

# The digital lockbox opportunity

**Deluxe innovation creates  
a win-win for banks and  
businesses**



**deluxe<sup>+</sup>**  
PAYMENTS & DATA

eBook



## Eliminate the “messy middle” and revolutionize check delivery

Checks. Businesses and consumers maintain a love-hate relationship with this tried-and-true payment method. They appreciate their ease-of-use—while still craving the convenience and security of newer digital options. They struggle with high costs and endless exceptions. They’re ready for change—but slow to embrace the new processes and system upgrades that digital often requires.

Those scenarios had us asking “**What if...?**”

What if there was a way to keep the legal protection and simplicity of paper checks, while simultaneously gaining the end-to-end efficiency of completely digital payment methods?

## Introducing Deluxe Payment Network

That premise is now a reality with Deluxe Payment Network. This scalable directory combines the ease of use and established processes of paper checks with the vast reach of our combined lockbox network. The end result? Delivering digital check payments and remittances to any lockbox customer.

The advantages of this digital lockbox opportunity are impressive:

- » Stronger supplier experience
- » Shorter payment cycle times
- » Accelerated settlement
- » Reduced fraud risk
- » Improved cash flow
- » Increased payment security

Most significantly, this automated approach cuts the time and labor required for traditional lockbox processing of paper checks by more than 50%.<sup>1</sup>

As this overview shows, there’s a business case for B2B payers, payees, banks and lockbox providers—one that requires few process changes but generates impressive results. It’s yet another way for checks to keep up with the times.

1. Internal Deluxe lockbox pilot study data.



## The staying power of checks

**\$25 trillion** yearly U.S. volume of paper checks.<sup>2</sup>

**33%** of B2B payment in the U.S. and Canada are still being made via paper check.<sup>3</sup>

**86%** of organizations use checks for outgoing payments.<sup>4</sup>



## The challenge with checks

### When digital requires process change, businesses struggle

Businesses, banks and consumers all place a premium on digitizing the order-to-cash cycle. The benefits are numerous: improved cash flow, reduced processing costs, greater staff productivity and stronger customer experiences.

Checks, for example, remain a force in payments—despite annual predictions of their imminent demise. Ninety-two percent of organizations report they continue to use paper checks. The Association for Financial Professionals (AFP) Digital Payments Survey found that 33% of business-to-business (B2B) payments in the U.S. and Canada are still being made via paper check.<sup>3</sup>

But for most, truly transforming the payment landscape proves easier said than done. Even electronic options like ACH or commercial card transactions can generate inefficiencies. While the payment itself may arrive electronically, few methods accommodate the corresponding remittance data needed for posting.

An estimated 61% of ACH transactions arrive separately from remittance details.<sup>5</sup> Companies struggle with workarounds and delays—often converting emails and PDFs back to paper documents.

2. [https://www.mastercard.us/content/dam/mccom/en-us/business-payments/documents/b2b\\_payments\\_mir\\_v\\_05-31-18.pdf](https://www.mastercard.us/content/dam/mccom/en-us/business-payments/documents/b2b_payments_mir_v_05-31-18.pdf)

3. <https://www.afponline.org/training-resources/resources/articles/Details/survey-check-use-drops-to-a-new-low-for-b2b-payments>

4. 2022 AFP Payments Cost Benchmarking Survey.

5. <https://blog.transcard.com/improve-business-process-managemnt-with-automated-payments-data-exchange>



# Cost of change helps checks persist

## The primary driver of all this “pulp friction”? The cost of change.

It's one thing to understand the value of end-to-end electronic processes in accounts payable and accounts receivable. It's a completely separate hurdle to bring those ideas to life within the organization.

Businesses face numerous challenges as they move to electronic payments:

- » Managing new payment types without adding more resources
- » Instituting new processes with customers and suppliers
- » Adapting legacy accounting and ERP systems for new fields and data feeds
- » Securing account numbers and credentials required for digital transactions
- » Finding reliable banks and providers fluent in electronic payments

The effort and cost of new methods can seem overwhelming, even to tech-savvy organizations.

Resistance to change is one of the biggest reasons that the humble paper check retains such staying power. For more than 100 years, it's been embedded in our daily lives. Checks are established. They're understood. They require very little data to issue. It may not be the ideal payment mechanism or process, but it's one that clearly works.





What if, instead of trying to eliminate checks and persuade businesses and consumers to use other methods, **the check itself became electronic?**

## An innovative approach

### Add digital efficiencies to established check processes

The paradox of checks also present opportunity. What if, instead of trying to eliminate checks and persuade businesses and consumers to use other methods, the check itself changed from a paper to an electronic transaction?

Imagine the efficiencies this simple solution would create.

Advantages for payers:

- » No more printing, mailing and postage costs
- » No postage or system changes to accommodate new payment types
- » No cumbersome outreach to convert suppliers and payees to a new method
- » No need to store (or update) sensitive account information
- » No extra work for current staff to manage
- » No risk of lost or stolen checks in the mail
- » No change in bank or payment provider relationships

Advantages for corporate recipients:

- » No process or system changes to accommodate new payment types
- » No risk of sharing sensitive account information with payers
- » No need to open, sort or scan checks and remittances
- » No rekeying of information and associated risk of errors
- » No delays in deposits or cash application

It's a win-win for B2B payers and payees. Both sides maintain their established check processes and add in new electronic advantages.



## The immense lockbox opportunity

**Nearly half** of medium and large U.S. businesses rely on a lockbox.<sup>6</sup>

**489 million**

Deluxe annually processes 489 million in lockbox payment volume.<sup>7</sup>

**\$440 billion**

Deluxe processes \$440 billion in lockbox payments every year.<sup>7</sup>

## Leveraging the lockbox connection

Transforming the lockbox experience makes this innovation possible. The vast majority of B2B payments already flow through the bank or third-party lockboxes, representing thousands of checks and paper remittances each day. Industry analysts Datos Insights estimate almost half of all medium and large businesses rely on a lockbox. The Deluxe Lockbox+ network alone annually processes \$440 billion in lockbox payments and 498 million in lockbox payment volume.

With this volume, lockbox providers hold tremendous promise to streamline and digitize the check experience. They also have a vested interest in solving the conundrum of checks for their valued customers. They've made significant investments in equipment and technology to tame the masses of paper that enter their facilities, striving to scan, organize and deliver an electronic end product to their corporate customers.

Now, these same businesses and banks have the opportunity to transform check processing to a truly end-to-end digital experience.

6. Datos Insights, "Wholesale Lockbox: Why Banks Should Continue Investing In It," 2018.

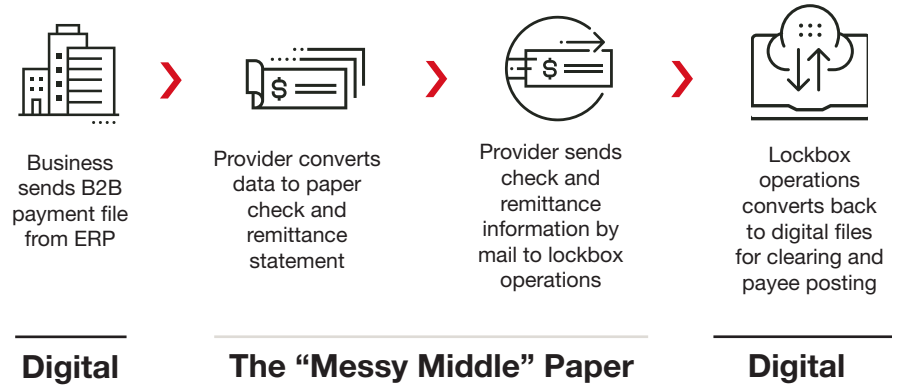
7. Numbers based on internal Deluxe data.



# The “messy middle” with B2B checks

Numerous banks and third-party providers have already solved parts of this puzzle. What's new is connecting both ends of the spectrum for far greater advantage.

**Consider the typical B2B check flow:**



Only at this point does the transaction move to paper. The company either prints, stuffs and mails checks internally, or transmits an electronic file to their bank or provider who prints, stuff and mails checks on their behalf. The process may also include a separate, printed remittance statement.

On the payee side of the equation, once those checks enter the mail stream, there's a new quest to handle them as efficiently as possible. Of course, that means converting them back to digital formats.

Enter the lockbox facility, where banks and providers deploy sophisticated technology to scan and “read” each paper check.

The result is a clean and standardized electronic posting file that matches each company's unique system requirements.

It also delivers digital images for research and archiving, and ACH details for each bank to deposit funds electronically. It's a proven process that businesses rely on.







# The lockbox opportunity

## Reduce pulp friction and streamline check payments

At the heart of the current B2B check process lies a gap. It's the "messy middle," a chasm of paper, rework and redundancy. The gap represents the lockbox opportunity.

What if check and remittance data could pass directly from payer to payee, bypassing the labor-intensive steps of printing, envelope stuffing, mailing, opening, sorting and scanning? This simple switch could save payers \$1–\$1.50 per check and speed cash application by 48–72 hours for payees. It could cut the time and labor required for paper check processing by half.<sup>1</sup>

That's the premise of Deluxe Payment Network functionality. It works by combining payment routing capabilities with a nationwide directory of lockbox providers and their payees.

Together, they make end-to-end digital processing for checks a reality.

## How Deluxe Payment Network delivers value

Unlike other electronic payment or receivables solutions, there's no need for enrollment campaigns or process changes by B2B payers or payees. Neither side needs to make system enhancements or expensive technology upgrades to achieve the benefits of electronic processing. This gives businesses the same peace-of-mind and familiarity they experience today with checks and lockbox and eliminates one of the major hurdles to electronic payments adoption.

Participation by banks and lockbox providers is equally simple. Joining the lockbox network directory requires contributing payee contact information—P.O. box mailing addresses for individual lockboxes—so Deluxe Payment Network can match outbound check payments to B2B recipients. Lockbox providers then receive a digital transmission that's compatible with their regular lockbox process.





## The process is simple:

**Payers upload a digital payment file from their ERP system, just as they do today. Instead of sending it to their bank or provider for printing, Deluxe Payment Network handles disbursement.**

» In-network lockbox payees receive digital payment directly to their current lockbox.

Payees experience the same service and convenience they expect with lockbox delivery through Deluxe or their bank—only faster.

The service handles checks and any accompanying coupons, statements, remittances or correspondence, providing digital images for research and archiving.

Check 21 legislation and Deluxe's industry-leading check printing and lockbox networks make this fluid digital process possible. To comply with federal requirements that a check exist (even temporarily) as a physical item, Deluxe prints then securely destroys a copy of each check that passes through the Deluxe Payment Network. Our high-scale efficiency and best-of-breed equipment make this step feasible at the lowest possible cost.

**1**

Business sends  
B2B payment file  
from ERP

**2**

Deluxe Payment  
Network compares  
payee data to  
lockbox network  
directory

**3**

Deluxe Payment  
Network forwards  
digital check\*  
and remittance  
statement to  
lockbox operations

**4**

Payee receives  
digital files for  
clearing and posting

\*Deluxe prints and securely destroys a copy of the check to comply with federal regulations.



# Significant benefits for payers, payees and banks

Deluxe Payment Network provides measurable advantages for all participants.



## **Payers**

- » Eliminate check printing and mailing costs—estimated at \$1–\$1.50 per check
- » Reduce the risk of check fraud
- » Improve supplier and customer satisfaction



## **Payees**

- » Accelerate cash flow by eliminating mail float—average of 48–72 hours faster
- » Reduce lockbox workload and related fees
- » Increase straight-through processing rates



## **Banks and lockbox providers**

- » Cut time and labor required for check processing by half
- » Rejuvenate and differentiate the lockbox offering
- » Speed cycle times



## Time and labor savings in typical lockbox activities

Initial results based on the Deluxe lockbox pilot conducted in 2021 show a 53% reduction in the time and labor required to process paper checks at the lockbox.

Digital delivery with Deluxe Payment Network completely eliminates the need for presorting, preparing batches, scanning and keying check amounts.

### Automating with Deluxe

Data entry:  
invoice

Reconciliation  
and balancing

Re-association

Reject handling

### Traditional lockbox operations

Batch  
preparation

Scanning

Data entry:  
amount keying

Data entry:  
invoice keying

Reconciliation  
and balancing

Re-association

Reject  
handling



## What is a payment network?

Every payment relies on a directory of some type. With checks, it's payee name and mailing addresses. With credit cards and ACH transactions, it's routing and account numbers. New forms of payments, such as Faster Payments, use directories based on payee email addresses and mobile phone numbers.

The power of networks comes when they reach ubiquity: so widespread are the participants that it's fast, easy and cost-effective to reach your intended payees. Checks certainly meet this criteria.

### **Ease of enrollment is another critical factor.**

It's one reason businesses struggle to convert check recipients to other payment types. Fewer steps equal greater adoption. Creating an online account, remembering another password and sharing bank account data with a third party are all obstacles that limit electronic payment growth. For businesses, there's the additional cost of communication, system upgrades, information security and other changes to consider.

As part of Deluxe Payment Network, we've created several robust payee directories. Our healthcare directory, part of the Medical Payment Exchange (MPX) service, currently reaches more than 225,000 physicians, clinics, hospitals and medical facilities. There are other vertical directories for property and casualty insurance companies and small businesses.

Deluxe Payment Network will put another 1 million B2B payees within reach for electronic payments, thanks to the breadth of our nationwide lockbox network. As banks and corporate lockbox users join, the electronic reach of Deluxe Payment Network will grow exponentially.





## » About Deluxe

Deluxe, a modern Payments and Data Company, champions business so communities thrive. With roots tracing back more than 100 years as the original payments company and inventor of the checkbook, we've evolved into a leader in digital payments and data solutions, facilitating seamless connections to propel businesses forward.

Leveraging our powerful scale, we support millions of small businesses, thousands of vital financial institutions, and hundreds of the world's leading consumer brands, processing nearly \$3 trillion in payment volume annually. Explore how Deluxe can help elevate your business at [deluxe.com](https://deluxe.com).

» Contact your Deluxe representative to learn more.