-of-sale or at bill payment locations to convert eligible checks to ACH debits in the back-office.

Some Fast Facts to acquaint you with BOC

What is BOC?

BOC, effective March 16, 2007, is a new Automated Clearing House (ACH) process, which allows retailers and billers that accept checks at the point of purchase to scan and convert checks to ACH debits in a centralized back office.

BOC enables businesses to convert checks $25,000 and under to ACH payments – business size checks with an Auxiliary On-Us Field and any check greater than $25,000 cannot be converted through BOC. Authorization for conversion is obtained by the biller or retailer by providing a posted notice and a copy of the notice to the check writer at the time of the transaction.

How does BOC benefit retailers?

The BOC process includes many benefits to retailers over the previous Point of Purchase (POP) process. It allows for faster check-out in retail lines, provides accelerated access to funds, requires a lower equipment investment and new rules reduce the number of incorrect business check conversions. The process also leads to reductions in return check item losses and can result in lower bank fees than conventional check processing

Eligible checks:

Eligible checks are provided by check writer at point of purchase or manned bill payment location. They must contain a pre-printed serial number, be for $25,000 or less, be completed and signed by the check writer and must not contain the check serial number (auxiliary On-Us field) at the far left of the MICR line. Checks that do not meet all of these requirements cannot be converted through BOC.

Any of the following characteristics make a check ineligible:

- Not encoded in magnetic ink
- Contains the check serial number (Auxiliary On-Us Field) at the far left of the MICR line
- Amount is greater than $25,000
- Third-party check
- Demand drafts and third party drafts that don't contain the receiver's signature
- Provided by a credit card issuer for the purposes of accessing a credit account
- Drawn on home equity lines of credit
- Drawn on an investment company as described in the Investment Company Act of 1940
- An obligation of a financial institution (cashiers checks, money orders, etc.)
- Drawn on the U.S. Treasury, a Federal Reserve Bank or federal home loan bank
- Drawn on a state or local government that is not payable through, or at a participating DFI
- Payable in a medium other than U.S. currency

Opting Out:

A check writer can opt out of BOC, so billers and retailers are encouraged to offer alternative payment options.

If a customer does opt out and their check is accepted, the opt out applies only to that specific check – unlike ARC, where the opt out applies to all checks drawn on a particular account or paying a specific biller account.

Capture in the corporate back office:

Billers and retailers are required to use MICR reading devices during initial processing. The process will capture the routing number, account number and check serial number from the source document. Key entry of the dollar amount is allowed. During subsequent processing, key entry of all information is allowed in order to correct errors.

Notice requirements:

Notice equals authorization. The biller or retailer must post the notice in a prominent and conspicuous location as well as provide a copy of notice language to the check writer. The language for the notice must be substantially similar to Regulation E safe harbor language.

A Brief History of Check Conversion

BOC expands and improves upon previous NACHA conversion options; Point of Purchase (POP) and Accounts Receivable Conversion (ARC),

Point of Purchase (POP)

POP was introduced in 2001 and grew to about 160 million items per year by 2003. Although it experienced slow growth until the third quarter of 2006, it then saw an 89% jump in volume – but was again followed by slow growth in the fourth quarter of 2006.

POP volume represented less than 2% of eligible items until 2006. This could be in part, due to some implementation challenges: POP requires scanners, which represents a significant investment, the process would slow retail check out lines and there is a training aspect involved to use the hardware – by retailers as well as customers. And if there was a problem completing the process, it was visible to the customer.

Accounts Receivable Conversion (ARC)

Accounts Receivable Conversion (ARC) was introduced in 2002 and volume is now more than 2 billion items per year and still growing rapidly – representing more than 5% of checks that are mailed.

The main difference between ARC and POP, which has contributed to ARC's success, is that ARC offers a very executable way to electronically clear checks in a lockbox processing environment. It is the appropriate technology physically located in the appropriate place. While POP is the appropriate technology physically located in an inappropriate place.

Back Office Conversion (BOC)

Back Office Conversion (BOC) incorporates the single most important characteristic of POP – it physically moves the technology from the wrong place to the right place. It also simplifies the process by not requiring a customer approval signature which can benefit retailers.