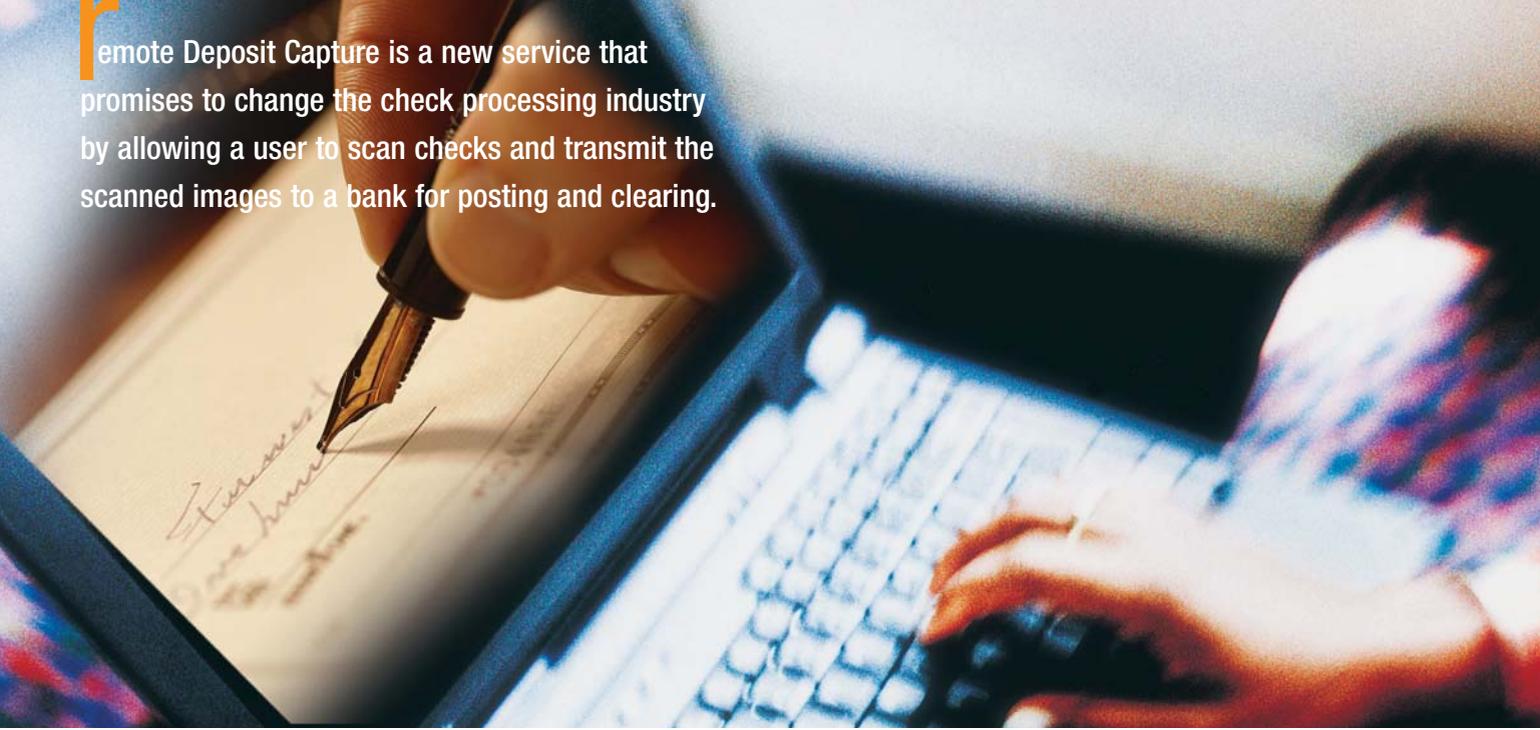


# Remote Deposit Capture

By John Leekley

Using document and process re-engineering



Remote Deposit Capture is a new service that promises to change the check processing industry by allowing a user to scan checks and transmit the scanned images to a bank for posting and clearing.

A new service currently being introduced by many of the nation's largest banks promises to revolutionize the check processing industry. The commonly viewed benefits of this new service, referred to as Remote Deposit Capture (RDC), include convenience, better deposit availability and reduced transportation cost and risk. Closer inspection of traditional remittance processing reveals that RDC can be much more than just a convenient Cash Management tool. Tremendous value and processing efficiencies can be unlocked by reengineering control documents and remittance process flows to leverage Remote Deposit Capture as a receivables processing platform.

## What Is Remote Deposit Capture?

Remote Deposit Capture, in its most simple terms, is a service that allows a user to scan checks and transmit the scanned images 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 location can be scanned to create an image-based deposit. This image deposit is then transmitted

(usually over an encrypted Internet connection) to your RDC bank service provider. This provider can then accept the deposit, post the deposit to your account and assign availability based upon your availability schedule.

Recent legislation 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. Most perceive the benefits of RDC to be clear and straightforward. It provides convenience, reduced transportation risk and cost and better availability. However, a closer look at the capabilities of RDC and its underlying technologies show us that the above benefits are only the tip of the iceberg.

## Enabling Technology

Aside from the Check 21 legislation, a number of technologies have matured to a point where they exhibit the quality, reliability and cost characteristics required for high-volume financial transaction processing. The combination of these enabling technologies is what makes RDC a viable solution for most companies. The Internet is now a common platform for banking-related functions. Image scanning

hardware is now able to capture items reliably, with great quality and at an affordable price. Image quality and recognition software has finally overcome processing time and success rate hurdles to allow for real-time processing with success read rates in excess of 80%.

The image quality and recognition software component of an RDC solution may be the most important, yet most often overlooked, part of the process. Unlike in a traditional paper processing environment where the original is almost always available for review and reprocessing, in this new image-based environment it is critical to capture a quality image on the very first try. Poor-quality images can result in returns, adjustments, requests for re-scans, etc. and can result in a less efficient and more costly process. Ensuring image quality at the point of capture is therefore critical to a more efficient process.

Recognition software can further enhance process efficiencies. A simple example is a company that receives 500 checks per day. Assuming the average dollar amount is in the hundreds, this volume of checks would normally result in about 2,500 keystrokes just for the dollar amount alone.

As outlined in Diagram 1, recognition software can be employed to extract data from the original item, thereby reducing the need for manual keying while also providing the opportunity to capture additional data, which may have been previously omitted from company records. Data fields such as the dollar amount, payor and check number can now be automatically captured. Per the example above, the traditional bank deposit preparation requires keying items at least twice (key twice if in balance the second time, more times if out of balance), resulting in at least 5,000 keystrokes just to tally and balance the check deposit.

An RDC solution enabled with recognition software with an 80% success read rate on the dollar amount will decrease the number of keystrokes from approximately 5,000 to approximately 500. This is a 90% gain in deposit automation! "Additional benefits from employing recognition software in your RDC solution can include fewer errors from manual processing, labor cost savings from fewer required resources and enhanced customer relationships generated from the additional information now captured on each customer payment," says Yuri Prizemin, Director of Product Marketing for Parascript, LLC, a provider of recognition software to RDC solution providers.

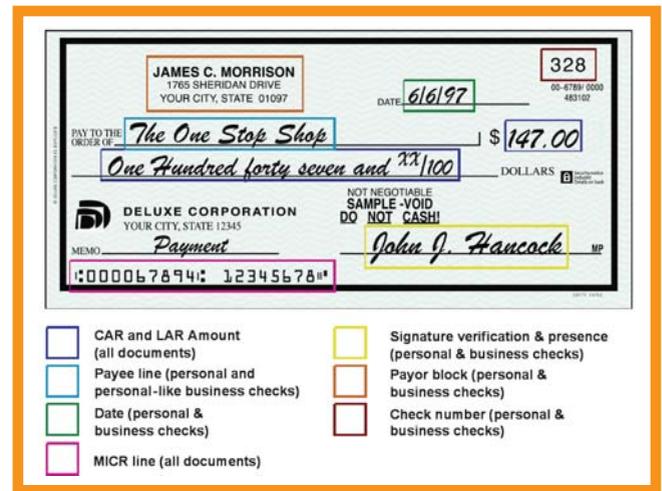
### Unlocking Additional Value

A Remote Deposit Capture solution can go far beyond making the bank deposit process more convenient and efficient. It can become a platform to automate your entire check/account receivables processing operation. The key is re-engineering your control documents to fit into this new automated environment.

In the same way the recognition software can scan parts of a check to extract data; this same process can be used to extract data from control documents such as invoices, deposit tickets and payment stubs. In conjunction with pre-defined business rules, control documents can be scanned along with an accompanying check to extract such data as account numbers, amount due, amount paid, goods purchased, etc. This extracted data can then be stored in a database, posted to your internal systems and referenced during research and customer service inquiries, among other applications.

Many of today's control documents are ill-suited for a check scanner. To fully utilize recognition software as part of an RDC solution, these

## Diagram 1:



documents must not only be formatted with standardized scanning fields and corresponding transaction codes to drive the business rules logic processing, they must literally fit and be processed through the check scanners used in the RDC process. Control documents with plain backgrounds, clear data field organization and the approximate size ranging from a traditional deposit ticket up to the size of a traditional business check make the most sense.

To fit within the RDC solution, exact maximum dimensions would be determined by the allowable size specifications as determined by the check scanner hardware manufacturer. Furthermore, to ensure greatest automation opportunity, the control documents should be able to be processed within the standard operating guidelines of the specific RDC solution being used.

### Unlocking Additional Value — Process Re-engineering

Finally, once the control documents have been re-engineered to fit within the RDC operating environment, maximum value and efficiency is achieved by re-engineering the account receivables process itself. Diagram 2 depicts the basic steps most corporations currently take when processing checks.

### Old Versus New Process

While the old process was dependent upon the physical paper checks moving from one function to the next in order to be processed, RDC breaks this dependency chain by extracting the necessary information from the paper items via ICR. Breaking this dependency chain allows for concurrent processing and process automation.

Continuing the previous example, if each check needed to be assigned to a six-digit account number, that's another 3,000 keystrokes. Assuming miscellaneous other traditional manual data entry requirements (such as product codes, check numbers, etc.), it is very plausible to have over 10,000 keystrokes for these 500 checks in order to process and post to your internal ledger system and to prepare the items for deposit. Document and process re-engineering made possible by RDC and its underlying technologies can reduce (assuming an ICR read-rate of just 80%) manual keystrokes from 10,000 down to only 1,500 per day — an 85% reduction!

Aligent Corporation, a leading RDC technology provider to banks and corporations, has much experience in helping its clients re-engineer their A/R and deposit process. As example, Aligent serves a mid-market provider of copiers and fax machines with tens of

## Diagram 2:

# Basic Steps Most Corporations Currently Take When Processing Checks:



### Common steps taken by corporations to process check account receivables:

1. Payment and control documents are received and prepared for processing.
2. Information is manually keyed from check and control documents.
3. Transaction and client data is posted to A/R systems.
4. Checks are separated from control documents.
5. Checks are totaled, total amount(s) verified and bank deposit(s) are created.
6. Deposit(s) are transported to the bank.
7. Deposit(s) post to account and availability assigned.

Note how the collection of customer information for posting to internal systems is performed manually and separate from the deposit preparation function. While each step is taken, only that single function is normally performed (narrow bandwidth), and each prior step must be completed before the next one can be started (sequential processing). This type of narrow bandwidth and sequential processing results in a process that requires much manual effort and time.

Remote Deposit Capture with Intelligent Character Recognition now makes it possible to re-engineer the A/R process to combine and automate the A/R and deposit process. Diagram III depicts the new process, which allows for multiple functions to be performed simultaneously (greater bandwidth and concurrent processing).

thousands of clients. They once were a lockbox customer of a major bank but became dissatisfied with service levels and brought the processing back in-house. It took an FTE the better part of an entire day's work to process 300 to 500 payments daily.

By leveraging an RDC platform, ensuring ICR compatible documents and re-engineering their operational process, the client reduced the effort spent on this to under an hour per day. "Remote Deposit Capture, when combined with document and process re-engineering, can drastically reduce the time and effort required to process check payments," says Robert Meara, Director of Product Marketing for Aligent Corporation.

Regardless of new legislation, technology or workflows, the entire check payments process begins with a piece of paper (the check) and (ideally) a control document. Ensuring close alignment between these documents and the platform used to process them allows a corporation to leverage new systems such as Remote Deposit Capture to create tremendous value above and beyond the obvious benefits of RDC to now include internal processing efficiencies, enhanced client relationships and new business opportunities.

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## Diagram 3:

### Re-engineered Process with Concurrent Processing



### Account receivable process flow now possible by leveraging an RDC platform:

1. Payment and control documents received, prepared for processing
2. Items are processed using RDC platform
  - a. ICR to capture data
  - b. Key exceptions
  - c. Auto reconciliation
3. Transmit and Post
  - a. Transmit images and data to bank for DDA Posting
  - b. Transmit images and data to A/R system for internal posting