

The Road to Remote Deposit

Remote Deposit Capture (RDC) is the newest and most talked about deposit service since the lockbox. It's everywhere! The purpose of this paper is to provide some help and guidance for corporations evaluating this alternative way of depositing checks.

There are now four main ways to get checks from your customers to the bank:

1. Have the checks from your customers mailed directly to a remittance processing operation (a bank lockbox, a non-bank lockbox, or a lockbox-like operation run by your company).
2. Contract with an armored carrier or courier service to deliver the checks from your office to your bank or your lockbox service provider.
3. Send one of your employees to the bank with the day's deposit.
4. Use the new Remote Deposit Capture service.

"So, which deposit method is right for your company?" Let's consider some of the circumstances that make one alternative a better fit than others.

First, if you receive hundreds of checks through the mail on a typical day, a lockbox is probably a more optimal solution. One or more well-placed lockbox processing sites can ensure minimal mail time delay, frequent and timely bank deposits as well as many auxiliary services to facilitate the updating of your accounts receivable files. Lockboxes are also cost-effective on much smaller volumes of checks when the average dollar size of the checks exceeds a couple thousand dollars. If the lockbox is an internal operation, there may be additional opportunity for benefit by delivering an image versus paper cash letter to the bank.

Second, if you have stores, restaurants or other retail locations and regularly receive currency as well as checks, an armored carrier is probably the right answer – at least for the currency component of the deposit. A case study presented at a recent local tradeshow pointed to a cost-effective hybrid solution. The organization was able to go from a relatively expensive system (of daily late afternoon armored courier pickup of both the checks and the cash) to daily check deposits using an RDC service, and only twice a week armored courier for the currency. The new procedures provided significant savings in courier service fees while actually getting the checks to the bank one business day earlier because the carrier delivery did not make the ledger credit deadline.

The third alternative is to send someone to the bank each day. Preparing the bank deposit and getting it to the bank before the deposit cutoff at the branch is important to funds availability. Assuming deposit deadlines can be met, it's an easy solution and the bank fees for over-the-counter deposits are relatively small. However, the costs in employee time, mileage allowance and potential liability can be significant. What if your employee gets injured in an auto accident on the way to the bank's drive-up window? Mugged? How much might that cost?

The fourth choice, the RDC solution, offers some advantages over its most common alternative, the traditional "send an employee to the bank" system. Let's examine some of the factors:

Improving funds availability

Getting checks deposited same day, before the ledger deadline, is the key to improving funds availability. The character recognition software used by the RDC service reduces the number of key strokes in the data entry and deposit balancing function of helping to speed up the deposit preparation process.

Many RDC users will be able to improve (reduce) their deposit float for a portion of their deposit by about one business day, especially if delivery of bank deposits by employees currently misses the end of banking day deadlines at the branch. An advantage of RDC is that some banks offer a later cut-off time than what is available for an over the counter branch deposit. Further, the availability scheduled offered for an RDC deposit is likely superior to the over-the-counter branch deposit, as it reflects images, ARC or IRD clearing. A whole day float advantage only accrues if the company moves to daily deposits over one to three times a week.

Lockbox

It is highly unlikely that RDC can provide float improvement over a lockbox. Many lockbox operations run multiple shifts, seven days a week, timed to late evening and early morning mail arrival patterns. In-house lockbox operations should consider delivering an image cash letter to the bank instead of paper checks.

Eliminating employee time spent on delivery

A \$28,000 per year clerical person with benefits costs around \$19 per hour plus a mileage allowance to drive to the bank to make a deposit. A hidden cost is the potential liability for an employee accident while traveling on company business.

Faster notification of NSF items

Theoretically, the faster an item can be presented at the drawee bank the sooner the depositor will learn of problem items such as NSF, closed accounts, etc. This has proven to be a benefit to many of the large credit card processors who convert the check payment into an ACH for clearing. It is expected that a returned imaged item will get the same benefit.

Consolidation of deposit

RDC can enable elimination of local depository banking relationships. The ability to transmit an image of the check removes any geographic advantage once held by a local bank to accept check deposits. Account maintenance fees at multiple local banks averaging \$15 to \$30 per month can be eliminated. In addition the higher volumes of checks being deposited in one institution can reduce the per item charges.

Sample Check Deposit Fees		
Depositing un-encoded checks	Range	
	Low	High
Un-Encoded Checks	\$0.080	\$0.149
Imaged Checks	\$0.038	\$0.126

Risk

Of course there is never a free lunch. The downside to the RDC solution is increased risk to the depositor. RDC forces company cashiers to examine each check for alterations, forged endorsements and other signs of fraud just as a good bank teller would. Any party which converts an original paper check into an image must warrant against presenting that item more than once and becomes responsible for all damages created by any duplicate deposits.

In early pilots of remote deposit, the most frequent problem was that staff actually deposited the checks after they were imaged and deposited electronically. In fact, these duplicate deposits were even made after the Accounts Receivable group had been trained in the Remote Deposit process, because up to now everyone's behavior has been geared to "see check, deposit check."

In the event a fraudulent item is cleared as an image (for example, an item where the original dollar amount was \$10, but was altered to show \$100), and the fraud loss could have been prevented had the original item been presented for clearing, the party that handled and truncated that original item will most likely be liable (for the dollar difference and consequential damages).

The largest financial risk to a company using RDC will be in "consequential" damages that will be assessed to the party who truncates or converts the original item and is found to be at fault – as a result of payment disputes or if the same payment is presented multiple times.

There is no industry standard on operating agreements for remote deposit. The agreement should be detailed and clearly written since a good agreement will define the duties, deadlines and liabilities of both parties (your company and the bank). In operating agreements, banks will "push" as much of the risk, warranties and liability that they can onto the user of these new Remote Deposit services, so Treasury managers should consult with their legal department before any implementation.

Governing rules

Federal Reserve Regulation CC and perhaps Check 21 law often governs the transaction. Consumer checks (especially those processed by retail lockboxes) are being converted to ACH transactions for clearing. This type of conversion changes the rules for most (but not all) check-to-ACH conversions. ARC transactions, in particular, are covered by Fed Regulation E. An ARC ACH credited to your account may be returned up to 60 days after the "settlement" date if deemed "unauthorized." This much extended return window opens the door to some new risks to you, the receiver of the payment. ARC transactions currently may only be done with checks from consumers and from businesses utilizing checks with the same physical size characteristics as consumer checks. Some RDC products use ARC as first clearing option.

Employee training

Your cashier will be taking on the role of bank teller – a front line in the defense against check fraud. Be sure they get some training on what constitutes an acceptable check. Most banks won't accept third-party checks and none will accept foreign items for an RDC deposit. Do your cashiers know how to detect these exceptions? Be sure the handbook or list of procedures is clear, complete and easy to use. The employees you train today may be gone next month.

Equipment

Scanning machines come in many levels of through-put and other features. You are going to depend on the machine to create your bank deposits, so select a good one that is easy to maintain and repair. Some of the scanners used to capture the check images can also scan coupons and other payment-related documents. This capability, along with software that allows the viewing of check images, has encouraged some companies to redesign important parts of their overall A/R process. The conversion to RDC may be even more beneficial if it is coordinated with a wider review of the whole payment handling/accounting process.

Utilizing an RDC service also means that the company is responsible for the short-term storage and destruction of the checks it images.

Depending on how the image is to be handled (ACH conversion or image clearing); recommended storage times can vary (from 14 to 60 days). Consult the depository bank for its guidelines and risk factors.

Remote Deposit Enhancements

Many banks offer remittance data capture with their remote deposit service. Under this scenario, the corporation keys remittance information when scanning the checks. The remittance information and check image are then sent to the bank's lockbox. The remittance information is then included with the daily remittance update to A/R. This application works to reduce source of data input to A/R.

Key RFP Questions

Pricing

1. Assuming ____ checks per month from ____ sites are deposited using the Remote Deposit Capture system, list all of the service charges on the analysis for RDC, check clearing and deposit reconciliation.
2. What are the hardware (scanner) and software cost options (lease vs. buy) for the RDC service?

Operations

1. What are the RDC deposit deadlines for each day of the week to receive same-day ledger credit?
2. How will the deposits for our individual offices/stores be identified on the bank statement of our deposit account?
3. Describe your deposit reconciliation service.
4. Provide detailed written "recommended procedures" for the staff's use of

the RDC service.

5. What timeframe do you recommend for the retention of checks that have been scanned?

- Implementation
1. What will the bank's clearing mechanism be for an image cash letter? ACH conversion? Fed forward image program? Other bank arrangements?
 2. How will the bank's availability schedule reflect this? Please attach a copy.
 3. Indicate the brands and specific models of scanner that are approved for the RDC service at your bank.
 4. Do the personal computers that connect the scanners (via the Internet) to the bank need to be dedicated to this function, or can they also be used for other tasks during the day?
 5. What type of training is provided for our staff at each location?
 6. Attach a copy of any agreement(s) that must be signed to use the RDC service for all locations.

RDC Costs

This service is so new that banks have not yet settled on how exactly to charge for the deposits or even what to name the various elements. We have reviewed account analysis statements from early adopters containing RDC activity and have concluded that RDC deposit activity triggers additional line items for check deposits including:

1. Per Item Fees – a single check may trigger several of the following:
 - RDC basic per item
 - Image Capture
 - IRD (Image Replacement Document) Printing
 - Image Transmission
 - Deposit Reporting per item
2. Per Deposit Charges – usually between \$.60 and \$1.00
Some limits may exist on the maximum number of checks allowed per deposit ticket.
3. Monthly Maintenance Fees. These fees average \$100 per location.
 - Per location RDC Maintenance
 - Per RDC – PC Maintenance
 - RDC Reporting Maintenance
 - Return Service Maintenance

4. Exception Handling. Image checks can bounce so ask about returns and how they will be shown on your analysis. We observed \$4.00 to \$6.00 charges for:
- RDC Returns
 - RDC Return – Redeposit
 - RDC Image Retrieval

These per item prices are currently comparable to return-related charges for normal/non-RDC checks.

5. Start-up Costs. These costs relate to equipment (scanners, PC's, modems, etc.) acquisition as well as installation and training. Some banks allow the hardware to be paid for on the account analysis statement. Scanner costs vary depending on their documents per minute (dpm) speed. Single feed devices are available for as little as \$200. High-end machines are around \$3,500.

We also noted a few examples of installation and training fees in the range of several hundred dollars. If you in treasury don't want to become the corporation's "RDC answer person," then think about investing in some serious training and clear documentation of procedures and back-up procedures.

Conclusion

In the right set of circumstances, RDC can be a very effective treasury management service and should be part of many corporations payment strategy. Key questions in converting paper checks into an electronic item are: What day and time do I get good funds? What additional risks am I exposed to? How much is it going to cost me? Will my return item exposure benefit from conversion?