Remote Deposit Transcript

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This is the Treasury Pro Network, I'm Michael Alfonsi.

The electronicfication of checks written by consumers and corporations continues to provide new product introductions from banks.

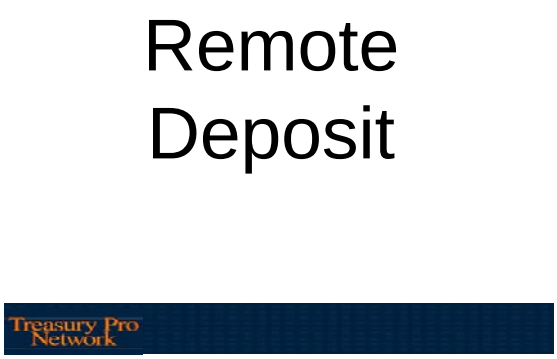
Remote Deposit or remote capture is the latest service innovation offered to companies to shift the deposit processing function to its corporate customers.

Let's take a look at how this product works, its risks and benefits.

With Remote deposit, an image of the check is created, an electronic file is generated, a deposit batching and balancing routine is performed, and then the data representing the deposit is transmitted to the depositing bank -– leaving all the original checks in the depositor's office, to then be truncated, or destroyed. This new technology, and process, creates the benefit of eliminating the need for daily trips to the teller window at a local depository bank, and possibly can reduce check clearing float.

To implement remote deposit, all that is needed is a computer, an internet connection, check image capture software, and a desktop scanner.
Remote Deposit, which is in fact enabled by the recent Check 21 legislation, is also made possible because of vast improvements in scanning technology and character recognition software.

All the new product offerings have nuances, which lie in the underlying purpose companies have for implementing remote deposit, and also lie in the clearing system used by the depositing bank.
For example, some Remote Deposit systems are geared to handle consumer checks and utilize the



ACH network, while others generate IRDs (image replacement documents) and clear those images as checks.

Second generation systems will likely handle both types of deposits.

In a typical remote depositing use, the corporate practitioner turns on their desktop check scanner, logs in, and is authenticated. This operator then scans a deposit ticket and individual checks, using the desktop scanner. The system images both the front and back of each check item. Dollar amounts of the check images are automatically recorded by an optical read employing Courtesy Amount Recognition and Legal Amount Recognition software. Some manual data entry will be required if the dollar amount can not be read, or a deposit is out of balance. The deposit is then electronically batched, balanced again, and transmitted to the depositing bank. The depositing company, then, must make sure that the original checks, now actually duplicate payment documents, are destroyed.

Check 21 & Image Technology Improvements Have Expedited Innovation

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Clearing Mechanisms

ACH

Image Clearings

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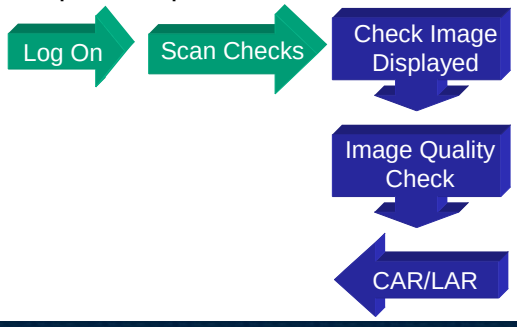
These desktop systems work best in situations where there are up to about 200 checks per day that must be deposited.

There are a number of significant risks to any corporation using Remote Deposit.

Any party which converts an original paper check into an image or IRD must warrant against presenting that item more than once, as they are on the hook 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 enabled and deposited electronically. These duplicate deposits were made, in fact, even after the Accounts Receivable group had been trained in the Remote Deposit process, because up to now, everyone's behavior is geared to: "see check, deposit check".

Deposit Capture Process



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In the event a fraudulent item is cleared as an image or IRD presentment (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 itself for clearing, the party that handled and truncated that original item, will most likely be liable for the dollar difference.

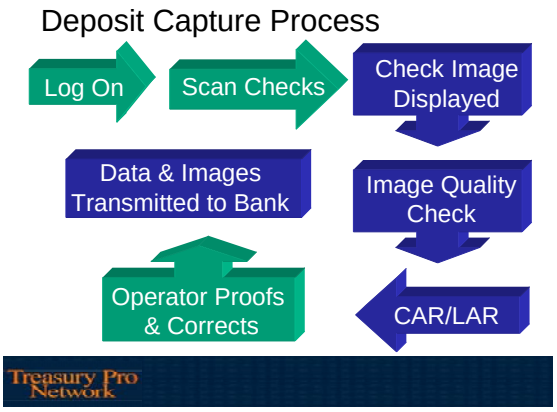
The largest financial risk to a company will most likely be in "consequential" damages, that will be assessed to the party who truncates or converts the original item and is found to be at fault – as a result of payment disputes, or if the same payment is presented multiple times.

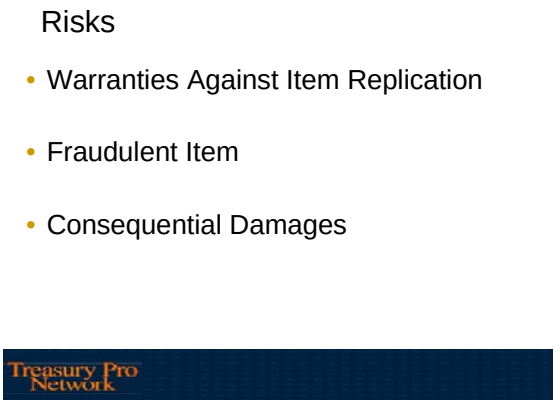
It is important to recognize that for these remote deposited imaged items, it's the check laws that apply, especially as reworked in the light of the Check 21 legislation.

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.

The primary costs of using Remote Deposit include acquiring scanning equipment, the time and effort to implement the service, and the development and deployment of the company's new check truncation process, and policy.

As for the scanners capable of imaging checks, their retail prices start at around One Thousand Dollars, plus options. Initially, its best to use the system supported by your deposit bank, and not mix service, software, and hardware suppliers. Deals are likely to be had on the outright purchase of the equipment. Some treasury practitioners report buying two scanners, keeping one as a backup. Most are ensuring there's adequate telephone and site, service support.





Banking costs associated with remote deposit will depend on the time of day of your deposit and the mix of drawee banks in your deposit. In the near term, the Federal Reserve Bank will likely be the processing intermediary between your bank, and the paying bank. So expect that the banks will pass along Fed charges, plus a mark-up. As is true with traditional deposits, the most advantageous per item price will be found if you are depositing what are called “on-us” items, that is, the coincidence of your customers banking at your own bank of deposit.

The most obvious motivator to deploy Remote Deposit is the potential time savings in preparing a deposit and getting it to the bank, thus saving staff time and also a little check clearing float.

Float experts project that the majority of corporations can expect float savings in the range of one tenth to one quarter of a day, assuming the company is currently processing office receipts, in a timely manner.

Eliminating field deposit accounts is also a reason remote capture is generating interest, as your deposit bank can, literally, now be anywhere.

With benefits like these, Treasury Managers can expect a lot of sales from their banks, for Remote Deposit.

But with these benefits, come some risks.

First, you run the risk that you are turning your shop into a check cashiering function, instead of producing value-added analysis. Next, you take on the immediate risk of the liabilities and warranties of becoming your own deposit processing operation. Also, while the idea of remote deposit will be smoothly sold, in the background, many of the software providers are touting early mover/early adopter advantages to the banks that choose their particular system, so there will be uneven implementation quality levels, thus producing a level of operations risk.

Check Law Applies to Imaged Items

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Costs:

Equipment Acquisition

Process Change

Training

Policies

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And unless you want to turn your company's clock back 30 years, Remote Deposit can never replace a wholesale lockbox.

An unanticipated development with this new service capability in the marketplace is an industry battle shaping-up over which clearing medium will dominate the future of check payments.

For consumer issued payments, the ACH ARC conversion currently has the edge. While in the corporate payment arena, dealing with a check image is important, because of the vast amount of information that usually accompanies the check. So for the next three or four years it will be interesting, as banks, and the marketplace, work to associate more information from scanned checks, no matter the maker.

So no matter what, this emerging technology and these additional competitive forces will combine into a recipe for added benefits for the treasury manager.

For the Treasury Pro Network, I am Michael Alfonsi.

Transaction Costs

- Time of Deposit Sensitive Price
  Fed Charges
- Electronic Endpoint
  $0.015 - $0.18
- IRD Required
  $0.035 - $0.25

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Savings

- Transportation
- Reduced Float

  0.10 – 0.25 Average Daily Deposit Float

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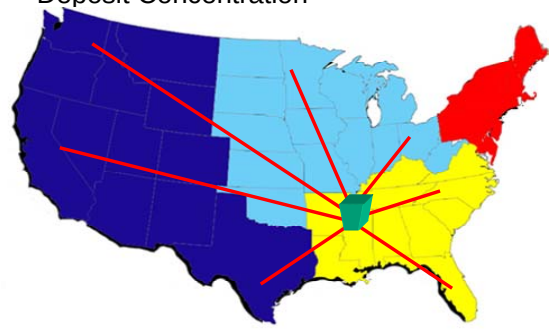
Deposit Concentration



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