



How to Capture the Market

Discovering the Value of Distributed Capture at Your Bank



This white paper discusses how distributed capture will improve bank wide deposit services and achieve the benefits in a Check 21 world.

In this paper, distributed capture refers to the non-centralized capture of images and data that occurs at or near the point of presentment.

A pragmatic approach to evaluating distributed capture is provided, alongside a series of questions to help bankers discern the most appropriate channels for implementing distributed capture at their banks.

This white paper:

- (I) discusses the changing face of the banking industry and the market dynamics making it necessary for banks to evaluate distributed capture at the point of acceptance,
- (II) examines how distributed capture can be used to help banks achieve operational and revenue goals in the face of these market changes, and
- (III) provides a pragmatic approach to evaluating distributed capture, including a discussion of distributed capture within various channels to help you determine the right starting point for your bank.

I) The Changing Face of Banking

What market dynamics now compel banks to evaluate distributed capture at the point of acceptance?

Increased competition through elimination of paper

The elimination of the need to transport paper checks for clearing purposes, engendered by Check 21, makes it possible for banks to target new customers regardless of geographic location. As businesses seek to consolidate the number of banking relationships they maintain, they will look to players with the best value proposition regardless of location. In addition, with commercial customers now able to perform payment capture functions on their premises, these merchants now have the power to negotiate price and funds availability based on the value of their deposits.

Increase in check processing costs

Due to declines in overall check volume, industry estimates project increased check processing unit costs of up to 15% within two years for any bank that does not implement check processing reform measures in the Check 21 environment (i.e. check truncation, image exchange and distributed capture). These unit cost increases could jump to 35% within five years. Reducing the two major cost drivers of check processing – labor and transportation – is critical in order for banks to remain competitive.

The erosion of check based revenue streams

The trend towards decreasing check volumes is a major threat to banks as check deposits make up 40% to 60% of their revenue stream. The effects of this trend are seen in the shrinkage of both revenues and customer base, with consumers increasingly willing to shift their payments to more convenient and less expensive channels. To recover margin losses from check based revenues, banks must evaluate and implement new workflow efficiencies. With new efficiencies comes the opportunity to introduce new service offerings with better margins.

Declining DDA balances

As consumers become more sophisticated about cash management and gain access to new technologies and products, DDA balances will leave the system. Banks must again renew the value of DDA accounts to consumers by improving availability, removing fraud risk and providing new product offerings and improved services at the point of customer interaction. The streamlining of deposit processes is integral to this reform.

Additional options for electronically processing payments

When evaluating new deposit services from banks, customers will be increasingly interested in both ACH conversion and check truncation (IRDs and image exchange) capabilities.

Today some forms of payments can be converted to an ACH transaction with or without image. Paper check conversion to ACH is already accelerating the decline in check processing volume even though it requires prior customer approval and is only available for consumer checks. ACH conversion complements those entities that process a high volume of consumer remittances. Check 21 and the movement towards check truncation will further drive this trend as it is applicable for any type of check and does not require customer notification and approval.

II) How will Distributed Capture Help Your Bank Address this Changing Market?

The cost saving and revenue growth opportunities enabled by distributed capture technology are readily discernable and bring desirable outcomes in the face of today's banking environment.

Revenue Growth

Banks can grow market share and protect against competitive forces at lower costs, by using an efficient distributed capture solution to:

- expand market reach beyond current geographical boundaries as dictated by paper processing,
- offer a broad array of service options and charge for enhanced services,
- proactively offer market leading services to retain and attract customers,
- provide earlier credit and funds availability, and
- deliver cost savings incentives for customers to consolidate multiple banking relationships into one single bank and interface with commercial client financial systems.

Cost Savings

As a key enabler of check truncation, distributed capture lets banks realize new cost efficiencies, even in the face of declining check volumes. By integrating with current infrastructure and efficiently performing ongoing tactical operations roles (e.g. validation, corrections and balancing) banks can use distributed capture to:

- detect fraud earlier in the system,
- obtain consistency of service across the enterprise,
- reduce processing costs (e.g. labor and courier) and increase efficiencies, and
- simplify deposit preparation for retail and commercial clients resulting in more accurate and balanced deposits for banks.

III) Where to Start: A Pragmatic Approach to Evaluating Distributed Capture

In which channel should your bank's distributed capture implementation begin? The right decision depends on the goals and circumstances unique to your bank. Below is a brief discussion on each channel, with questions to help you determine the most ideal starting point(s) for implementing distributed capture.

1) Commercial Environment

Commercial Remote Deposit Capture is a critical service offering now. Without it, banks risk losing customers. While early adopters of this solution will gain market share quickly, long term profitability will be contingent upon the successful reassignment of processing functions.

The benefits banks will derive from offering commercial remote deposit capture are:

- expanded market reach by moving beyond the geographical boundaries of paper processing,
- increased revenues via the new opportunity to charge for an enhanced service,
- reduced operational costs through extended clearing times that allow work to arrive sooner and in a more complete state,
- improved customer service levels with the addition of a high value service, and
- enhanced market positioning as a premier provider of streamlined services.

Questions a banker should ask when considering a remote deposit capture service:

1. Are you looking to expand your market reach by moving beyond the current geographic boundaries of paper processing?
2. Are your customers asking for remote deposit and balancing capabilities for their cash offices?
3. Is the competition threatening your relationships with current clients by offering, or planning to offer, this service?

If the answer to any of these questions is “yes”, your bank should strongly consider offering your clients remote deposit capture services. Once that decision has been made, you must then be able to articulate to commercial clients the benefits of remote capture. For example, commercial clients with retail store fronts should consider whether the cash office or retail point of sale (a.k.a. in-lane imaging) will provide the best level of customer service.

The benefits of both scenarios are listed on the following page.

Cash Office

In the cash office, a company can realize significant benefits for relatively low implementation costs. Business such as wholesalers, doctors, retailers and others who accept checks as payment can easily incorporate remote capture into their payment acceptance steps.

Benefits of performing distributed capture in this environment include:

- reduced time and labor for deposit preparation,
- elimination of daily trips to the bank for check deposits,
- increased deposit accuracy and efficiency,
- improved cash management, accounts reconciliation, and reporting
- time and administrative savings through reduction in banking relationships,
- improved funds availability, and
- elimination of pre-encoding at the customer site.

Questions to ask clients when considering the commercial cash office:

1. Do you prepare daily, balanced, pre-encoded deposits for your bank today?
2. Are the checks you receive mostly high-dollar value?
3. Do you ever have trouble meeting bank deposit cutoff times?

Clients that answer “yes” to any of these questions have needs that can be fulfilled with a distributed capture solution in the cash office.

Retail Environment – In-lane

The main benefit of this in-lane imaging is fraud reduction, as fraud screening can be performed in real time. Some factors to consider in this scenario are check volume, store traffic, store type, (i.e. specialty/general merchandise rather than food and drug) and required speed and customer service levels at check out.

Questions to ask commercial clients when considering in-lane:

1. Do your retail transactions occur with customers in actual lanes?
2. Do checks make up 5% or less of your total transaction volume?

Clients that answer “yes” to either of these questions have needs that can be fulfilled with a distributed capture solution in-lane.

If commercial customers make up a significant portion of your revenue today and you are looking to grow this part of your business, then your bank must quickly offer solutions to this market. Why? Commercial customers that use deposit services today are independently reviewing their options and, in some cases, taking action independent of their corporate bank. Banks that actively roll out these services stand to keep their current customer base and attract new customers.

2) Branch Back Office

In the branch back office, a bank can realize significant benefits from distributed capture with the least amount of risk and cost. Distributed capture in the back office has no impact on tellers and their ability to service customers and does not have to be integrated with your branch automation system. Further, once implemented, migration to the teller counter from the back office is a straightforward process. Other benefits of performing distributed capture in the branch back office include:

- elimination of expensive courier runs to meet clearing deadlines,
- faster processing, as work arrives sooner,
- faster access to images for quicker fraud review,
- no impact on in-branch customer service, and
- minimal deployment costs compared to teller level integration.

Questions to ask when considering the branch back office:

1. What is the average number of checks in a typical deposit?
2. What is the commercial account activity at your branch?
3. How will customer traffic flow patterns be impacted?
4. Does your growth strategy include deployment of branches remote from your operation or data center?
5. Will imaging in the branch allow you to take advantage of image processing and truncation without investing in expensive back office image upgrades?

Answering these questions as they relate to your operation will make the business case for distributed capture in the branch back office become clear for many banks, such as those accepting a large number of deposits at the branch. In addition, those banks with high courier costs and legacy or proprietary branch automation systems may find it more compelling to implement branch back office capture now, rather than teller capture.

3) Branch Teller

Distributed capture at the teller level can deliver additional benefits from back office capture, including increased deposit processing efficiency, improved transaction integrity and enhanced customer service. Using advanced image capture and recognition technologies, tellers can quickly capture and verify deposits, eliminating a significant amount of adjustments later and resolving issues while customers are present.

Other benefits of performing distributed capture at the teller window include:

- reduced teller workload, providing more time to devote to customer service,
- minimized keying errors, through elimination of manual proof and encoding,
- reduced research and adjustments costs, and
- reduced costs for the central system (i.e. data entry and correction labor).

Questions to ask when considering the branch teller:

1. What is your bank's customer service strategy and how will distributed capture impact the service levels at each branch?
2. Is this a logical fit with your branch technology refresh strategy?
3. What level of integration with your current branch automation solution will be required?

If you already invested in branch automation technology and want to further enhance teller services while gaining efficiencies from lower courier costs, teller capture is a practical starting point for your bank. A compelling characteristic of teller capture (unlike branch back office capture) is the ability to directly enhance the customer experience.

4) ATM

Adding distributed capture functionality at select ATM sites will drive a superior ROI for any bank. The volume of check deposits at each existing ATM is critical in determining where and when to offer image capable ATMs. For new major ATM deployments there are efficiencies to be gained in including check image technology upfront rather than upgrading at a later time.

In addition to increased operational efficiencies, check image capture at ATMs offers significant customer benefits, including:

- eliminate empty envelope fraud, and
- increased service levels, including trust in deposit accuracy via image enabled deposit receipt.

Questions to ask when considering the ATM:

1. Which existing ATM locations generate a significant number of check deposits?
2. Is ATM fraud an issue at your bank?
3. Is brand building through the presence of convenience ATMs a priority for your bank?
4. Do you accept deposits at off premise ATMs?

If your bank is looking to expand its footprint and establish branch-type services for less profitable market segments and deposit products, deploying ATMs with enhanced features is one way to accomplish this without significant start-up costs and ongoing expenses. Providing image capture at the ATM will increase customer confidence in using ATMs for check deposits and will reduce courier and other processing costs.

Determining where and how to implement distributed capture involves asking the right questions. However, what is often forgotten in the process is the connection between the remote capture channels and the functions that should reside in operations department. The process of obtaining the answers to your distributed capture questions is made easier when you understand and identify which of those functions belong in operations.

IV) What Belongs in Operations and Why?

While the issue of centralized versus point of presentment capture will vary depending on your bank, there are certain distributed capture functions which, with few exceptions, belong under the responsibility of operations. Understanding why will make it much easier for your bank to assess and deploy distributed capture strategies.

Critical Business Practices Management

Operations should retain management ownership of certain business practices. These include:

- fraud detection tools,
- final IQA and IU analysis and issue resolution,
- procedures for moving paper and/or electronic images and data,
- collections methodology,
- risk management,
- float management, and
- image archive management.

Although the tactical elements of these, currently centralized, functions can be effectively handled closer to the point of presentment, having a central control mechanism in place will ensure consistent implementation and maximized ongoing benefits to the enterprise.

Complex processes

Processes such as exception resolution and enterprise balancing belong in a central location for three reasons:

1. These activities require a special skill set. To expect uniform learning and application of this skill set across an enterprise-wide teller force or commercial clients is not reasonable.
2. Complex items force the teller to essentially turn away from the customer, damaging the customer experience and forgoing revenue generating opportunities.
3. It is more cost effective to process exceptions in a centralized function rather than at multiple individual teller levels or commercial client locations, where all tellers and cash office workers would have to be trained in all exception procedures.

V) Summary/Conclusion

There is no single answer that will address the unique needs of every institution when it comes to distributed capture. However, when examined by channel, the business case benefits of distributed capture become clear.

In the long run, distributed capture solutions across a variety of channels will drive the greatest benefit towards serving your customers, managing your costs and thwarting competitors. In the meantime, begin with these three steps to explore how your distributed capture implementation might take shape:

1. Examine each channel in your bank to identify the benefits and corresponding value of implementing distributed capture in each area.
2. Determine how your bank will integrate implementation across all business units, and with your back end operations.
3. Focus your efforts with a phased rollout for the selected channel(s).

Distributed capture is an effective tool for addressing the new market conditions of the Check 21 world. Success in this new world is a matter of examining your bank's overall strategies and core strengths and using them to guide your distributed capture implementation decisions.

Look for NCR's next discussion paper on **Distributed Capture at the Commercial Site**, for an in-depth examination of the considerations and benefits of this solution for your bank.