

Wholesale Lockbox Deals Are Responses to Evolving Market

■ BY STEVE BILLS

Two developments in the lockbox market last week indicate the financial services industry's efforts to promote electronic payments to corporate customers are prompting banks to consider whether they want to make the kind of investments the business increasingly requires.

Fifth Third Bancorp announced Thursday that it has developed a service that uses advanced imaging technology to extract health-insurance data from remittance documents and transmit the data to providers for posting.

First National of Nebraska Inc. went in the opposite direction, selling the assets of its Data Management Products Inc. lockbox technology unit to Wausau Financial Systems Inc., a vendor of imaging and remittance systems.

Joseph L. Delgadillo, the president and chief executive of Wausau, said he plans to offer the DMP payments processing software to wholesale lockbox operators that are trying to consolidate their market positions.

"Our customers will pick up the volume from those that are getting out of the lockbox business and outsourcing," Mr. Delgadillo said.

The \$18 billion-asset First National agreed to use Wausau's ImageRPS technology for retail lockbox operations, replacing a competitor's system at its First National Bank of Omaha, the 15th-largest retail lockbox processor. The agreement enables First National of Nebraska to maintain its wholesale lockbox operations without the expense of updating the software.



Pressure: Delgadillo, left, says clients will gain share as others exit the market. Meara says banks want "to provide value-added services" to businesses.

Russ Oatman, the senior vice president of First National Bank of Omaha's financial institutions group, said the bank plans to convert to Wausau's retail lockbox software by the end of July and will offer it to the bank's nationwide network of correspondents.

The decision to sell DMP's assets was part of "a strategic discussion" that began after First National of Nebraska and Wausau began talks about upgrading First National's retail lockbox system, he said.

"We felt there was opportunity for some pretty powerful applications in the marketplace," Mr. Oatman said. "We are leveraging their technology expertise."

Nancy Langer, the president of Wausau's payment solutions unit, said First National also plans to use Wausau's systems to capture check images in its branches and in business customers' offices.

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DMP, founded in 1980, has been a wholly owned subsidiary of First National since 1988. Wausau said that as a result of the acquisition, its platforms process over a third of the industry's retail and wholesale payments, as well as more than 35% of the industry's accounts receivable conversion of checks to automated clearing house transactions.

Patrick J. Moore, a senior vice president at Fifth Third and its director of product management, said the Cincinnati company is planning to expand its wholesale lockbox operations after spending the last 8 to 12 months assessing the market and building a national network of processing centers.

The \$100.7 billion-asset company wants to expand its wholesale lockbox operations both geographically and "upstream to middle-market and large corporate clients," he said.

Fifth Third's new service uses software from Revenue Management Solutions LLC, an Oklahoma City medical payment and remittance system provider, to pull data from insurers' explanation-of-benefit documents and forward it directly to patient-record systems of hospitals and doctors' offices.

One Fifth Third client is ready to begin testing the system this week, Mr. Moore said.

The health-care receivables project is "a strategic imperative for us in an area where we see a lot of growth and potential," he said.

In January, JPMorgan Chase & Co. purchased the assets of FisaCure Inc., a Dallas-area provider of health remittance processing services. In September, Bank of America Corp. purchased HealthLogic Systems Corp.

Though he would not discuss activities by competitors, Mr. Moore said he expects Fifth

Third to "more nimbly seize these opportunities" in health payment processing.

Bob Meara, a senior analyst at the Boston research and consulting firm Celent LLC, said the economic pressures that drove the consolidation of retail lockbox several years ago are now affecting the wholesale side of the business. Retail lockbox sites process consumer payments to businesses; wholesale sites handle business-to-business payments.

He cited PNC Financial Services Group Inc., which has driven down costs on the wholesale side by building an electronic remittance system for the Department of Veterans Affairs. "Banks like PNC are aggressively marketing their lockbox services," Mr. Meara said, and they are trying to go beyond the payment itself to more information services.

"Banks are looking to provide value-added services" to foster more accurate processing of complex business payments and to post payments faster to their customers' accounts, Mr. Meara said.

Dana J. Gould, a senior research analyst at Financial Insights, said banks need to find ways to manage the transition from paper-based payment processes to the integrated electronic systems that corporations are beginning to adopt.

American Express Co. signaled its confidence in this space with its December acquisition of the B-to-B payments vendor Harbor Payments Inc. Amex has said that it wants to electronify the supply chain for large corporations.

"Everybody is looking for ways to get" corporate customers "into electronic payments," Mr. Gould said. "They also hope to get the deposits out of that and the payment processing." ■