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Remote Deposit Capture: Measuring Profitability

From small community banks and credit unions to the largest of U.S. financial institutions, Remote Deposit Capture (RDC) has become a “must have” product. Ultimately, RDC provides bank customers the ability to capture images of checks at the point of transaction and transmit them to their depositing bank, eliminating the need to physically transport checks and process them and facilitating check collection through the electronic exchange of data with the paying bank. The physical checks are typically either destroyed or returned to the customer. Some banks that are not yet image-enabled offer RDC nonetheless, by converting the checks to Image Replacement Documents (IRDs) that are used in lieu of images to accomplish the same electronic check collection objective.

Client demand for RDC has grown exponentially, and competition for customers is fierce, triggering a mission among banks to provide product capabilities, sometimes without sufficient regard to managing processing costs. The intense focus on sales and maintaining market share has shifted the spotlight from customer and product profitability. However, without profitability measurement and monitoring, a bank could quickly find itself in a position where the costs of receiving and processing RDC deposits exceed revenues. Banks that are slow to migrate from paper-based clearings to image exchange are subject to the rising costs of IRDs. Conversely, those that implement image technology without sufficient customer need or volume to support it risk significant capital investment that cannot readily be recovered through pricing. So choosing the right time to migrate from paper to image technology is critical in terms of profitability.

How will your bank make that decision?

What tools will you utilize?

What data do you need?

The following case study demonstrates the kind of analysis that should be conducted to determine the profitability of an RDC corporate customer deposit.

Measuring Customer Profitability—A Case Study

As banks implement image clearing strategies and deploy RDC simultaneously, the ability to define the effect on customer profitability becomes a difficult task. Customer profitability is a function not only of direct pricing revenue, but of a component of float, or uncollected funds, as well.

The case study on page two examines the profitability of a typical RDC corporate customer deposit by analyzing how allocated (customer) and incurred (bank) float and per item fees react when implementing an image-based check clearing process. The effect on profitability can be clearly defined by calculating the difference of both processes (image versus paper). Once this baseline has been established, the ability to model further scenarios—such as applying fractional float or adjusting per-item pricing—can be applied.

Exhibit 1 on page two is a partial snapshot of an RDC corporate customer’s monthly deposit, which displays check volume by Federal Reserve district type (City, RCPC, Country).

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instead of a \$26k loss under a paper-based process.

Beyond quantifying the potential financial benefit of imaging (which may differ by bank and by customer within bank), further analysis can be performed by focusing on the impact of price and availability schedule changes subject to customer sensitivity.

In a dual environment of both image exchange and conventional paper processing, profitability analysis is doubly complex. In most cases, both technologies will continue to co-exist within the same institution for years to come, and conclusions about either of them cannot be drawn intuitively. Banks have decisions to make with regard to imaging and RDC pricing that need to be based on quantifiable financial reality. Analysis needs to take into account an ever-increasing array of variables, price points,

and cost considerations that render manually compiled spreadsheets antiquated and prohibitively time-consuming. The underlying data used to support analysis must be comprehensive, reliable, available, and timely.

Given these requirements and the rapidly changing nature of the payments business, most banks have had neither the time nor the resources to develop and populate the analytical systems necessary to identify business opportunities and take advantage of market inefficiencies. A system to measure and manage payments profitability is a necessity. Without it, sales professionals and product managers have no real basis for decision-making and are disadvantaged in their ability to compete effectively for RDC business.

What is your bank using to determine payments profitability?



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