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Payment Services PS-11-063 Modified Paper Item Process for Ontario Credit Unions

September 21, 2011

The purpose of this communication is to announce that Central 1 will be introducing a modified paper item process for credit unions in Ontario.

Currently, Central 1 has an agreement with Symcor Inc. for the outsourcing of paper item processing services in Toronto, Montreal and Halifax that expires on March 31, 2012. In preparation for the expiry of this agreement, Symcor has advised us to expect substantial cost increases in the coming years due to declining volumes and rising operating costs.

The prospect of substantial cost increases prompted us to explore alternatives. After a significant amount of analysis and negotiation, we landed upon a hybrid arrangement with Symcor to continue to utilize their physical locations and staff at each site to capture images of credit union cleared cheques and deposit items and to transmit those digital images to the cheque imaging platform in our B.C. operations for processing and storage in the Central 1 image archive. Leveraging the B.C. image platform, software applications, physical site and expertise in item processing will result in significant ongoing savings when compared to the higher prices that we were facing on renewal of the current contract with Symcor.

Immediate benefits for credit unions will include a centralized returned item processing service, more timely access to images of items from out of region/province, access to a searchable image archive for tracing purposes, and the ability to move forward with e-statements and to discontinue receiving physical cleared cheques.

Overview

Central 1 will be introducing a modified clearing process for Ontario credit unions in advance of our Symcor contract expiration date of **March 31, 2012**.

This new arrangement will leverage our Vancouver operations and redefine our relationship with Symcor and the services we purchased from Symcor. Instead of outsourcing all aspects of the processing of deposits and clearings, many of the processes will be handled at Central 1 in Vancouver. While some processes will continue to be handled by Symcor, some will be performed collaboratively.

Deposits will still be delivered to the Symcor sites and cheque images will still be created in Toronto, Montreal, and Halifax, but Central 1 applications will be used. The



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cheque images will be transmitted electronically to Central 1 operations in Vancouver for processing and settlement. The images will be archived in Vancouver and will be retrievable by credit unions via the Online Return System (ORS) and by credit union members via online banking. The physical items will continue to be exchanged at the Canadian Payments Association's regional exchange points in Toronto, Montreal and Halifax.

A project has been launched to plan the migration of credit unions from the current processes to the new processes, but not all of the detailed information has been finalized. We will send out follow-up communications on this important initiative as we work out the details. The following provides a high-level outline of some of the key changes that credit unions should include in their plans.

Deposits from Branches

Deposits will still be sent to the same Symcor location using the same courier arrangements, but the way your deposits are prepared, deposit slips and the control documents will change.

More information on the new processes and the associated control documents will be provided in the next few weeks.

Physical Cheques

Recent amendments to the CPA Image Rule and changes to the Bills of Exchange Act confirm that cheque images have the same legal standing as the physical items. Credit unions will rely on Central 1's Online Returns System to view images and return dishonoured cheques. Accordingly, cheques will no longer be returned daily to credit unions, and will be securely destroyed at Symcor sites.

More information on the use of physical cheques will be provided in the next few weeks.

Files and Reports

Although clearing files will be generated by Central 1 in Vancouver for upload by credit unions' banking systems, we do not expect the formats of those files to change for either USD or CAD. We will attempt to limit the impact on banking systems wherever possible. The format of the reports received by credit unions will change to match Central 1's standard clearing reports.

More information on files and reports will be provided in October 2011.



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Cheque Image Files for Statements

With the new processes, cheque image files for e-statements will be prepared and delivered to credit unions or their statement service provider by Central 1 instead of Symcor. The image format and the file delivery process will change to Central 1's standard. More information on image files for statements will be provided in November 2011.

Settlement and Billing

Most changes to billing and settlement will be invisible to credit unions as these are already in place within Central 1's current billing system.

More information on Settlement and Billing will be provided in December 2011.

North-West Ontario Processes and Northern Ontario RBC NDDS Processes

Credit unions in Northern Ontario that process deposits through Credit Union Central of Manitoba or through RBC branches will not be impacted by the change in deposit processing. However, the handling of clearing items will be impacted.

More information on the impact to cleared items will be provided in December 2011.

Research and Returns

Credit unions will access Central 1's ORS to research images of deposit items and qualified cheques and to return dishonoured cheques. Cheques flagged as dishonoured in ORS will be returned by Central1's centralized cheque return service on the credit union's behalf. Credit unions will no longer need to manually prepare Return Item Carrier Envelopes (RICE) and enclose the physical cheque. This is the same process that credit unions currently use for returning dishonoured AFTs and USD paper items.

More information on ORS and returns will be provided in January 2012.

Tracing (Financial and non-financial)

Credit unions will continue to contact the Symcor National Help Desk for tracing or Symcor Calgary for copy requests for items processed prior to the transition to Central 1. After that, credit unions will have access to ORS to research, view, and print copies of cheque images. More information on Tracing will be provided in January 2012. **USD Cheque Deposits**



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USD cheque deposit processes will also be standardized to adopt the same processes that are in place in Vancouver. These changes should be invisible to credit unions.

Training

Training will be provided for all aspects of the new processes.

Implementation Date

Further details regarding the implementation date will be provided in future communications.

Credit Union Contact

It is very important that all credit unions are well prepared for this transition. Please designate a senior individual within your credit union who can act as the liaison with Central 1 on any important issues that may arise during the transition. Please use the attached form to provide your designated contact's name, telephone number, and e-mail address and return it to Central 1 Customer Support, fax (905) 238-8196, prior to September 30, 2011.

Questions:

If you have any questions, please contact Central 1 Customer Service and Support by e-mail at customerservice@central1.com, or call 1.800.661.6813 and dial extension 8431 or say "Customer Service".

