

Remote Check Deposit: Doorway to Opportunity

By John Gannon

Today, in a small community far from a major commercial hub, a person drives into town, drops in on his financial advisor, pulls out his checkbook and makes a \$3,000 investment. At the end of the day, the check is taken by the office manager to the local bank, deposited in the firm's account, and then transferred by wire to its main account at a bank in a big city.

However, that check could have been fed into a desktop scanning device by the investment firm's office manager, converted to a digital image, and then sent over the Internet to the main account, all in seconds. No trip to the bank by the office manager. No local account to maintain and reconcile. No wire to initiate and pay for.

The first scenario is still commonplace, but the second is occurring more often as U.S. banks begin to offer their commercial clients new cash management products that take advantage of recently enacted "Check 21" legislation. Check 21 mandates that the paying bank accept a substitute check printed from an electronically transmitted digital image, provided it meets certain production quality standards.

The value proposition is irresistible. Remote check deposit can replace physical check deposit in most situations, speeding the check deposit from the receiver's hand to the ultimate depository account. A bank offering remote check deposit can serve as a local bank for all the investment firm's branch offices, even when those offices are far from any of the bank's physical locations. Technology overcomes the limitations of physical access and gives any bank willing to make the investment a national footprint for check deposits.

Costs and benefits

The benefits of converting physical checks to digital images are apparent: the deposit and posting process accelerates and collection float shrinks. Funds availability on deposits improves. Next-day deposits become same-day deposits. But don't expect your

bank to offer better funds availability right away. In most cases, checks continue to be printed and cleared as image replacement documents, so banks have not yet materially reduced their collection times. Still, banks do realize important advantages from being able to create new product revenue streams, improving client retention and capturing deposit volumes and balances that otherwise would go to another bank.

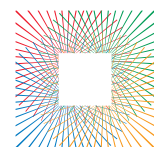
Along with better funds availability, remote check deposit provides significant cost savings. Depositors will be able to close many local bank accounts and avoid account maintenance and reconciliation charges. They'll avoid funds transfers fees (in many cases, wires at \$15-\$20 each), and they may qualify for volume price discounts by channeling higher volumes to fewer accounts. Many companies will be able to eliminate or reduce costly courier charges.

There also are labor savings: no physical trips to the bank; quicker, easier account reconciliation; better integration into accounts receivable systems; and more efficient overall workflow. Finally, less worry about employees taking large cash deposits to the bank—the peace-of-mind premium.

Such powerful benefits come with costs and require some training. Standard per-deposit and return-item charges still apply, and a charge for creating the substitute check may be added. Scanning hardware and software must be bought or leased. Further, value-added features like automatic reading of the check amount, the ability to key a customer account number into an open field and exporting remittance data may entail extra cost.

Maintaining control

While depositing checks electronically eliminates conspicuous risk—after-hours trips to the bank, accidents in transit—it also creates new risks and sometimes shifts legal liability to the image-maker. When a check is successfully scanned, digitized, transmitted electronically to another location and



printed out as a substitute check, it has been cloned. There are two checks, each a legal document that can be accidentally or fraudulently presented and paid more than once.

Whether the original check is destroyed or stored under tight security is an issue remote depositors must deal with. Until a paper check, imaged and deposited remotely, has been destroyed, it must be accounted for and stored securely. There are no official rules yet for check retention or destruction under Check 21, and banks have been reluctant to set specific requirements until an industry standard evolves. Some are adopting the same policy for remote check deposit that they use for NACHA's Accounts Receivable Conversion (ARC). The ARC rule is to shred the paper check approximately 14 days after deposit but to retain an electronic or printed copy.

Another caveat: remote check deposit relies on technology. Every company needs a back-up plan for business continuity purposes. If you've closed all your local accounts and deposit directly into a central account, you'll need to have an overnight courier deliver the checks to the bank if your Internet connection is down.

Getting started

To begin depositing checks remotely, you will need both hardware and software. The hardware is a desktop scanning device, currently available from at least 15 manufacturers at prices ranging from \$600 to several thousand dollars. Models vary according to processing speed and quality. Choice is typically dictated by volume: lower priced, single-feed scanners are fine for companies that scan about 30 checks a day. If check volume hits several hundred or several thousand daily, high-end scanning equipment will be more efficient.

The software serves to control the check scanner and provides a user interface to manage imaging and image transmission. Internet-based solutions put the software at a host site, accessible by web browser. These solutions take little or no installation and maintenance, but usually have fewer features. They are often preferred by low-volume users. Installed software, provided by the depositor's bank or a third party, is usually feature-rich and well suited to high-volume processing. This option requires software

installation and training, and may need to be integrated into a company's overall technology infrastructure.

Next generation products

Historically separate functions, deposit preparation and remittance processing are on a converging path due to similar technology tools. Further down the road, check payments and corresponding control documents will be prepared for processing and scanned once at the receiver's location. Sophisticated scanning hardware and software programmed with intelligent character recognition (ICR) applications will capture multiple data elements. The shrinking number of exceptions and miscellaneous data will be keyed in, completing files that are ready for automatic cash application and reconciliation. Remittance data will feed a receivables system for internal posting, and an image file will be transmitted to the bank over the Internet for bank posting and check clearing.

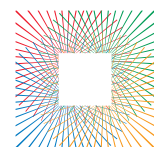
The technology could also be used to strengthen supply chains. A payer would be able to truncate the check before mailing and transmit the image electronically to the payee, wiping out mail float and postage costs.

Embracing opportunity

Remote check deposit is now emerging from a pilot phase of carefully controlled experiments and going into full-scale production. As usual, there is a lag between introducing a new technology and getting it ready for mass adoption, but banks that offer it have seen their customers eager to sign up. Volumes are growing exponentially, and the steady stream of new clients promises that the pipeline will remain full of future users.

Remote check deposit opens the door to better liquidity management, more efficient financial processes and reduced risk. When properly integrated into broader accounts receivable strategies, it will reward corporations with quantum gains in process efficiency, speed of funds availability and reduction in banking costs.

John Gannon is Product Manager for The Bank of New York's Remote Check Deposit product line.



The **BANK**
of **NEW YORK**