Remote Deposit Capture: Revolutionizing the Check

If you haven’t heard of it yet, you will soon. Remote Deposit Capture has been called “The most important development the (U.S.) banking industry has seen in years” by the Federal Reserve and others. Almost all of the RFPs (Request for Proposals) the Global Cash Management group at the Bank of New York receives now request information on this service, and nearly all of the top banks in the USA have either just launched the service, or are well on their way to doing so.

The recent AFP Conference, held October 9-12 2005 in San Antonio, Texas, was a great indicator of things to come for Remote Deposit Capture. Nearly 6,500 financial professionals from around the world attended this year’s conference. Over 30% of the 270+ exhibitors were involved in the RDC industry, and over 90% of the 25+ banks were showcasing their respective solutions. All of the presentation sessions which focused on RDC were fully attended, leaving standing room only, and over 85% of the people we surveyed listed learning about RDC as one of their top 3 reasons for attending the conference.

The commonly-viewed benefits of Remote Deposit Capture (RDC) include convenience, better deposit availability and reduced transportation cost & risk. It is important to note that not all solutions are the same. Additional functionality such as Intelligent Character & Document Recognition, data management through business rules, the ability to feed internal systems, intelligent clearing capabilities and many others can further add value to the business case.

Remote Deposit Capture is a must-have product solution most US-based banks are racing to develop and get to market, and a service every corporation or correspondent bank should consider.

What is Remote Deposit Capture?

Remote Deposit Capture often has different names depending upon how the service is applied within a particular environment. These names include “Corporate Capture”, “Merchant Capture”, “Image Deposits”, “Image Cash Letters”, etc. In general, we see the term “Remote Deposit Capture” increasingly used as the catch-all phrase for a family of related products and services. Each of these service family members are related in 1 common way: The service allows for checks to be truncated and cleared electronically.

Recent legislation in the USA commonly referred to as “Check 21” makes this entire process possible. Passed in October 2003 and implemented in October 2004, this legislation allows banks to clear checks based upon images of the original items, instead of having to transport the original check all the way back to the paying bank for clearing. The benefits of RDC can be substantial: convenience, reduced transportation risk & cost, better availability, processing efficiencies, the ability to consolidate banking relationships and more.
Remote Deposit Capture, in its most simple terms, is a service which allows a user to scan checks and transmit the scanned images and / or ACH-data to a bank for posting and clearing. The basic requirements for an RDC service currently include a PC, an internet connection, a check scanner and a service provider such as your current bank. Checks you receive at your corporate or bank location can be scanned to create a digital deposit. This digital deposit is then transmitted (usually over an encrypted internet connection) to your RDC bank service provider who then accepts the deposit, posts the deposit to your account and assigns availability based upon your availability schedule. (To learn more about Remote Deposit Capture, please visit www.RemoteDepositCapture.com).

**The RDC Process:**

Depending upon functionality and degree of incorporation into your corporate or bank operations, the RDC process can range from extremely basic to becoming a part of your automated receivables processing platform. In its most basic application, here is an example from a corporate perspective:

1. ABC Corporation receives payments by check in the mail or at their office.

2. ABC Corp. performs their normal Remittance Processing process. This process includes opening the mail, data entry from the payment coupon / control document (application, form, invoice, etc.), data entry from the check (dollar amount, date, account number, etc.), and information uploads to the Accounts Receivables, Customer, and other databases.

3. Checks are then typically provided to the corporation’s treasury area where ABC Corp. prepares a deposit (deposit ticket with total and accompanying checks). This process typically includes counting the number of checks and adding the value of checks at least twice to ensure the deposit is accurate and balanced.

4. With Remote Deposit Capture, instead of physically going to the bank to deposit the checks, ABC Corp. can now scan the deposit ticket and checks using a desktop scanner.

5. Once the check images are captured, an ACH file (for eligible items) and/or an image-based deposit is prepared. The RDC system can then transmit (usually via FTP over the internet as a 128-bit encrypted file) the deposit to ABC Corp’s bank.

6. The Bank receives the ACH file and / or image deposit, posts to ABC Corp's account and assigns availability based upon an agreed upon availability schedule.

Behind the scenes, the bank has a few different options on how to clear the items. Checks converted to ACH transactions are processed electronically. For the non-ACH converted items, the process can be a bit more complex. Unlike what most of the press has scared the public into believing (that checks now clear almost immediately), as of September 2005, less than 2% of checks are cleared as images. How, then does the bank clear items captured via Remote Deposit Capture? By re-printing the images and clearing those re-printed paper documents! These re-printed checks are called Image Replacement Documents (IRDs).

While printing IRDs is not the ideal solution for any of the parties involved, until image clearing is widely adopted, this is a bank’s only option. The Check 21 law only mandates that a bank must accept an IRD in the clearing process if they are presented with one. The Check 21 law does not mandate that any banks
take images of checks, clear images or return checks as images, but it does pave the way for innovation in
the archaic way the USA used to (and for the most part, still does at this point in time) process and clear
checks.

*It is important to note that the vast majority of banks and corporations can benefit from Remote
Deposit Capture today, without the need for banks to clear checks via image!*

**Benefits of Remote Deposit Capture**

Corporations and Banks which utilize a Remote Deposit Capture service will likely realize a host of
benefits. Just a few of these benefits include:

*Reduced Transportation Costs / Convenience*

Now that full truncation of checks is possible, substantial savings can be had from reductions in
transportation expenses. We say "reduction" because there may be items which might be unsuitable and
unable to be processed via Remote Deposit Capture, and therefore must still be deposited in paper form at
a bank. The vast majority of items (99.5%+) will be able to be captured. Assuming your corporation or
bank previously had daily couriers depositing items, Remote Deposit Capture allows you to reduce your
transportation needs substantially. Your corporation may now choose to utilize that courier now only once
per week for the (very) few items which need to go to the bank in paper form.... an 80% reduction in
transportation!

*Accelerated Clearings*

Remote Deposit Capture enables users to capture deposits in their office / processing center, branch, etc
and can eliminate the need for the checks to be transported to the bank. This reduction of the
transportation time from the total processing lifecycle of a check provides a longer time for the
corporation to process the checks. Often, this additional processing time allows the corporation to deposit
more items on any given day than they otherwise would.

In addition, most banks offering Remote Deposit Capture have extended the cutoff times for deposit. For
example, one bank offering the service allows Remote Deposit Capture deposits to be made as late as
8:00 PM EST while the deadline for regular paper deposits is 4:00 PM. The combination of more
processing time for the corporation and later deposit deadlines results in accelerated clearing times.

*Improved Availability*

Closely related to accelerated clearings, Improved Availability results from the ability to now make
deposits earlier in the day. Most large banks offer availability schedules which vary depending upon time
of deposit. The earlier a corporation can make the deposit at the bank, the better an availability schedule
can be assigned to that deposit because the bank now has more time to process and clear the items. As
more banks begin to use image exchange for clearing, as well as other check-21 enabled products from
the Federal Reserve and other clearing networks, clearing capabilities and success rates will improve.

*Consolidation of Banking Relationships*

Remote Deposit Capture can enable consolidation of banking relationships. No longer does a corporation
necessarily need to have the local bank around the corner to make check deposits. With a Remote Deposit
Capture solution, there are no longer geographic "footprints" for depository relationships. The
combination of business portability and competition between banks for corporate deposit business will
prove a windfall for corporations. Clearly, the larger the corporation and the more volumes of items to deposit, the greater the potential opportunity. Likely benefits of banking relationship consolidation include:

- Lower Per Item Pricing: By consolidating your depository account relationships to fewer banks (possibly just a single bank), your depository bank should be able to provide a volume-based discount on your per-item charges. This holds true on both items deposited, as well as your return item fees, posting fees, etc.
- Improved Availability: Similar to the benefits of volume pricing, larger banking relationships often are assigned "preferred" availability schedules.
- Expanded Credit Relationships: As a corporation does more business with a bank, and with larger balances / volumes in the accounts, the bank will be more interested in providing credit services.
- Reduced relationship management costs: Bank account analysis, reconciliation and management can be a costly and time-consuming process. Reductions in the number of banking relationships will result in lower relationship management costs.

Additional benefits for corporations include the ability to leverage an RDC solution to automate both the deposit function as well as remittance processing through use of Intelligent Character Recognition, data uploads into accounting and other systems, and more.

For banks, in addition to the above list of benefits, RDC can be a very important part of your competitive product suite and provides the opportunity to expand depository relationships beyond the banks physical footprint. Additional benefits for banks include potential float advantages, lower clearing costs, improved service and new revenue opportunities.

**Not all RDC solutions are the same!**

There is little question RDC can add value to the check clearing process for a bank or corporation. It is important to note, however, that not all RDC solutions are the same, nor should they be. Functionality can differ substantially depending upon the provider and their capabilities. Similarly, requirements can be quite different from one user to another. Requirements of any RDC system should therefore be closely matched to system functionality. This relationship generally is reflected in the correlation between the cost of the service, and the value that service provides to the user.

**Remote Deposit Capture Spectrum of Value Opportunity**

![Diagram showing the spectrum of value opportunity for RDC services](image)

A basic service is a stand-alone one which simply replaces the user’s trip to a bank. Check amounts must be keyed and no additional data nor functions are part of the service. A basic service provides little or no automation of the deposit and remittance process. This type of a service is well suited for small businesses which receive only a few checks per day.
An optimal RDC service is one which employs additional functionality such as automated Image Quality Analysis, Intelligent Character Recognition, auto-balancing, data capture, business-rules driven system feeds and intelligent clearing. An optimal service is one which provides substantial deposit and remittance processing automation, and can be incorporated into a bank or corporation’s daily operations. This type of a service is well suited for banks and corporations which process hundreds of items per day and have significant functionality requirements.

**The New Era of Check Clearing**

Checks are, and will remain, a very important part of cash management for US banks and corporations. While the use of checks in the USA is declining overall, the majority of payments the average corporation receives are by check. Some banks have even seen the average number of checks written and deposited by corporations increase in recent years, indicating the decline in checks is primarily a consumer-based phenomenon.

Either way, Check 21 created one of those rare opportunities you sometimes see in business where both the providers and users of the service stand to benefit. Remote Deposit Capture can unlock tremendous value and result in substantial cost savings for banks and corporations alike. As more banks offer the service, improve functionality and begin full electronic-based clearing in earnest, don’t be surprised to see Remote Deposit Capture as ubiquitous as online banking among check depositors.