

Remote Deposit Capture: RDC's Results Go Way Beyond Expense Cuts

Hooking a client up with a remote check scanner can shave expenses and grow deposits. But there are also less obvious impacts on operations, product development and risks.

By Glen Fest

When Atlanta's Piedmont Bank made the jump into image deposit capture more than a year ago, the small business bank expected to nab some additional activity from remote clients.

What they didn't expect to capture was a remote suitor.

When its annual deposit processing volume from small corporate customers exploded from \$500,000 to \$40 million, and interest-bearing net deposit activity grew 30 percent, Piedmont caught the eye of Chicago-based PrivateBankcorp. After some short talks, the two companies closed in December on a \$47 million merger agreement that will turn Piedmont into The Private Bank of Atlanta, the new Southeast hub of the \$4 billion wealth management specialist. The deal also unofficially made the former Piedmont team the coaching staff for remote deposit capture deployment for the rest of The PrivateBank's six other branches.

"They see [RDC] just like we did 18 months ago, as the wave of the future," says The PrivateBank Atlanta president and CEO Brian Schmitt, whose teams were recently dispatched to sister branches in Chicago and St. Louis for remote capture Q&As. "They're looking to us and our expertise to help them be successful."

In its short time frame on the banking scene, remote deposit capture has grown from novelty to near-necessity and engendered a host of secondary and supplementary outcomes-some good, others worrying-in areas of operations, risk and strategy. Like the ATM technology launch of the 1970s, bank pros are experiencing growing pains as well as surprise benefits in the transformative technology, as they cobble together a roadmap for best practices and standardization.

RDC is one of the most actively adopted technologies today in the industry. Dozens of new vendors have sprouted in that time, hundreds of banks have entered the fray, including two-thirds of the top 100 U.S. banks, and thousands of companies have gone live on capture "with increasing velocity," according to Celent.

Many banks are only now beginning to substantiate what RDC means for the institution. Central Bank of Georgia, a \$250-million asset institution south of Atlanta, took on a hosted ProfitStars solution from Jack Henry & Associates to help recruit new DDA business outside its footprint. After a year, the bank solved that with \$72 million in new deposits on its books. But what RDC also did was also kick start the bank into

electronifying its entire item processing operations. By launching remote deposit capture, says Frank Lester, vp of IT, "that kind of pushed us along to implement Check 21. We didn't have any really justification for that [before]."

Another ProfitStars customer, Reliance Bank in St. Louis, discovered in only six months on remote deposit capture it could reconfigure RDC to serve in place of a full-blown lockbox operation for one of its medical billing clients. "They process in one part of their business 500 checks a day," says Dale Oberkfell, COO and president of Reliance. "They moved out of the lockbox environment and went to the [modified] remote deposit capture. We helped them achieve the same results as they had before for significantly less money."

Convincing a relatively high-volume check customer to take the wheel of a major cash management task has in turn persuaded Reliance to start thinking of taking on bigger customers it previously couldn't attract without full-service treasury ops. "The technology has shown us that we have ability to compete more aggressively," says Oberkfell.

It's not just the little guys making surprising leaps and bounds with the fast-maturing product. A report from Celent details how Pittsburgh's PNC Bank last fall linked remote deposit direct to its account receivable product for sending items directly to one of its wholesale lockbox operations and automating the remittance process.

But as quickly as banks discover and celebrate new uses and advantages, many others are heeding the caution flags on remote capture. Vendor solutions currently offer a wide mix of selection and choice involving varying hardware and deployment options-in-house or ASP, installed-desktop or Web-based options-which heighten bank fears of choosing the wrong horse before standards settle in. Fraud is a major worry, as is risk, marketing, pricing and those post-purchase conundrums like image quality issues.

An official with a California institution that went with remote capture says the institution had to maintain its cumbersome IRD infrastructure because all of the variables on bank check stocks- varying sizes on business checks, odd background colors, watermarks, payee field location, etc.-make it impossible to clear imaged items.

"I have heard a few difficulties with imaging, of stories of people who have tried to process checks with fancy images, which poses a problem with transmission," says Kim Sutherland, director and COO of consulting firm Market Line Associates. "The technology may be overselling itself in terms of volumes and the number of problems...but I also have heard that it's getting better."

Some banks have experienced some disappointing return on expectations, particularly as a new business magnet for this greatly demanded commercial banking product. It's just not been "the hook to drag in new business," says Sutherland. "So it's less exciting to them than it would have been otherwise."

That doesn't speak for all banks: many have been reluctant to turn to RDC for attracting new customers because of the due diligence and know-your-customer requirements that an RDC client deployment entails. "You don't want to swing this product to every Tom, Dick and Harry," says The PrivateBank's Schmitt, whose institution adopted an ASP-based product from Goldleaf Financial Solutions. "In essence, we're extending credit to these people. We underwrite and risk rate these clients as if we're making a loan."

The types of clients RDC is geared for are affecting how the product is sold and marketed. Several banks say the sweet spot is falling within the low-volume, high-value-item businesses like medical and legal offices, title companies and auto dealers. There is also plenty of head-scratching on how, or if, to charge some clients for the service. Those that can get it free or a major discount are the ones saving the bank a ton of expenses on discontinued courier fees, or who build compensating account balances. Others might pay a monthly fee and a higher equipment lease charge if their volumes don't justify comps. "For a lot of customers, we don't charge anything, but others pay a \$25 a month flat fee," says Central Bank of Georgia's Lester. "The per-item cost would kill us for somebody who had a large volume of items."

Banks must also trust a client will properly operate the equipment and follow the same security and anti-fraud standards the bank must adhere to. Without the check in hands themselves, banks offering RDC must ensure that clients are making legible scans with accurate remittance and then disposing of checks just as the bank's back office would.

If there's one knee-knocking fear that The PrivateBank's Schmitt hears most from counterparts still weighing RDC, it's about that loss of partial process control. "The fraud aspect scares the living hell out of them," says Schmitt. "They can't imagine not having a check in hand."

A client's check-handling procedures are one of the questions that examiners are starting to raise about remote deposit services, according to Oberkfell. "We had an exam in August of last year, and...we were the first bank [in the region] that actually had taken the time to share the process with them."

For banks that have invested heavily in CRM tools, it's hard to imagine the benefits of surrendering the cross-sell opportunities from lightened foot traffic from business customers in branches. Oberkfell, whose bank thrives on the relationship-centered arena of small-office/small-business clientele, sees some drawbacks in the otherwise astounding deposit volume shift that remote deposit has achieved. RDC outstrips the activity in seven of Reliance's 17 branches, and by next year will be the largest source of deposit volume among all branches. "That's probably the negative to the whole process, in finding those [alternative] cross-sell opportunities," says Oberkfell. New efforts will likely have to come during house calls to client back offices, as Reliance's cash management advisors make the rounds in making sure companies are following the right procedures for handling scanned checks and securing personal data.

Sutherland believes that as RDC matures, standards and market preferences will start to settle in and businesses will come to expect, and demand, the ability to skip their daily or weekly trip to the branch. And there will be continuing challenges for banks of all sizes. "If you are a bank attempting to be a business bank and that hasn't been a core market for you from the beginning, you will have more difficulty with this," says Sutherland. "But then, the business community expects them to be a little bit on the leading edge." (c) 2007 Bank Technology News and SourceMedia, Inc. All Rights Reserved.
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