

Two Words Every Business Should Know: Remote Deposit

A Canon White Paper

Two Words Every Business Should Know: Remote Deposit**Executive summary**

Every business seeks ways to improve productivity, eliminate unnecessary tasks, and bolster the bottom line. Surprisingly, significant savings are now being found in a function that's been unchanged for decades: the relatively mundane process of depositing checks from customers. Major changes in the banking industry, as well as federal mandates, have made deposit processing an easy-to-tap source of "new money" for all types of businesses.

This paper explains how a new federal law known as "Check 21" is encouraging innovative new practices in the banking industry. It shows how businesses can use inexpensive scanning and imaging technology to save money and eliminate repetitive trips to the bank, thereby unlocking hidden profits in this otherwise cost-laden area.

Extending banking hours via remote deposit

Typically, to meet the deposit deadlines of its bank, a business must have the day's batch of checks ready for courier pick-up by mid-afternoon. Now, technology and banking industry trends enable a business to electronically transmit check images to its bank. Late-afternoon or evening deposits can still enter that day's collection stream, so no employee or courier has to rush checks to the bank in the middle of the afternoon.

The key to this process is the installation of a small, inexpensive check scanner at the company's point of sale or cash management center. About the size of a small desktop sized printer, the desktop check scanner can be thought of as a virtual teller window in your business. In essence, the person who prepares the deposits becomes your teller. This person can scan checks for deposit at 4:30 p.m. or later, depending on your bank's policies, for same-day deposit posting. The bank can be around the corner or across the country.

By scanning checks to digitally capture relevant payment information and then sending electronic files to your bank, you are joining the trend to *remote deposit capture*.

Remote deposit capture, or simply *remote deposit*, is the common term for a new banking service enabling merchants to deposit checks electronically rather than transporting them to the merchant's bank. Other names for remote deposit include merchant capture, image deposits, corporate capture, and desktop deposits.*

With remote deposit, a business scans check deposits and transmits an electronic file of check images over the Internet to its bank. Most banks are eager to offer a remote deposit service because it lowers their costs, increases their competitiveness for commercial accounts, extends their geographic reach, clears items faster, and enables earlier detection of fraudulent checks.

What's in it for the bank's business customers? Commercial customers can streamline their cash management function, lower operational and transportation costs, extend deposit cut-off times, and enjoy quicker funds availability.

If your company processes about 50 or more checks per day at any single location, the question is not so much *if* remote deposit should be implemented—but rather, *how soon* you can realistically start obtaining its benefits. The answer: As fast as you can arrange implementation with your bank and your scanner supplier. Most companies can be "live" with remote deposit in less than two weeks—and that includes plenty of analytical time to document existing workflows. Equipment and software costs are nominal.

* In this paper, "merchant" is a catch-all term for any organization that deposits checks from customers, subscribers or members.

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Remote deposit is hot

Banks are seeing extraordinary demand for remote deposit processing. The volume of remote deposit transactions is skyrocketing—from 60 million checks in 2004 to an estimated 615 million in 2005. That's almost a ten-fold increase in one year.¹

Most large and mid-sized banks have either already launched a remote deposit service or soon will. To remain competitive, smaller banks with commercial accounts must quickly follow.

...here's why

Big changes in the banking world since 2000 have opened the door to the benefits of remote deposit capture for banks' business customers.

In response to the 9/11 terrorist attacks, the U.S. government grounded all air traffic for four days. Tons of checks were stranded in the grounded planes. That experience fueled an impetus already underway to remove legal barriers inhibiting development of electronic check clearing. A new law—the Check Clearing for the 21st Century Act, or “Check 21” for short—was passed on October 28, 2003 and became effective one year later.

What the experts are saying about remote deposit

“Almost every bank is racing to offer the service, and almost every large and medium-sized corporation is asking for it. There is little question why: the business case for both banks and corporations is extremely compelling.”

“The Rise of Remote Deposit Capture: A new era in banking takes hold,”

John T. Leekley, RemoteDepositCapture.com, October 24, 2005

“This is the hot product in business banking right now. Not only do our business clients no longer need to take their check deposits to a branch, those clients will also have access to their working capital much sooner with faster receipt of funds.”

Deborah Bateman, Senior Vice President
National Bank of Arizona, October 17, 2005

Check 21 legislation is intended to foster innovation and enhance efficiency in the U.S. payments system. The law allows collecting banks to **truncate** paper checks – meaning, remove them physically from circulation – in favor of electronic processing.

To replace a truncated check, the collecting bank has two options:

1. Have an agreement in place with the paying bank to accept an electronic image of the truncated check; or
2. Accept a rigidly defined “substitute check,” printed from a scanned image of the original check, as the legal equivalent of the original. Substitute checks are intended to facilitate the industry's transition to electronic image processing.

Ultimately, banks expect significant gains from achieving inter-bank and branch-to-headquarters image exchanges, the main goals of Check 21. Market forces, however, have drawn attention to remote deposit capture as an additional payoff. For many banks, capturing check images electronically from customers is the “low hanging fruit” of Check 21 implementation—a benefit that's faster and cheaper to pick than inter-bank and intra-bank image exchanges.

1. Source: RemoteDepositCapture.com, October 2005

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A few national banks began using remote deposit capture as a new treasury management service to lure corporate accounts away from competitive banks. Now, more and more banks recognize that remote deposit gives them a hunting license to solicit corporate accounts from competitors, even if the target account is outside their normal service area.

Moreover, remote deposit is a money-saver for banks, too: It's far less costly to process an electronic file than a stack of paper checks. For these reasons, remote deposit has emerged as a top priority in the banking industry's migration to full Check 21 implementation.

Advantages of remote deposit

A wide range of businesses can use imaging to benefit from remote deposit capture. Large billers, such as utilities, insurers, publications and retailers with charge accounts, are excellent candidates. Other businesses—even those that process modest volumes of checks—can benefit, too. Medical offices, drug stores, wholesalers, distributors, insurers, health clubs, restaurants and business service providers should also consider remote deposit.

While Check 21 impacts financial services firms, it places no additional requirements on businesses. No business is required to make any changes in how it handles deposits. However, if you do opt to take advantage of remote deposit capture, you can expect to realize many or all of these advantages:

- **Lower costs.** Transportation costs and courier fees, which amount to hundreds of dollars a month for many businesses, are reduced or eliminated. Ditto for wire costs to consolidate funds from multiple accounts and the clerical costs associated with balancing traditional deposits.
- **Time savings.** The time savings from remote deposit can add up quickly: No time wasted using employees as bank couriers; no posting delays due to adverse weather or snarled traffic.
- **Streamlined cash management.** Remote deposit is an easier, simpler, more accurate way to efficiently process check payments.
- **Better funds availability.** Customer checks clear faster, usually the next day after deposit. Bad checks are returned sooner, enabling faster collection. Shippers will know that funds cleared before they fulfill orders.
- **Location doesn't matter.** With remote deposit, your bank doesn't have to be around the corner. Businesses can deposit checks electronically from anywhere. For companies with multiple locations, this affords an opportunity to slash deposit collection costs by consolidating regional or nationwide deposits into a single account.
- **Later deadlines for deposits.** Some banks will accept deposits up until 8:00 p.m.
- **Convenience.** Image files can be transmitted any time, 24x7, and as frequently as needed to optimize workflows.
- **Leverage with banks.** Remote deposit generates huge benefits for banks. For the customer, this creates an opportunity to solidify an existing banking relationship, or to use as a bargaining chip in opening a new banking relationship.

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How remote deposit works

The remote deposit process begins when the accounts receivable staff receives a check from a customer by mail or in person at a store or payment center.

Using a check scanner and software provided by the bank or a vendor, the staff creates deposit transactions from a desktop PC. Most check scanners can accommodate consumer and commercial checks, money orders, travelers checks and cashiers checks.

Staffers use the remote deposit software for three vital functions:

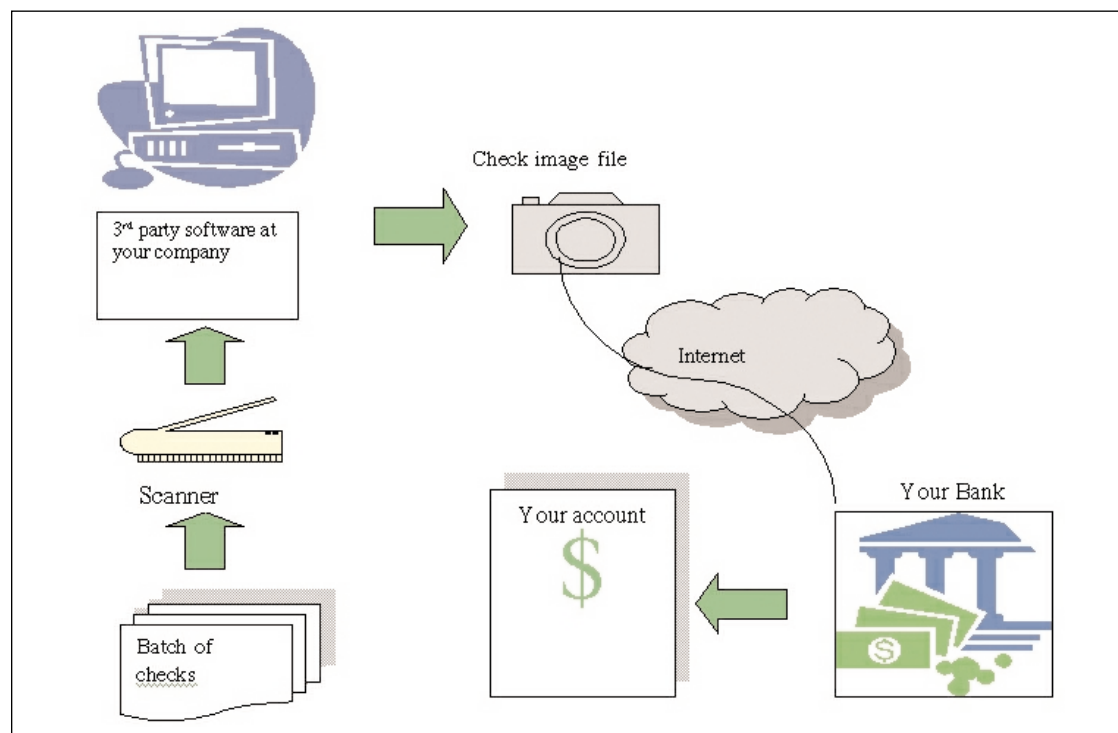
- to view images of the scanned checks for quality assurance;
- to enter data from the checks and payment coupons, if any; and
- to perform verification and balancing functions.

The automation of these three functions simplifies and expedites daily check deposits. Scanned images of deposit items are transmitted to the bank via an Internet connection.

Since banks no longer have to wait for deposit items to be collected from branches, merchants have a later window for making deposits. Cleared funds are deposited into the customer's account within a day, compared to the four- or five-day settlement cycles common when a paying bank is across the country.

With low-cost scanners, easy-to-use software and motivated banks, all the ingredients are in place for continued rapid growth of remote deposit capture.

The remote deposit process:



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The check scanner: The all-important first component

Selecting the right scanner is a vital step in reaching your goals. The overriding requirement is that the scanner (as well as the software and the process itself) must be uncomplicated and reliable. You want to make remote deposits as easy as possible for your staff. That's the key to getting the money available for corporate use in a bank account quickly, easily and inexpensively.

Many still prefer to pay with checks

Check transactions are declining while non-check payment methods are growing. However, figures citing the declining use of checks are a bit overstated: Truncated checks, and account receivable conversion (ARC) items that were originally checks, are counted as electronic transactions.

Check usage among market segments varies considerably, surveys have found. While consumers are steadily moving to online bill payment, written checks rule in business-to-business transactions.

A 2004 survey by AFP found that 75% of B-to-B payments are still made by paper checks. Between 1996 and 2003, Synergistic Research Corp. found, small businesses with \$100,000 to \$1 million in sales had virtually no drop-off in the number of monthly checks written.

Paper checks will remain a favorite way to pay, and to be paid, for the foreseeable future. For many merchants, checks may well be the low cost way to be paid—definitely cheaper than the high fees paid to credit card companies and, for some companies, even cheaper than cash, which has to be sorted, counted, bundled, and transported. One survey pegged the costs of processing different payment methods as follows:

Cash:	\$0.22
Check:	\$0.45
Debit card:	\$0.80
Credit card:	\$1.07

Here is a brief checklist of factors to discuss with your reseller.

- **Image quality.** Since truncated checks will eventually be destroyed, scanned check images must be detailed, accurate and fully in compliance with Check 21 standards. Be sure the scanner is bundled with Silver Bullet Ranger™ software, the industry standard for image quality assurance.
- **Accuracy.** Top scanners achieve accuracy rates of 99.9% for E13B font recognition.
- **Black-and-white resolution** should be at least 200 dpi to ensure high quality image capture, regardless of check type
- **USB 2.0 interface** for high-speed, plug-and-play connectivity.
- **Ease of maintenance.** Any cashier or accounting person should be able to clear jams and perform maintenance with minimal training.
- **Ease of use.** Look for features that fit your expected workflows, such as an automatic document feeder with adequate capacity, built-in OCR software, and a built-in pre-scan imprinter for endorsement information.
- **Compact size.** Robust scanners are available in small footprints that occupy minimal space on retail counters or employee desks.

Two Words Every Business Should Know: Remote Deposit**The scanner that's built for banks is also ideal for businesses**

Canon U.S.A., Inc. is an industry leader in professional and consumer imaging solutions, and, through its parent company, Canon Inc. (NYSE:CAJ), is a top patent-holder of imaging technologies. This technology leadership results in systems that are designed to outperform their guaranteed specifications, delivering optimal price/performance value.

In your evaluation of scanners for remote deposit, ask your supplier about Canon's CR-55 check scanner. Built for high performance in demanding teller-counter environments, it offers business users an unmatched combination of economy, image quality, ease of use and reliability.

The CR-55 is ultra-compact in size, yet is packed with features that assure usable images will be delivered to your bank. The CR-55 requires minimal training and effortless operation. Moreover, this rugged scanner is easy to maintain and integrates seamlessly with a wide range of check processing software applications.

For more information contact a Canon reseller.