

# **Automation of Checks Received from Customers through Lockbox**

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## **Abstract**

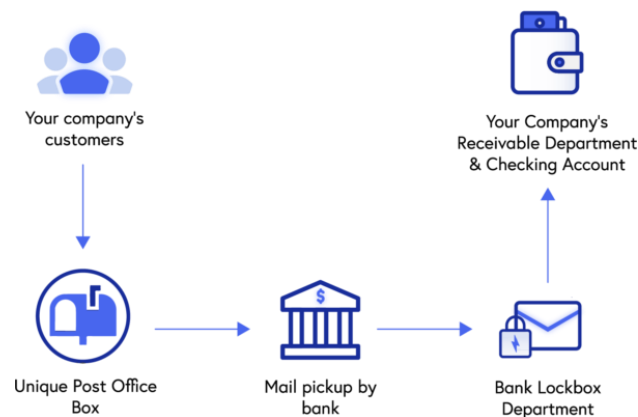
Accepting any mode of payment such as Physical Checks, ACH, Wire, Credit Cards etc. from customers is a huge gain for any organization dealing with customers coming from various technological or business backgrounds whereas processing these payments and having the flexibility to utilize these funds immediately can be challenging due to various reasons such as lack of tools and technologies, regulations or privacy protocols requiring secured means of data exchange between customers, banking institutions and organization's ERP Systems. Processing Physical checks received from Customers through Lockbox is one of the widely used mode of payments in North America. SAP has a robust functionality to receive lockbox information in an electronic form, automate the processing of recording the payments and providing insights into Cash Position. This article talks about the use of lockbox process and how its integrated between Customers, banks and Organization's ERP Systems.

**Key words:** Physical Checks sent by Customers, Lockbox Formats (BAI & BAI2), Cash and Bank Reconciliation Process

## **Introduction to Lockbox:**

Not all the customers would want to pay their outstanding invoices through electronic modes such as Wire and ACH Transfers due to various reasons such as lack of technology, security concerns with the usage of bank details on online platforms, comfort in continuing with the traditional modes of payment. Lockbox is a well-known payment method where an organization asks its customers to send Physical Checks to a designated post office box which is managed by a banking institution.

Lockbox banking is a service provided by banks to companies for the receipt of payment from customers. Under the service, the payments made by customers are directed to these special post office box instead of going to the company. The bank goes to the box, retrieves the payments, processes them and deposits the funds directly into the company's bank account.



**Figure 1:** Flow of Business Transactions in Lockbox Process

## Benefits of Lockbox:

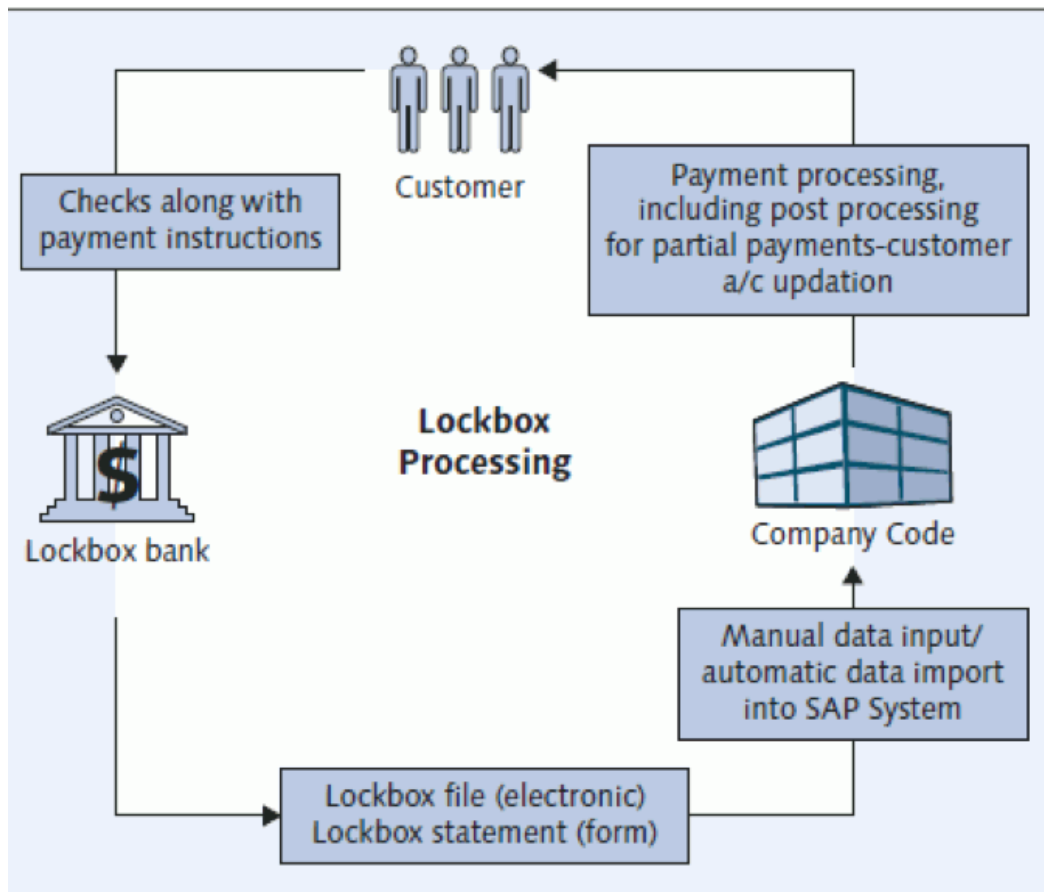
- **Greater Efficiency:** Employees no longer need to pick up checks from anywhere or scan them or drive them to make a deposit. Automating remote deposits frees up employees to work on new initiatives or take on training for another role in your business. With the tight labor market plaguing businesses for the past several years, accomplishing more while not adding more staff is an efficiency win.
- **Reliable Continuity:** Bank Lockbox services are highly reliable and predictable, as organizations receive notice of deposits the same time every business day. Compare that to employees handling multiple duties who often get pulled away from depositing checks. Lockbox services are automated and consistent.
- **Tighter Security:** Checks sent to a P.O. box and dealt with by a professional lockbox processor are infinitely more secure than checks that sit in mailboxes, on counters, in desks, or on tables. Checks are still the top B2B payment method and also the top payment method impacted by fraud. While the pandemic shifted more businesses than ever to electronic payment, checks and check fraud seem here to stay. Organizations feel their offices are safe. Unfortunately, it's not uncommon for businesses to experience forged or stolen checks. Bank Lockbox services remove that scenario.
- **Faster Payments:** Check receivables sent by customers to a P.O. Box arrive faster and are deposited more quickly than those delivered by a carrier, allowing business to access the funds quickly and predictably.
- **HIPAA Compliant:** For health care organizations, such as hospitals, specialty HIPAA-compliant medical Lockbox services ensure checks and data are processed under strictly regulated conditions.

## Lockbox Process in SAP S4HANA:

SAP S4HANA offers a robust and systemized functionality which can be used to receive lockbox check details in a secured way, processing the file using an automated way, identifying the customer outstanding invoices and applying payments accordingly and catching exceptions which can be reviewed and addressed by business.

## Advantages of Using Lockbox in SAP:

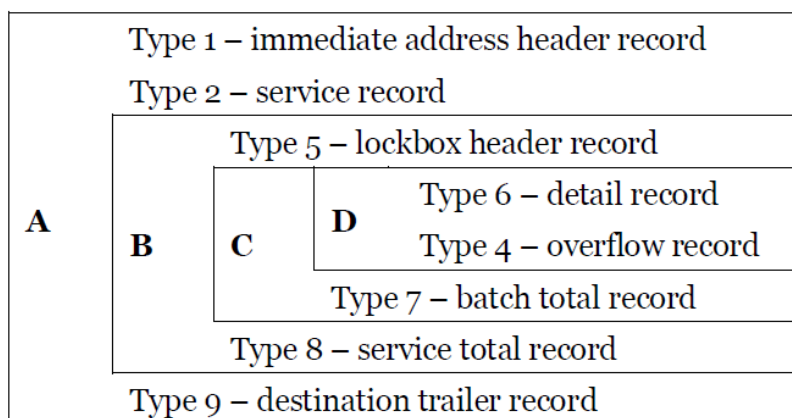
- Improves cashflow management and receivable turnover.
- Enhances financial security.
- Simplifies the accounting process and reduces the need for manual reconciliation.
- Lowers operational costs compared to traditional lockboxes.



**Figure 2:** Integration of Lockbox Process in SAP 4HANA with Banking Institutions

## Automatic Data Import of Electronic File in BAI2 Format into SAP S4HANA :

Most of the financial institutions providing Lockbox Services in the United States provides information about Physical Checks sent by Customers to Lockboxes in BAI2 Format.



**Figure 3:** Structure of Lockbox BAI2 File Format

BAI2 Format is provided by BAI “Bank Administration Institute”. BAI2 is an upgrade from the original BAI Format and is widely adopted in the United States. One has to go through BAI2 Specifications guide before implementing Lockbox Process in SAP.

```

100LOCKBOXDESLOCKBOXORI1702142103
58000001234567170214LOCKBOXDESLOCKBOXORI
600100100000357860000001001234567890010123035
40010015601940000015400000193930000000000GH
40010015609940000016500000163930000000000GH
8000000123456717021400010000035786
99999900

1702142103 – yymmddhhmm
0000035786 - sum of all invoices with 2 decimal places
000000100 - Bank Key number of the business partner
1234567890 - Bank Account number of the business partner
9400000154 – Invoice 1
0000019393 – Invoice amount 1
9400000165- Invoice 2
0000016393 – Invoice amount 2

```

**Figure 4:** Example of lockbox file and definition of content in color coding

## Classification of transactions when Lockbox Checks are Processed by SAP:

SAP updates each of the checks processed by Lockbox Program with one of the following status.

**Applied:** Check is updated with Applied Status when system is able to identify the customer and all the invoice numbers provided by customer while sending the check payment.

**Partially Applied:** Check is updated with “Partially Applied” status when the system is able to identify some of the document numbers and clear them but some more require further identification thereby subsequent clearing.

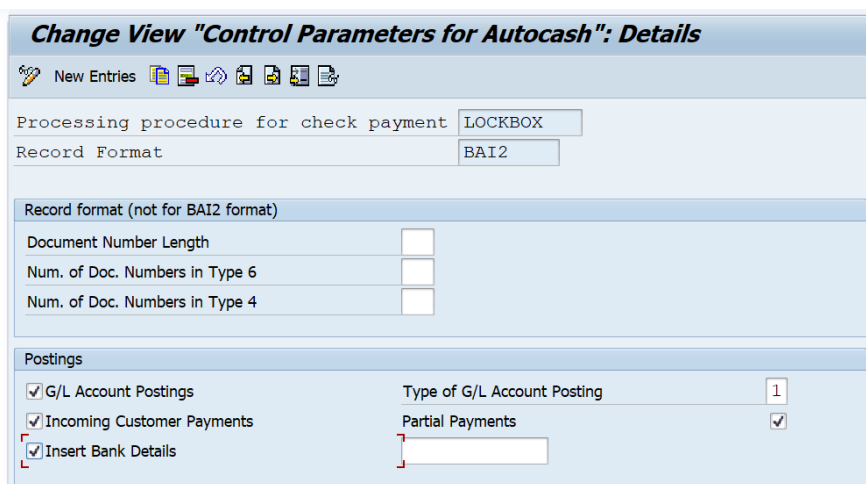
**Payment On Account:** Check is updated with “On Account” status when the system is able to identify the customer, but could not identify the outstanding invoices. This may happen due to various reasons such as customer not providing the invoice numbers while sending checks, customer providing incorrect invoice numbers, bank not correctly capturing document numbers in the file etc.

**Unprocessed:** Check is updated with “Unprocessed” status when neither the customer number nor the document numbers could be identified.

## Configuration of Lockbox in SAP:

### Defining Lockbox Format:

Lockbox Files are primarily offered in BAI and BAI2 formats where BAI2 is an upgrade version of BAI with more detailed information such as invoice numbers, invoice amounts etc which help Cash Application team for an efficient cash reconciliation, so organizations planning to implement automated lockbox process are recommended to use BAI2 to achieve grater benefits. Definition of Lockbox format lets the system know the format in which the lockbox files are expected to be received so that the respective programing logic would be applied while processing the BAI Files. It also has an option to update Customer Master Records in SAP S4HNAN with the bank details from the lockbox file. This would help business eliminating the need for requesting such information from customer, securely obtaining such information from customers and archiving such details as per the legal regulations.



**Figure 5:** Defining Lockbox File format in SAP S4HANA

### Defining Posting Parameters:

Banks or Financial Institutions are expected to credit the funds to designated bank accounts as directed by an organization after successfully processing the lockbox checks. So destination and source in SAP Configuration refers to Bank Account Number and Routing Number which act as an organization’s destination bank account. This setup would help the system to various posting parameters such as Bank

Account, General Ledger Accounts and Posting Keys using the combination of Company Code and House Bank.

**Change View "Posting Data For Autocash With Lockbox": Details of Selec**

Destination: 123456789  
Source: 987654321

**Lockbox bank data**

Company Code: 9999  
House Bank: BOA  
Account ID: CHKIN  
Bank (G/L) Account: 1000500  
Bank Clear.Acct(A/R): 1000507

**Posting parameters**

Bank Pstng Doc. Type: SA  
Cust Pstng Doc. Type: DZ  
Pstng Key: Debit G/L: 40  
Pstng Key: Credit G/L: 50  
Post Key: Credit Cust: 15  
Post Ky: D Cust: 06

**Figure 6:** Specifying Posting Parameters in SAP S4HANA

## Define Lockboxes for House Banks:

Banking Institutions provide a unique number for each lockbox account. Lockbox files received in an electronic form contain Lockbox No. This is assigned to Company Code and House Bank Combination which helps the system in identifying the bank accounts where the files are to be processed. Organizations may have separate destination bank account for each lockbox or may have one account to which all the lockbox funds are directed. This setup simplifies the configuration needed when there are multiple lockbox accounts depositing funds to the same destination account.

**Change View "Lockboxes For Our House Banks": Overview of Selected Set**

CoCd	Lockbox	House Bk	LBox No
9999	LOCKB	BOA	121212

**Figure 7:** Assignment of Lockbox Account to Company Code and House Bank

## Conclusion:

Offering lockbox payment option to customers and implementing automated functionalities to receive and process lockbox files is a smart choice as it increases the organization's portfolio for accepting wide range of payment capabilities while it simplifies the process for applying the receipts against the corresponding customer invoices.

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