



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.

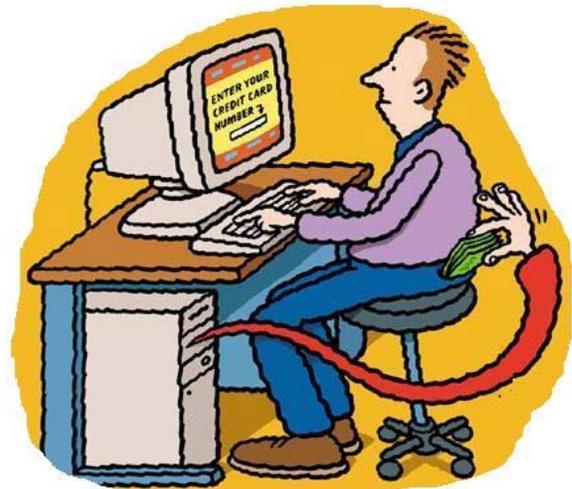
Our Mission

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.

Checking Account Fraud Increases

Over two million Americans were victims of fraudulent checking account transactions last year. Most of those crimes were committed online. Second only to credit card fraud, checking account fraud is quickly becoming one of the fastest growing types of consumer fraud.

Most banking customers with e-mail accounts are now wise to online solicitation schemes from criminals posing as banks who attempt to extract sensitive personal and financial information from unwitting victims. Other more sophisticated fraud attacks have involved hacking activities that infiltrate the servers of large financial institutions. In some instances, these attacks would imbed software code that redirected consumers from legitimate Web sites to sites hosted in Russia and other countries overseas.



Presently, 45% of American adults with Internet access do their banking or pay bills online. Security experts recommend that these customers refrain from using wireless access points for financial transactions, and use credit cards instead of debit cards for online transactions. These experts stress the importance keeping virus protection software active and up to date, and remind consumers to continually monitor their financial accounts online whenever possible.

Visa Upgrades Antifraud-System

Antifraud systems help distinguish suspicious purchasing behavior, such as one credit card being used in multiple states within minutes. Such a pattern often can't be detected, however, until some purchases have been made. Visa USA has developed new technology for preventing fraudulent credit card transactions, and along with its U.S. member banks has been quietly using the new system, dubbed "advanced authorization," for the past year. Visa said the technology now has the ability to stop fraud on the first transaction and can identify as much as 40% of fraudulent transactions that might have slipped through previous antifraud systems.

Card issuers face criminal tactics that go well beyond stealing credit cards. Counterfeit cards, for example, can be created by scanning information from customers' cards at stores or restaurants. More recently, large volumes of credit card numbers have fallen into the hands of computer hackers or criminal gangs, which have used them for fraudulent online transactions or to make counterfeit cards.

The new technology provides card-issuing banks with a rating of a transaction's potential for fraud, including whether a card number was part of a reported security breach. Besides evaluating whether transactions fit an account-holder's past behavior, the system compares transactions with data gathered across the entire Visa network for possible connections to broader patterns of criminal behavior.

Some crooks, for example, set up bogus merchant accounts and test hundreds of credit card numbers for validity by attempting to charge nominal transactions. The new authorization system is designed to spot and block such behavior.

The additional analysis adds fewer than 600 nanoseconds to the time required to process a transaction, even during peak seasons when Visa might process as many as 6,000 transactions per second.

"The big difference is that this is done in real time as the transaction is going through as opposed to after the fact," said Adam Frisch, an analyst with UBS AG.

Visa USA processes roughly \$1.3 trillion in transactions each year. Its fraud rate stands at five cents per \$100 in transaction value; Visa believes the new system could reduce that rate by two cents per \$100 in transactions. About 10% of bogus transactions can be intercepted before they are completed, she said, translating into a reduction of about \$164 million in fraud-related losses over five years.

ACH Transaction Trends

The ACH Network grew by 17.4 percent in the 3rd Quarter 2005 compared to a year ago, according to statistics from NACHA, the electronic payments association. A total of 2.7 billion transactions, including 1.5 billion debits and 1.2 billion credits, were conducted during the quarter. The total worth was greater than \$6.1 trillion.

Direct Deposit is still the most widely used ACH payment. The number of Direct Deposits in 2004 increased by 5.3 percent to more than 4.2 billion payments. The average dollar amount of a Direct Deposit was \$1,263. NACHA estimates that more than 71 percent of the private-sector workforce in the U.S. uses Direct Deposit to get paid.

In 2004, American consumers initiated 967 million ACH debit payments via the Internet (known as WEB). These transactions, a 40.4 percent increase over 2003, were valued at over \$300 billion. NACHA estimates that 80 percent of these debits are to pay bills via company or billing service web sites, 18 percent are to transfer funds, and 2 percent are to make purchases. In addition, Americans initiated 115 million ACH credit payments, valued at \$47.8 billion, via their financial institutions' or billing services' web sites. Combining these two methods shows that U.S. consumers used the Internet to initiate more than 1 billion ACH payments valued at \$350 billion.

What's New...



Financial electronic data interchange (EDI) on the ACH Network grew by 21.6 percent in 2004. There were 764 million EDI-formatted remittance records accompanying ACH payments. The number of financial EDI payments was 213 million in 2004, up 17.1 percent over 2003.

The total number of business-to-business ACH payments grew to 1.8 billion in 2004, up 8.9 percent over 2003. These payments include payments among trading partners, intra-company cash management transfers, government vendor payments, as well as business-to-government tax withholdings. The dollar value of these payments was \$19.9 trillion, accounting for 69 percent of all ACH payment dollars.

Universal Payment Identification Codes

Union Bank of California is the first west coast bank to offer Universal Payment Identification Codes (UPIC) to its customers. UPICs allow a company to openly share its account information to promote the receipt of electronic payments. The UPIC can be printed on invoices and displayed on the Internet while actual account information is kept private. The UPIC masks the bank routing and account numbers. It becomes the permanent electronic payment address.

UPICs look like account numbers, but cannot be used to electronically debit an organization's account or create a check or demand draft, thus reducing the risk of unauthorized debits. UPICs work with current cash management, accounting, and payment systems. When the Electronic Payments Network receives an ACH credit file with a UPIC, it translates the UPIC into the seller's bank routing and transfer number and seller's account number before routing the payment to the seller's bank. UPICs can be used in conjunction with Debit Blocks and EPA filters. EPA ensures that no unauthorized agents can debit your account, while Debit blocks secure DDA accounts against all debits.

Union Bank recently issued its first UPIC to Coastline Community College of Orange County, California. "UPICs are a highly effective tool to streamline and

expand payments options for a wide range of customers, while offering additional fraud protection," said Jesse Sandoval, Vice President of Union Bank of California.

UCI and Banking Services are currently reviewing establishing a UPIC. Please contact Banking Services for more information if you have interest in establishing a UPIC.

Corporate Check Conversion

NACHA, the electronic payments association, has very recently authorized banks to turn some business checks into automated clearing house transactions through accounts receivable conversion (ARC). Though banks have used ARC to convert billions of consumer checks, businesses have opposed using the process for their checks, and banks were initially reluctant to impose the practice on corporate customers. Banks now appear willing to support using ARC on some business checks.

The rules, which will take effect September 15, 2006, also reflect the fact that many of these business checks, which are hard to distinguish from consumer checks, are now being converted by accident. Under this proposal, businesses that do not wish to have their checks converted to ACH debits could alter their check stock to include an auxiliary on-us field (the left side of the MICR line containing the serial number), or notify payees that they do not want their checks converted.

A number of businesses and trade associations have expressed significant concern over this proposal because such business check conversions would disrupt cash management controls, inhibit automated account reconciliation, and disrupt fraud controls such as positive pay. Additionally, ACH debits created by converting checks would be rejected by a significant number of businesses that utilize ACH debit block safeguards.

Stay tuned...

US Bank Electronic Cash Letter Pilot

In August of 2005, UCLA launched a pilot project with US Bank to begin processing some of its deposits electronically via the bank's Electronic Cash Letter service. Under this arrangement, UCLA takes advantage of its existing remittance processing center to electronically transmit check images and corresponding MICR information to US Bank for deposit.

Depending on the types of checks to be processed, UCLA can take advantage of either Accounts Receivable Check Conversion (ARC), and have the items converted into an ACH transaction for processing through the NACHA network, or electronically process the check as an Image Replacement Document (IRD). Soon after transmission of this check data, UCLA can access reports which provide specific information as to those checks processed through ARC versus those items processed as IRD's. Additionally, the Electronic Cash Letter service allows UCLA to take advantage of more timely and efficient processing of returned items. Other than a few relatively minor wrinkles, it would appear that the service is working well for UCLA.

MasterCard Unembossed

Merchants will soon see a new payment card, MasterCard® Unembossed. It looks and functions like a MasterCard with one key difference. It is specifically designed for use in electronic terminals and all account information such as cardholder name, primary account number, etc, are imprinted rather than embossed. The cards can be credit, debit, or prepaid cards, and have the MasterCard brand mark. Currently, these cards are only issued by Canadian banks, however US merchants need to be prepared for them.

The cards include an "ELECTRONIC USE ONLY" legend on the card front to inform consumers that merchants will be processing their transactions using their electronic terminals. MasterCard

Unembossed does not require a separate decal, new equipment, or any system changes.

Debit Cards

Especially in light of the pricing changes brought about in part by the Visa Check/MasterMoney Antitrust Litigation settlement (see article in this Newsletter), the cost to process pin based debit card transactions can be significantly less than credit cards, and also less than transactions processed without a pin number.

A creative cost savings application is being used at UCLA: Debit card transactions conducted on-line without a personal identification number, known as PINless debit.

That's because PINless debit, a product recently introduced by the major electronic funds transfer (EFT) networks (including NYCE, Pulse, and Star), is confined to payments to utilities, universities, government agencies, and other billers and regulated industries regarded as low risk. PINless debit is more expensive than WEB (NACHA defined entry) but cheaper than a credit card transaction. And, it offers guaranteed payment with electronic authorization. A \$75 Internet transaction would cost merchants \$1.53 on a bank credit card, about 40 cents on the EFT networks. While this is higher than ACH processing, UCLA's savings is reported at \$10,000 a month, as compared to the former processing through the credit card networks. Marsha Lovell, Director and Credit Card Coordinator at UCLA, indicates this implementation went smoothly. "Our students are happy and the cost reductions have been significant!"

Any questions relating to PINless debit should be directed to your Credit Card Coordinator or Banking Services.

Credit/Debit Card Services

Visa Check/MasterMoney Antitrust Litigation update

The Visa Check/MasterMoney Antitrust Litigation is a class action lawsuit. The Class consists of all businesses and organizations in the United States that accepted Visa and MasterCard debit and credit cards for payment at any time during the period October 25, 1992 to June 21, 2003. Visa and MasterCard settled with the plaintiffs' class agreeing to eliminate their "Honor All Cards" policies, which required merchants that accepted their credit cards to also accept their signature debit card transactions. Visa and MasterCard also agreed to pay \$3.05 billion for a settlement fund to provide compensation to class members. The University has hundreds of merchants that were impacted by this settlement. The deadline for class members to file claims was recently extended through December 28, 2005.

Consolidated information on this lawsuit can be found at:

<http://www.inrevisacheckmastermoneyantitrustlitigation.com/index.php3>

Should you have any questions about the lawsuit, the settlement or about procedures for filing a claim, please contact your Credit Card Coordinator.

PCI News

As reported in our last newsletter, all of our campuses are subject to a credit card information security program called the Payment Card Industry Data Security Standard (PCI). A team comprised of representatives of both the Campus and UCOP communities, through an RFP process, selected Ambiron, a TrustWave (ATW) Company (the companies merged in mid-March 2005), to assist the University of California system in complying with the PCI requirements that are now imposed on all credit card merchants. These standards apply to all merchants that are processing, storing or transmitting cardholder data, regardless of whether

they are operating in a card-present or card-not-present environment. All UC Campuses are required to validate compliance with PCI by using the services provided by ATW. The validation process is intended to identify and correct vulnerabilities that endanger the protection of cardholder information. The tools for validation compliance, for UC's level of credit card security risk, are the PCI Self Assessment Questionnaire and quarterly perimeter scans on externally facing IP addresses.

Third party vendors who are processing, storing or transmitting credit card information on behalf of the University must also be compliant with PCI DSS. Visa and MasterCard have different requirements that apply to these service providers, and UC units must ensure that they are using compliant service providers. Visa and MasterCard maintain lists of Compliant Service Providers. The Visa link follows:

http://usa.visa.com/business/accepting_visas_ops_risk_management/cisp_service_providers.html?it=il/business/accepting_visas_ops_risk_management/cisp.html|Service%20Providers

Any questions relating to PCI should be directed to your Credit Card Coordinator or Banking Services.





Travel Management Program

The University is continuing its efforts to evaluate potential cost savings and improved efficiencies from travel services as part of the overall Strategic Sourcing Program. A project is underway to evaluate the portfolio of travel-related activities including airfare, hotel and rental cars. We anticipate achieving significant cost reduction in annual travel expenses, which currently are roughly \$150 million.



Campus Controllers, Medical Center CFOs and National Laboratory CFOs are in the process of nominating members of their respective communities to participate in a Travel Management Council, which will be run under the direction of Anne Broome, Vice President – Financial Management. The Council will provide input, direction and advice for future strategic sourcing activities in travel. We anticipate that the council will be formed by the end of the current calendar year, with initial meetings and consultations ramping up in early 2006. Members will provide leadership at their locations to promote and encourage compliance with the improved features of the Travel Program.

The Travel Program is building upon past efforts to benchmark and leverage experiences of Fortune 500 companies while moving forward to develop realistic strategies to strengthen the University's

travel practices. We anticipate following a phased approach starting with the implementation of changes that provide immediate savings, and building momentum into other, more challenging areas. In addition to traditional travel products and services, the scope of the program may include leveraging the corporate card program, consolidation of travel agencies, on-line booking tools and conferencing techniques. With the participation of all UC entities, and input from industry experts, the University is poised to create a world class travel program that will benefit all participants.

Procurement Card Days

The second Annual UC/US Bank Procurement Card Conference was held in Newport Beach on October 19th and 20th. By all accounts, the conference was a great success. Every UC Campus was represented as well as the two California Labs. Some of the program highlights included:

- Strategic Sourcing briefing by Haggai Hisgilov
- Excellence in Travel Management update by Dan Sampson
- Purchasing Card Tax Issues presentation by Greg Anderson (Deloitte and Touche)
- Update on QPCA and Vendor/Supplier Certification by Linda McGee (VISA)
- Numerous valuable presentations by US Bank Relationship, Product and Support partners as well as UC Program Management

Although the conference benefited all, attendees from Santa Barbara and San Francisco, who are currently launching their programs, indicated that these sessions were invaluable. One of these representatives indicated, "There is so much expertise within the system, we are able to learn many lessons based on the experiences of these mature UC organizations."

If you would like to discuss the conference or obtain copies of any of the presentations, please contact Jerry Frantz.

UC Cashiering Conference

The annual UC Cashiering Conference was held on Friday, December 9th in Oakland at the Office of the Treasurer. As in years past, this was an opportunity for folks involved in the cashiering operations at the various UC campuses and medical centers to discuss an array of topics of mutual interest. In addition, we heard presentations from a number of our business partners including US Bank, Wells Fargo, and Bank of America. The bank partners provided demonstrations of their new remote deposit services and enhancements to information reporting via the WEB.

If you are interested in additional details, please contact Jeff Donahue.

High number of MICR rejects with Wells Fargo

At the Disbursement Managers meeting in May 2005, Banking Services reported on the high level of AP and Payroll checks that Wells Fargo bank was rejecting due to unreadable MICR line imprints. If the number of rejected checks is greater than 2% of the items processed for an account in any month, UC is charged a fee per reject. For April and May 2005, we paid in excess of \$3,000 and \$2,600 for these charges. At the time, a couple of our accounts had reject rates higher than 6%. A bit of good news - MICR line rejects have been reduced by an average of 35% to just under \$2,000 over the most recent three months, August through October.

Wells Fargo reports that three main issues have caused rejects on UC checks. The first cause is printer misalignment which generally requires printer servicing to fix. Secondly, ink quality on the check has been an issue. This is often caused when ink cartridges are low, and leads to thin or mis-proportioned characters. A third issue has been with checks not torn at the perforations, which can result in hanging chads and potential distortion of the MICR line.

Office of the Treasurer – STIP

The Short Term Investment Pool (STIP) was established in 1976 as a cash investment pool available to all UC fund groups. STIP allows fund participants to maximize the returns on their short-term cash balances by taking advantage of the economies of scale of investing in a larger pool. STIP consists primarily of current funds slated for payroll and operating / construction expenses for all UC campuses and medical centers. In addition, funds awaiting permanent investment in one of the long-term pools are invested in STIP to earn maximum daily interest until transferred.

For additional details see the following link to The Short Term Investment Pool Brochure for June 30, 2005:

<http://www.ucop.edu/treasurer/stip%20brochure/STIP%20Brochure%20605.pdf>



Wrapping UP



Bank of America Direct Conversion

Banking Services recently kicked off a project to fully migrate University of California BAMTRAC Users over to the Web-based Bank of America Direct. For many years, the desktop-based BAMTRAC system has been used by campus and medical center departments to retrieve information reports for their respective Bank of America depository accounts.

In anticipation of the eventual retirement of the BAMTRAC system, a number of campus and medical center groups had already begun the conversion process in conjunction with the system-wide adoption of Bank of America Direct for electronic funds transfer. As a result, a number of campuses fully completed their migration from BAMTRAC to BofA Direct prior to the initial kick off announcement from Banking Services.

We hope to complete the entire conversion by the end of January 2006. In addition to immediate pricing concessions obtained from the bank as a result of this migration initiative, the overall costs associated with information reporting through BofA Direct should be significantly less than the costs of comparable information obtained through BAMTRAC.

If you are a BAMTRAC User, and have not been apprised of the upcoming conversion to Bank of America Direct, please feel free to contact Banking Services directly for additional information.

UCOP Year End Support

The various campuses and UC entities observe holidays on different schedules this year. Office holidays at UCOP include December 23, 26, 29, 30. Banking Services will provide limited administrative support after December 22. Remember that December 26 and January 2 are Federal Reserve holidays. In instances where you will need assistance from UCOP, we suggest that you communicate early with the appropriate associates.

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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