



Extending the Reach And Success of Remote Deposit Capture



1025 Central Expressway South
Dallas, Texas 75013
www.ProfitStars.com

In a time where core deposit growth rules the day, remote deposit capture is poised to finally realize its full potential. While first adopted by financial institutions to protect key cash management accounts, remote deposit capture is now viewed as a vital, low-cost means to drive deposit growth across all customer segments. Where competition abounds for deposits, the ability to help customers eliminate trips to the bank, accelerate clearing, reduce deposit risk and consolidate bank relationships can provide a compelling competitive advantage.

This white paper outlines the market opportunity for remote deposit capture and discusses how financial institutions can take advantage of this opportunity through the expansion of remote deposit capture initiatives.

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Introduction

In an effort to surmount the fiscal challenges of today while positioning for future growth, many financial institutions have increased their focus on core deposit growth. Core deposit growth has become especially critical as brokerage accounts and lending are handicapped in today's market in terms of their ability to increase revenue and cash reserves. Bank loan portfolios are down 5 percent, complex securities are down 30 to 40 percent and overall loan losses range between 5 and 17 percent.

The renewed focus on core deposit growth has driven many financial institutions to consider the expansion of remote deposit capture initiatives, recognizing the value of remote deposit as a low cost, strategic offering that can be leveraged to attract deposits and retain customers across a variety of market segments. As a result, remote deposit capture is poised to finally realize its full potential.

While first adopted by financial institutions to protect key cash management accounts, the broad penetration of remote deposit capture is widely expected as its value proposition is clear for both the financial institution and its customers. Where competition abounds for deposits, the ability to secure valuable client relationships by enabling customers to eliminate trips to the bank, accelerate clearing, reduce deposit risk and consolidate bank relationships can provide a compelling competitive advantage.

A number of leading financial institutions are already paving the way with more aggressive rollouts and marketing of remote deposit capture. These financial institutions are taking a mass market approach, proving out how remote deposit can be deployed more broadly and used to generate meaningful results in deposit growth, geographic expansion, increased fee-based revenue and customer satisfaction and retention. Other financial institutions that wait on the sidelines too long risk not being able to take advantage of the same opportunities available to their more aggressive counterparts.

This white paper outlines the market opportunity for remote deposit capture and discusses how financial institutions can take advantage of this opportunity through the expansion of remote deposit capture initiatives.

“The benefits [of remote deposit capture] are numerous, from acquiring low cost deposits to expanding beyond the branch footprint without the expense of opening additional branches, as well as eliminating expensive courier services. More importantly, it cements the relationship between our bank and its commercial customers, which is critical in today’s banking environment.”

Cassandra Wiggins, Senior Vice President of Treasury Management, First State Bank Central Texas

The Market Opportunity

Celent estimates that 7,200 financial institutions deployed remote deposit capture solutions through the end of 2008, bringing adoption in the United States to two thirds of all banks and 40 percent of all financial institutions. Virtually all top 100 banks were reportedly implementing one or more remote deposit capture solutions with only 15 percent of financial institutions having no plans to implement remote deposit capture.

The level of financial institution adoption of remote deposit capture in just a few short years has been extraordinary. However, client adoption of remote deposit across financial institution market segments is just beginning. In fact, compared to online banking adoption, remote deposit is still in its infancy, indicating significant remaining opportunities to capture the market through its deployment.

Initial Results

The initial adoption of remote deposit capture by financial institutions was largely made in an effort to protect key cash management accounts from competitive threats. These undertakings were generally led by the treasury management group with remote deposit capture targeted only to select larger clients.

Still, remote deposit capture client adoption has seen respectable growth year over year from a percentage standpoint but, due to the limited market focus of financial institutions, it is still in its infancy in terms of ultimate growth potential. Another limiting factor to more meaningful growth has been the desire of financial institutions to not only offset deployment costs of remote deposit capture, but generate significant margins through fee income. As a result, the success of top 20 deploying financial institutions of remote deposit capture has been limited to only a few thousand clients each on average with the market average sitting at only a few dozen clients.

This is bound to change; however, and soon.

Average RDC Clients per Financial Institution

	2007	2008	Change
Top 20 FIs	3,432	5,382	57%
Rest of Market	19	32	67%
Market Average	38	47	23%

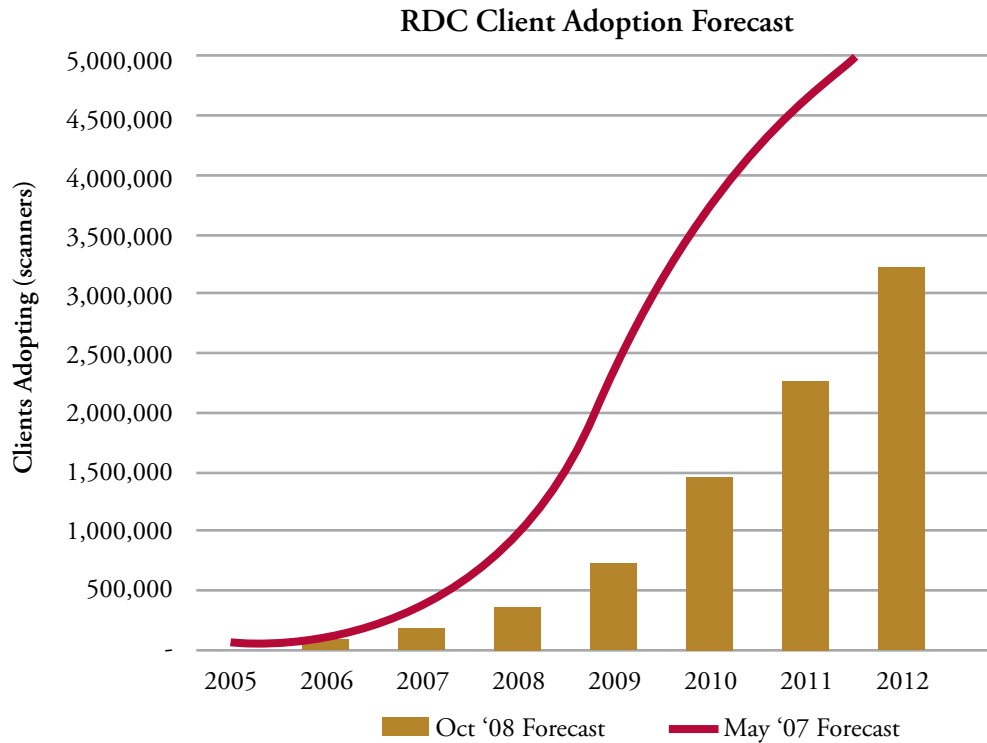
Source: Celent, State of Remote Deposit Capture 2008

“The undeniably strong demand for RDC so early in its product maturity is a clear harbinger to broad adoption. Considering the ubiquity of online cash management solutions among mid-market and corporate clients, it is difficult to argue RDC will not follow in their footsteps.”

Celent, The State of Remote Deposit Capture 2008

What the Future May Hold

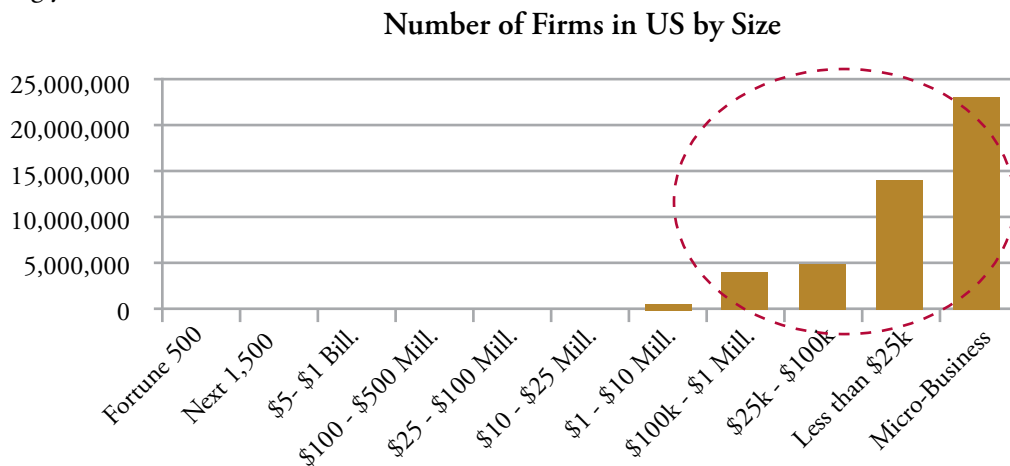
Widely held expectations are for enormous growth of client adoption of remote deposit solutions in the coming years, growing from an estimated 382,000 scanners deployed through year-end 2008 to as many as 3.2 million capture points by 2012 and 5 million by 2014 according to recent Celent projections (CAGR of 54%).



Source: Celent, State of Remote Deposit Capture 2008

These projections are clearly dependent on financial institutions moving forward with opportunities to take a more aggressive stance with remote deposit capture, making the offering available to not only larger commercial clients but middle market and small business clients as well.

In fact, the real growth opportunity in terms of small business client adoption exists in businesses with less than \$1 million in annual revenue. That is where the numbers are, although large commercial clients with multiple deposit-taking locations could also have significant impact on scanner deployments in the coming years.



Source: BizStats.com

www.ProfitStars.com

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Exceeding Expectations

Success in the small and medium-sized business (SMB) space will indeed enable financial institutions to achieve the kinds of results Celent projects for the coming years, however, there is also an opportunity to far exceed these expectations through the deployment of simplified, remote deposit solutions made available to the full range of retail banking customers including micro-businesses and consumers which weren't considered in the projections.

Certainly, the value proposition for remote deposit capture for both the bank and its customers is helping to validate the opportunity to move in this direction.

The Remote Deposit Capture Value Proposition

Value for the Business or Consumer End User	Value to the Financial Institution
<ul style="list-style-type: none">♦ Saves trips to the bank♦ Accelerates clearing and improves cash flow♦ Extends bank business hours♦ Reduces return item risk♦ Facilitates the consolidation of banking relationships and provides banking options outside of the local geography	<ul style="list-style-type: none">♦ Attracts low cost deposits♦ Services customers beyond the branch footprint♦ Lowers branch servicing costs by extending the self service channel♦ Lowers processing costs♦ Reduces transportation and paper ticket costs

In fact, a large number of remote deposit capture vendors already offer solutions to financial institutions that allow micro-businesses and consumers to make deposits from the comfort and convenience of their homes and offices using scanning devices they already own. The use of mobile phones as capture devices is also available through existing technology. This allows mobile professionals, for example, to deposit checks from client locations or from the road.

While these solutions aren't yet in widespread use, they suggest a bright future ahead for remote deposit capture.

“RDC is no longer just a convenience or nice-to-have product. It is now a necessity. For banks, RDC is clearly a very cost-effective way to grow and retain deposits. For businesses, the opportunities of improved cash flow and liquidity, bad-debt prevention (faster notification of return items) and enhanced productivity have put RDC at the top of their wish list.”

*Nick Alex, Senior Vice President,
SunTrust Bank*

How do we get there?

There is, no doubt, a considerable opportunity for financial institutions to deploy more pervasive remote deposit offerings that is only beginning to be tapped. So, how can financial institutions take advantage of this opportunity? For starters, through a combination of mass market vision, segmented marketing strategies, tailored offerings that cater to the unique needs of each market segment, improved sales effectiveness and appropriate risk management practices.

Mass Market Vision

In order to maximize success with remote deposit capture, financial institutions are advised to establish and promote a mass market vision and approach to the solution's deployment across their enterprises. Financial institutions that approach remote deposit capture from a strategic standpoint with the clear objective of generating deposit growth are most likely to see desired results.

The mass market vision and approach should be sponsored from a management perspective and promoted throughout the financial institution to facilitate collaboration across lines of business, operations, ecommerce and IT. Interrelationships, dependencies and expectations should be identified and tracked as early as possible in the process.

Specific considerations include:

- ♦ For each targeted market segment, who will market, sell and support the financial institution's customers, and what are the hiring, training and other staffing considerations that need to be addressed?
- ♦ How does the deployment of remote deposit capture affect the financial institution's branch expansion plans, given the opportunity to use the solution to cost-effectively grow deposits without incurring the costs associated with new branches?
- ♦ How will remote deposit affect existing branch operations in terms of transaction volume, efficiency, staffing, sales focus and so forth?
- ♦ How will success be measured, tracked and reported, and how does remote deposit impact existing performance plans?

Moving remote deposit capture to the forefront in the hearts and minds of the financial institution as a critical tool to generate deposit growth is a significant undertaking, but one that represents a substantial opportunity for positive returns.

“Strategic players understand the value of remote deposit and strive to grow end-user adoption. They aim to cross sell depository services to lending customers outside their footprint, and in some cases, attempt to enter new markets with remote deposit. They view remote deposit as a customer acquisition tool as well as a way to aggressively compete for deposits outside their traditional geographic footprint.”

Aite Group, Identifying Community Banks Most Likely to Deploy Remote Deposit

Segmented Marketing Strategy

Checks are still in broad use, comprising more than 70 percent of receivables for two-thirds of businesses according to a Celent June 2007 survey of 325 small businesses across multiple vertical markets. As such, opportunities abound for financial institutions to expand remote deposit capture initiatives; the more widespread the financial institution's remote deposit offering, the more beneficial it can be to deposit growth.

In order to maximize success in this broad market, financial institutions are advised to consider deployment and marketing approaches to remote deposit capture on a market segment basis. At a high level, the financial institution will need to determine whether it will continue to focus on larger commercial clients or expand its focus to SMBs. Will it also target micro-business and/or consumers? What about vertical market opportunities?

Certain vertical markets are especially likely to benefit from remote deposit. For example, dentists, doctors, lawyers, agencies and most professional offices receive multiple checks daily and have minimal cash needs; however, they only go to the bank for deposits once or twice a week. These businesses, and their financial institutions, stand to benefit greatly through the accelerated clearing of these items.

A list of the Top 15 Most Common US Sole Proprietorships is provided below. Most of these vertical markets represent worthwhile targets for remote deposit capture in terms of numbers of firms as well as business characteristics.

Top 15 Most Common US Sole Proprietorships (Non-Healthcare Related)	Total # of Firms
All non-farming sole proprietorships	17,575,643
1. Special trade contractors	1,763,890
2. Administrative and support services	1,433,426
3. Personal and laundry services	1,104,628
4. Non-store retailers – includes multi level marketing	1,075,154
5. Artists, entertainers and related industries	876,286
6. Offices of real estate agents, managers & appraisers	673,734
7. Child day care services	606,038
8. Management, scientific, and technical consulting services	589,950
9. Professional & consulting services not classified elsewhere	368,420
10. Miscellaneous repair services	365,316
11. Residential building construction	357,136
12. Accounting services other than CPA's	339,095
13. Insurance agencies and brokerages	326,762
14. Educational services	326,443
15. Legal services	324,484

Source: BizStats.com

In addition to vertical markets, financial institutions will want to target additional business from existing customers. Remote deposit capture can play a key role in winning over additional business from these customers especially when they have remote offices. Historically, many of these customers have had to maintain accounts with multiple financial institutions in order to make deposits. With remote deposit capture, they can now consolidate banking relationships with one preferred provider. This simplifies cash management and provides better information reporting and enhanced efficiency.

Existing lending customers are also a logical target market for remote deposit capture regardless of their proximity to the financial institution's footprint. The financial institution's existing relationship with these customers should facilitate sales efforts. Lending customers are also likely to already satisfy prequalification requirements.

Tailored Offerings

Once financial institutions have established a mass market vision and approach to remote deposit capture and have appropriately segmented the market and identified target markets, it is time to start thinking about how tailored solution offerings that cater to the unique needs of each market segment can be effectively used to capture market share in a competitive industry.

In the online banking arena, financial institutions have found significant advantages to providing distinct, targeted solutions to consumers, small businesses and commercial clients. While each of these solutions may be built upon a single platform, they are tailored to provide the best possible user experience to each market segment. This includes simplified transaction workflows for small and micro-businesses with more advanced functionality reserved for larger customers. By approaching remote deposit in a similar fashion, financial institutions can ensure they provide appropriate functionality to each market segment in a way that makes sense for the user while enforcing consistent application of business rules and risk management practices. This might include specific applications and scanners for large depositors vs. small depositors for example.

In addition to functional and usability concerns, the financial institution should also consider tailoring its marketing, enrollment, onboarding, user support and device fulfillment approaches to meet the needs of each targeted market segment. Remote deposit deployments supporting tens of thousands if not hundreds of thousands or millions of users will be far different from the limited rollouts that are common today. The most significant difference will be the degree to which self-service capabilities are required for success.

Fortunately, financial institutions and vendors have vast experience with enterprise self-service applications which can be leveraged to broaden remote deposit offerings. In fact, technology is now available that allows financial institutions to fully integrate remote deposit functionality into existing online banking applications. This simplifies the financial institution deployment infrastructure while providing new functionality to users within the familiar, convenient self-service channels they already use today.

Another important consideration for mass market remote deposit offerings is pricing. More aggressive pricing strategies—including low cost or subsidized scanners, reduced fees and allowances for compensating balances—while reducing product P&L, ultimately have the potential to drive higher adoption and result in greater deposit growth. The income generated through remote deposit as a low cost deposit acquisition tool has the potential to far exceed that available through fee income.

Sales Effectiveness

The strategic activities described above will all ensure that the financial institution is headed in the right direction. Tailored product and aggressive pricing options in particular are critical to success in the mass market. However, success is also dependent on tactical execution from a sales and marketing perspective. As the market becomes more and more competitive, pressure intensifies on financial institutions to build and maintain competitive remote deposit offerings and effectively promote these offerings to their customer bases.

As such, financial institutions are advised to accelerate the prioritization and launch of more aggressive marketing campaigns and approaches to remote deposit sales with a mind to maximizing sales effectiveness for both high touch and self-service channels across commercial, small business and consumer market segments. Appropriate incentives should also be put in place to help motivate front-line sales and service staff in order to boost their efforts to promote remote deposit capture.

In addition, financial institution employees will need training to be able to understand and communicate the value of remote deposit capture to potential customers. As stated above, the value to the user of remote deposit capture is significant in terms of its ability to save trips to the bank, accelerate clearing, enhance cash flow, reduce return item risk and facilitate bank relationship consolidation. Certain prospects will be inherently attracted to remote deposit capture due to the convenience it affords. Others, however, will require the financial institution to substantiate the value proposition from a dollars and cents perspective especially when fees will apply for use of the service. The following ROI calculation tool may prove valuable in demonstrating the value proposition.

“The RDC value proposition for a bank should focus upon deposit growth and what banks can do with those deposits: namely make loans and investments. The value created by deposits, loans and investments dwarfs that created by monthly maintenance and per-item fees.”

John Leekley, founder and CEO of RemoteDeposit Capture.com

For example, according to the calculator and with relatively conservative assumptions, a small business depositing \$10,000 in funds twice a week stands to gain \$2,677 in total value from remote deposit capture each year.

Business RDC Value Calculator	
Daily Check Volume	5
Daily Average Deposit Value	\$ 10000
Mileage to + from Branch	5
Average Time spent making a deposit (Pre-RDC)	30
Total Deposits per week (Currently)	2
Employee Hourly Value Rate	\$ 30
Average Time spent making a deposit using RDC	10

Results	
Mileage Cost Savings	\$ 286
Recovered Labor Cost	\$ 810
Gained Productivity	\$ 81
Cashflow Acceleration	\$ 1,500
Total Value	\$ 2,677

For the benefit of financial institution sales efforts, the ProfitStars business value calculator is available for complimentary use through the ProfitStars Remote Deposit Resource Center online at <http://discover.profitstars.com/remotedepositexpert>.

A larger business depositing \$20,000 in funds three times a week stands to gain \$4,475 in total value from remote deposit capture each year.

Business RDC Value Calculator	
Daily Check Volume	10
Daily Average Deposit Value	\$ 20000
Mileage to + from Branch	5
Average Time spent making a deposit (Pre-RDC)	30
Total Deposits per week (Currently)	3
Employee Hourly Value Rate	\$ 30
Average Time spent making a deposit using RDC	10

Results	
Mileage Cost Savings	\$ 429
Recovered Labor Cost	\$ 1,860
Gained Productivity	\$ 186
Cashflow Acceleration	\$ 2,000
Total Value	\$ 4,475

Note: These calculations assume a \$0.55 cost per mile, 252 business days per year and a rate of return of 10% with funds availability accelerated by 1.5 days for the smaller business and one day for the larger business.

Financial institutions are encouraged to leverage this calculator in their efforts to train sales employees and boost sales effectiveness. The calculator supports assumption modification and can be used for scenario analysis. It is available for complimentary use for the benefit of financial institution sales efforts through the ProfitStars Remote Deposit Resource Center online at <http://discover.profitstars.com/remotedepositexpert>.

Risk Management

There are unique aspects to the remote deposit channel that impact risk management. As such, financial institutions taking advantage of the opportunity to achieve deposit growth through more pervasive remote deposit capture offerings should also ensure that they are taking appropriate steps to mitigate the risks associated with the solution. Fortunately, they are manageable and can be addressed without threatening the full potential of remote deposit capture.

In evaluating approaches to remote deposit risk management, financial institutions are advised to consider the best practices they already have on hand including those honed through check deposit processing, online banking, account opening, lending and ACH and wire payments. Financial institutions should also consider the use of technology that has changed the risk profile of remote deposit capture in recent years with products and services now commonly available that can be applied to not only effectively manage the risk of remote deposit, but also create an arguably less risky environment with remote deposit capture than existed with previous paper-based systems.

In balancing the need for core deposit growth while maintaining an adequate focus on risk, financial institutions should consider the following:

Keep perspective – If remote deposit capture is to generate core deposit growth, making it overly difficult or costly to use deters the achievement of that goal. As with any traditional bank deposit, some amount of risk is acceptable to generate projected returns and to avoid customer inconvenience and possible reputational impairment for rejecting legitimate deposits.

Remember that remote deposit capture facilitates deposits not withdrawals – Remote deposit capture is a depository mechanism designed to more easily put money into the bank; it cannot be used to withdraw funds. To perpetrate fraud, a check or data from a check alone is insufficient—a depository account and the ability to make both deposits and withdraw funds are also required.

Focus on the fraudster not the transaction – Proper risk management should focus on securing the overall process, not just the remote deposit capture transaction. This includes know your customer policies, controls over account opening procedures, funds availability schedules and withdrawal mechanisms, as well as standard check deposit review control processes on the image deposits.

In addition, as remote deposit capture is one of many deposit channels, and fraudsters will gravitate to the path of least resistance, financial institutions should consider the risk that a fraudulent item rejected in remote deposit capture may be directed to the ATM or branch instead. Financial institutions should therefore take an enterprise approach to duplicate detection and other risk mitigation techniques.

Use the tools – Remote deposit capture provides fraud prevention opportunities unavailable through other channels. Remote deposit risk management capabilities include the ability to automatically identify problematic items in real-time, guarantee the consistent application of business rules and make callouts to fraud systems. Through the use of access controls, check image analysis, duplicate detection, encryption, user tracking, deposit limits, review capabilities and more, remote deposit capture has become an exceptionally secure channel for taking deposits.

Additionally, remote deposit capture provides a full audit trail, maintaining a record for the financial institution of not only the identity of the depositor, but also the details of the deposit and all the controls that were executed by the solution. Remote deposit capture also eliminates issues with a 'lost bag' of checks and reconciliation differences between the financial institution and the depositor.

Don't overreact – The January 2009 FFIEC Guidance, Risk Management of Remote Deposit, could potentially be seen as an argument to take a conservative approach to rolling out remote deposit capture. However, one key aspect of the guidance that may have the opposite effect is the risk assessment, which requires the financial institution to conduct and document a thorough evaluation of its remote deposit initiatives. This provides a forum for the financial institution to review its strategy, as well as to assess any incremental risk undertaken through deployment of the solution. The risk assessment helps the financial institution determine and document appropriate risk mitigation techniques and justifies, with management's approval, some amount of risk based on projected returns.

Through the risk assessment and subsequent examinations, financial institutions will be able to document and present the functionality of their chosen remote deposit solution: the controls that are in place; what is done on a real-time basis; how it manages authentication, e.g. single sign-on through Internet banking which enables the financial institution to know exactly who is making the deposit; how it manages user permissions and what authorizations are required by the business and the bank.

Completing this assessment will not only help the financial institution comply with the FFIEC Guidance, but will also help it consider opportunities to take a more aggressive approach to rolling out remote deposit capture.

“All new customers – whether in a bank's market area or not – are risks to some degree, but offering them remote deposit actually minimizes, not increases, the chances for fraud. Of the many banks I've spoken to about this, I have not been aware of a single bank who can attribute fraud uniquely to remote deposit capture.”

*Bob Meara, Senior Analyst
Celent*

Conclusion

The renewed focus on core deposit growth that is prevalent in the financial services industry today has driven many financial institutions to consider the expansion of remote deposit capture initiatives, recognizing the value of remote deposit as a low cost, strategic offering that can be leveraged to attract deposits and retain customers across a variety of market segments. For financial institutions willing to pursue more aggressive rollouts and marketing of remote deposit capture, there are significant remaining opportunities to capture the market and generate meaningful results in deposit growth, geographic expansion, increased fee-based revenue and customer satisfaction and retention through the solution's deployment.

In order to take advantage of these opportunities, financial institutions are advised to establish and promote a mass market vision and approach to remote deposit capture across their enterprises, pursue marketing strategies on a market segment basis and tailor solution offerings to cater to the unique needs of each market segment – all while taking appropriate steps to mitigate risks associated with remote deposit capture. In addition, financial institutions are advised to accelerate the prioritization and launch of more aggressive marketing campaigns and approaches to remote deposit sales with a mind to maximizing sales effectiveness for both high touch and self-service channels across commercial, small business and consumer market segments.

About ProfitStars

ProfitStars, a division of Jack Henry & Associates, Inc., provides best-of-breed solutions that improve the performance of financial institutions of all asset sizes and charters, and diverse corporate entities. These solutions facilitate revenue and growth, risk mitigation and control, and cost control; and complement virtually any core information processing platform. Additional information is available at www.profitstars.com.

ProfitStars is a leading provider of remote deposit capture solutions, ranked No. 1 in end-user deployments by Celent, a prominent global research firm. ProfitStars helps financial institutions of all sizes succeed with in-house, ASP, browser-based, commercial and retail remote deposit applications. Visit the company's RDC Resource Center at <http://discover.profitstars.com/remotedepositexpert>, or contact us at www.sales@profitstars.com.