Remote Deposit Capture™ Challenges and Opportunities
Managing Today’s Ripe Market, the Latest Risks, and the Many Business Benefits of RDC
Remote Deposit Capture Challenges and Opportunities

Remote Deposit Capture remains a high-profile topic in the industry today. Discover the latest issues and strategies in this new five-part white paper from Deborah Matthews, AAP, (ProfitStars’ former Enterprise Payments Strategies Director and current Marketing Manager) and Jackie Marshall (Director of IT Regulatory Compliance for ProfitStars’ Gladiator Technology). In the pages to follow, our experts will guide you through key hot-button issues like collaborating across departments to form an effective RDC team, improving brand equity, small business deposits, drafting consumer agreements, information security, risk management, and much more.

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PART I

Teamwork – An Essential Ingredient for RDC Success

We recently had a birthday at our house, and I decided to make the celebration cake from scratch this time instead of buying one at the grocery store. I put on my apron, selected the right pan and preheated the oven. As I mixed the batter, I was confident that this culinary masterpiece would receive kudos from my family. All was going as planned until the oven timer buzzed and I took the cake out of the oven. My poor cake looked as flat as a pancake! In my haste, I forgot to add the baking powder, a necessary ingredient for this particular recipe.

It occurred to me later that this was an apt demonstration of what can happen in the workplace too, when all of the essential elements are not put into place. Despite a cultural bias toward teamwork in most organizations, a surprising number of decisions are made in a vacuum. Confidently relying on their own wisdom and instincts, some professionals proceed absent the expertise and feedback from teammates. In doing so, their decisions are subject to blind spots or gaps in knowledge. Conversely, by failing to communicate across departmental or cross-functional lines, key staff may be left in the dark about current initiatives; resulting in missed opportunities, falling short in delivering quality customer service and achieving desired results. Teamwork and collaboration can help address these issues, and this fact is well-illustrated in the Remote Deposit Capture (RDC) arena.

A recent Celent report reveals that common attributes of successful RDC programs can be replicated, regardless of the size of the financial institution. In talking with some of our most successful RDC deployers, we discovered that the success these institutions are enjoying is, in large part, due to the fact that they assemble a team from across their organization; all of the right ingredients are in place. They have told us that the diversity of perspectives from their RDC team members has significantly contributed to the level of support and ownership across their organization, ultimately resulting in larger numbers of business deployments.

Another best practice used by these successful institutions is designating a team leader with accountability for the success of the RDC product. These leaders share the vision for the corporate goals for RDC, and align the team’s energies so that everyone is “rowing in the same direction.”

The recently released FFIEC guidance for risk management for Remote Deposit Capture provides yet another reason to appoint a bank officer, executive or senior manager to lead the RDC program. The guidance calls for the involvement of the institution’s senior management in the development of RDC strategies for assessing, monitoring and measuring risk. “The board and senior management are ultimately responsible for safe and sound operations, including RDC products and services,” states the guidance.

In order to implement the broad scope of risk mitigation policies and procedures, it is prudent to assemble a team from the various departments that can share insight or may be impacted by implementing RDC. According to the guidance, “Financial institutions should approach their risk management responsibilities by involving all potential stakeholders in RDC.” The guidance goes on to suggest that some institutions may choose to involve third parties in the risk assessment, implementation, or ongoing operations to provide additional expertise.

Collaboration across the organization can yield other benefits, in addition to compliance and risk management. Collaboration can be a source of stimulation and creativity in crafting ideas for capturing market share with RDC, enhancing training programs or improving communications about the benefits of RDC. Developing a coordinated team effort for RDC can also facilitate the transfer of knowledge or skills, help in identifying overlooked opportunities or risks, or even prevent surprises or unintended consequences.

“Getting the Right People on the Bus”

Jim Collins, author of the acclaimed best-seller, Good to Great, believes that success is predicated on getting the right people on your team. When preparing to deploy or ramp up your RDC program, look across your organization and identify the key departments that are affected by rolling out RDC and can provide support and assistance. Consider some of the departments that should be represented on a RDC team:

- Legal
- Sales and Marketing
- RDC Operations
- Risk Management
Information security
Compliance and Audit
Accounting
Training – internal and external
Front-Line Staff and Customer Service
Loan Officers and Branch Presidents
Staff responsible for hardware installation

Each of these functional areas can contribute to advancing your RDC program. Not only will more departments be informed and engaged, leveraging the collective energy to reach more potential RDC customers will likely help achieve your stated goals more efficiently while mitigating risk associated with RDC.

In the current challenging environment, strong teams are more critical than ever. By assembling and maintaining a productive RDC team, your institution gains advantages that an individual point person alone can’t offer, no matter how talented or seasoned. And in today’s ultra-competitive world, advantages like these can mean the difference between achieving your goals and failure. By implementing a core RDC team, your financial institution can reach new heights to enjoy the sweet taste of success!

The FFIEC guidance may be viewed at http://www.ffiec.gov/pdf/pr011409_rdc_guidance.pdf.

PART II
Inspiring Trust and Building Brand Equity with Remote Deposit Capture

In the not-so-distant past, banks were once revered among the most trusted institutions in society. Families knew their banker’s name just as much as close relatives. Unfortunately, there has been a reversal of trust between banks and their customers in recent times. An article in May’s Time magazine cited the Chicago Booth/Kellogg School Financial Trust Index, a survey that ranks customer confidence using a scale from one to five (where a score of one indicates no confidence.) The results for banks continue to slip – with the latest measures falling from 2.95 to 2.8. An Aite report released in April, found only 11% of customers referred their bank to their family or friends. This is a troubling trend with profitability implications for financial institutions.

Why is trust important in the business arena? Trust is an element that allows customers to form relationships with their chosen provider of goods and services. Trust is an essential component of brand equity. (Brands are so much more than corporate colors or logos. Some astute marketing pundits have portrayed an organization’s brand as their corporate character. Brands are defined by stakeholder perceptions about corporate promises and how well those promises are delivered.) Where there is goodwill and credibility based on trust, there are loyal customers who feel that they are part of your institution’s “family.” The customers that feel this connection will not only use more products; they will also become a source for referrals.

Trust is a factor that is difficult to measure; however, there is no disputing stronger levels of trust drive growth and translate into a stronger brand. According to Steven M.R. Covey, “Return to shareholders in high-trust organizations is almost three times higher than the return in low-trust organizations.” Building trust should therefore be viewed as a strategic imperative and a competitive advantage.

Many financial institutions already have a powerful tool in their arsenal to build and restore trust with their customers but may have overlooked its value—their remote deposit capture (RDC) solution. RDC inherently adds value to customer relationships because of the array of advantages users enjoy. Remote deposit provides more tangible benefits like time and cost savings, “softer” benefits such as convenience, reliability and peace-of-mind. User perception of the RDC value proposition is typically greater than any fees associated with the product. Remote deposit has a proven track record as a very “sticky” product; with virtually all customers experiencing the advantages and continuing to use it. However, like any good family relationship, frequent communication of these benefits is constantly needed to maintain confidence, build brand equity and trust.
With an effective RDC deployment plan, financial institutions can elevate satisfied customers to “raving fans.” The initial interactions are defining moments that set the tone for the future of the relationship. When executed well, the first impressions of your RDC solution have the potential to inspire trust, ultimately elevating the perception of your institution’s brand. With a growing number of institutions offering RDC, there is more competition than ever before. The hallmark of outstanding service and support can be a significant differentiator for your financial institution in the marketplace. Ensuring an exceptional RDC customer experience is as easy as ABC (and D!):

**Assess and Refine the Deployment Process.**

- Take an outsider’s view of your processes to identify areas to improve the customer experience. Have you developed documentation, checklists and other tools to streamline RDC installation?
- Are you using a “discovery” approach to determine which elements of the RDC solution will address the challenges and opportunities the customer faces in accepting payments? (For example, health care providers may have a sharp need for a recurring payment option like ACH for patients that can’t pay their outstanding balance in one payment.) By doing so, you help your customers maximize the benefits of the solution.
- Have you conducted sufficient due diligence in order to establish velocity limits for each business (and education to ensure understanding of these limits and how to respond to exceptions)?
- Most importantly, from the customer’s perspective is your RDC program simple to adopt and use, and has it made their life easier? Simple enough that they would recommend you to friends and co-workers?

**Be Prepared.**

- Nobody likes unpleasant surprises, so anticipate issues and questions. When things don’t go as planned, acknowledge the situation, take responsibility and work on the client’s behalf to achieve resolution. View these events as learning opportunities to improve your processes. These situations are connections to demonstrate how much you value the relationship while building your customer’s confidence in your ability to deliver to their level of expectations. Is your RDC customer response staff empowered to resolve issues in a timely manner? When your team members act as your customer’s advocate during these incidents, it promotes trust.
- Remember, training is not exclusively for your customers – make certain that your customer-facing touch points are educated to provide expertise, skillful support and empowered corporate ambassadors.

**Communicate Effectively and Frequently.**

- Is there a single point of contact for the customer? This approach may make it easier to cultivate a strong relationship between your institution and the customer. Make certain that you have designated well-trained back-up points of contact for those times that your primary RDC relationship manager is not available.
- Make sure the customer has a clear understanding of every aspect of the implementation process, such as scanner deployment and how and when training will occur.
- Specific communication about compliance requirements is important for risk mitigation. It is critical to clearly articulate topics like safekeeping and destruction of checks, obtaining proper authorization for ACH transactions and preventing duplicate transactions.
- Provide a variety of communication channels that make it easy for the customer to get the information they need when they need it.
- Don’t assume that the customer understands all aspects of RDC – you are the RDC expert, and this is likely new territory for them. Encourage questions, but also be aware that they “may not know what they don’t know.”
- Establish two-way communication so that your RDC team is listening to – and benefiting from – the voice of the customer. Within a relationship based on trust, you can encourage open and candid, constructive communications which will help prevent customer attrition. Even negative feedback should be considered a gift. According to FutureWinners.com, 96% of dissatisfied customers don’t complain and 90% simply don’t come back. When they complain, your customer is giving you a chance to “make it right” and keep their business.
- Reach out to your customers to keep them informed during the deployment process. Take into account that your customer will be making their deposits automatically from their desktop instead of your branch, so the nature of your interactions will naturally change after RDC is adopted.

- Like good family, routinely check-in on them and make sure all is well. Don’t assume “no news” is “good news.” Follow up after the initial installation phase to ensure that they are using the system and there are no changes that require your assistance (such as staff turnover, which could require additional training.) This will assure that your customer’s perception of the value of RDC remains high.

**Deliver on Your Promises.**

- Set customer expectations accurately about scope of features and functionality of the solution, how it works, and roles and responsibilities.

- Extend expectation setting to include your team, too. A clear understanding of the standard for quality of delivery is vital. Foster an internal culture where your RDC team is cognizant that every interaction is an opportunity to deepen the relationship, generate growth and enhance brand perception.

- Finally, once successful, maintain your service standards. To become a trusted “family member”, you must consistently deliver quality service.

So there you have it, the ABC’s of building relationships and inspiring trust with RDC. Take a proactive approach to improving your brand equity. Don’t let your customers become “distant relatives”—you have technology they need. Are you excelling at RDC delivery for your trusting family of customers? You should be!

**PART III**

**RDC Consumer Agreements, Information Security, and Responsibilities**

An Interview with Jackie Marshall, Director of IT Regulatory Compliance for Gladiator Technology, a ProfitStars Solution

**Q:** How do we determine whether our RDC Customer Agreement is adequate?

**A:** A well-written agreement can go a long way in assisting your institution with reducing legal and compliance risk associated with RDC. In general, the Customer Agreement should be signed before RDC is implemented at the customer’s location. Components to consider in the contract include:

- Definition of rights, roles, responsibilities and liabilities for the financial institution and the customer
- Establishment of controls identified during the risk assessment process and the consequences of non-compliance
- The right for the financial institution to audit the customer’s RDC function
- The financial institution’s right to terminate the agreement
- Transaction requirements and limits, i.e. daily limits, acceptable and unacceptable use of the RDC service, reserve requirements and daily processing guidelines
- Duplicate items, image quality standards
- Standards for ensuring the security of non-public information including appropriate storage, destruction, and disposal requirements for physical checks and check images.
- Business continuity and incident response planning
- System requirements for hardware, Operating System (OS) standards and connectivity requirements
Remember that as the RDC compliance arena evolves and your financial institution’s RDC business objectives change, contract requirements will need to be modified. Potential contract modifications should be considered at least annually when the RDC Policy is reviewed and the RDC Risk Assessment is re-evaluated. Members of the RDC management team within your organization should also have an opportunity to review and approve the RDC Customer Contract detail. This way, your Board of Directors can be assured that the agreement reflects the needs of all stakeholders within your organization. Remember that your legal counsel should always have final say regarding the detail included in your RDC Customer Agreement.

Q: What types of information security issues should our institution consider for RDC?

A: #1 – Get your Information Security Officer (ISO) involved in your team approach to implementing and managing. Leverage off of existing risk mitigation strategies to meet GLBA requirements for protecting non-public information (NPI). These include: a methodology for assessing risk and assigning appropriate security controls, training personnel on information security best practices, incident response handling, business continuity stipulations and components for vendor management.

Build on this Foundation With Strategies to Address the Unique Aspects of RDC Information Security Risk.

These strategies may include: evaluation of each RDC customer’s information security infrastructure, contract stipulations that state customers’ responsibilities for protecting NPI, processes for auditing RDC customers’ information security strategies that may include on-site reviews, self-assessments and receipt/review of results from penetration tests, audit reports and vulnerability assessments, segregation of duties and review of performance, activity, and management reports.

Q: What if I, as a Cash Management Officer, see that our financial institution’s biggest challenge to compliance with the latest FFIEC RDC guidance is a lack of confidence that our policies, procedures, and management strategies will meet the examiners expectations? Any suggestions?

A: Although the FFIEC guidance on risk management of RDC, finalized on 1/12/09, covers a number of specific areas, it is not prescriptive. You can learn from previous experience to implement a standard methodology for managing the suitability of RDC merchants/customers. This methodology can be compared to the Third Party Relationship/Vendor Management guidance originally outlined the Interagency Guidelines Establishing Information Security Standards. If you are not familiar with what your institution has in place for Vendor Management, get together with other stakeholders in your institution. The Information Security Officer, Credit Officer and BSA Officer are all familiar with the basic concept of “Know Your Customer”.

Create a risk framework to group merchants/customers by subjective risk level, include criteria based on customer relationship experience and type of business. Then you can determine appropriate controls. Onsite visits may only be necessary for the highest risk customers. You can rely on periodic self-assessments for most merchants/customers. Also, remember to include verbiage in your customer agreement for your ability to review reports of independent audits performed at the customer location related to IT, RDC and associated operational processes. Velocity tools and reports are also key tools to help ensure that customer RDC use related anomalies are addressed.

It will take time to develop a methodology that works for your financial institution. Don’t worry about a perfect process. If the examiners see a consistent approach or methodology, with regular review and flexibility for changes, your financial institution will meet the examiners expectations for managing RDC customer related risk.

PART IV
Small Business RDC: Deposits at the Speed of Life
During the campaign season last year, a great deal of rhetoric about “Main Street” was bandied about, with news talk show pundits using it as the litmus test for how well proposed policies would be received by the American public. So it was no surprise that recently there has been a sharper focus to determine which legislative efforts to revitalize the economy would benefit small businesses, a key staple of the American Main Street. As the engine that generates 60 to 80 percent of new jobs created, the small business community could potentially lead the way in the economic recovery.
Small businesses are an essential part of the fabric of American life. They represent 99.7 percent of companies, with 77 million people – or more than half of U.S. workers - employed by small businesses. Small businesses with annual revenue under $10 million account for about two-thirds of total U.S. payment transactions.

Despite this strength of numbers, most small businesses find themselves underserved by their financial institution. Bankers historically faced a dual dilemma in catering to smaller companies, viewing them as expensive to serve based on their preference for personal service; yet at the same time companies were perceived as price sensitive or even unwilling to pay for the level of products and services they demanded. As a result, institutions delivered small business products from the retail side of the bank, often using consumer product offerings that did not mesh well with the companies’ needs or requirements.

The contemporary small business has evolved, however; driven in part because in the current competitive landscape, “survival of the fittest” is truer today than ever before. Advanced technology is a ubiquitous part of our society, and small businesses in general have become more comfortable using technological tools. Small business recognizes that they can leverage technology to “do more with less.” About two-thirds of small businesses manage their finances with accounting software, and 80 percent say they want their financial institution to provide a technology-based electronic payment platform.

What does this mean for community banks and credit unions who are interested in winning a larger share of this “Main Street” market at the expense of the biggest banks, who have traditionally served the lion’s share of this group? It means today there is a window of opportunity to gain a bigger slice of this exciting market. (A word of caution to those institutions that fail to seize this opportunity: over half of small business owners say they would change their bank if a competitor offered the right mix of products and services.)

The speed of life for most small business owners is hectic. Time is one of their most precious resources. Their top priorities are running their company efficiently and profitably, and serving their customers. These activities usually take precedence over driving to the branch to make a deposit. Many small companies choose to implement RDC based on the convenience and time savings. With RDC, the deposit can be made at a time that is convenient with their schedule, without leaving their work premises.

Forty-one percent of Americans run a small business in addition to their primary job. These workers may not have the luxury of taking time during the day to make a trip to their financial institution and must make their deposits when their schedule permits. For these entrepreneurs, RDC represents a convenience that may in fact be viewed as a necessary tool for staying on top of administrative tasks required to keep their company progressing forward.

Another way that RDC benefits small businesses is by giving them the means to deposit payments into their account faster and more frequently, ultimately improving cash flow. Although checks heavily dominate small business receivables, small business owners make fewer trips per week to the branch to make their deposit than their larger company counterparts. By employing RDC to make a deposit daily or as payments arrive, companies can improve their cash management and eliminate “desk float.” According to Aite Group, 50 percent of small companies said faster availability of funds would increase their interest in using RDC. Faster funds availability is an important advantage, as small companies typically need those funds for purchasing supplies and meeting payroll.

The small business market for RDC may appear to be richly rewarding for banks and credit unions seeking new depository relationships; however, new challenges accompany these opportunities. Institutions offering RDC to small businesses must use diligence by employing “know your customer” strategies and by leveraging the complete complement of risk mitigation tools that are now standard fare in the “next generation” RDC solutions. This will not only help protect the financial institution, it will also serve to assist the company in identifying potential fraud.

There is another compelling reason for institutions to reach out to small businesses with RDC: RDC has proven to be a “sticky” product. Companies that have tried RDC love it, and virtually all continue to use it. RDC benefits both the institution and small businesses; it is a valuable tool for developing lasting, profitable depository relationships, and a way for small companies to harness technology to maintain viability and fuel growth.
PART V

RDC Risk Management Strategies for Consumer Capture

An Interview and Step-by-Step Guide from Jackie Marshall, Director of IT Regulatory Compliance for Gladiator Technology, a ProfitStars Solution

Q: How do we modify our current merchant RDC risk management strategies to accommodate offering RDC services to consumers?

A: First of all, the FFIEC Guidance finalized in January 2009 (FFIEC Press Release 1-14-09 Risk Management of Remote Deposit Capture) applies to all RDC services, including consumer capture. Therefore, the same concepts apply. You will need to review your existing standards for merchants and develop a complementary strategy designed specifically for a consumer RDC program.

Some Key Suggested Steps Include:

#1 – Identify a risk profile appropriate for consumers in your customer base.
Consumer capture is not a service for everyone. The relationship as it has existed between the consumer account holder and your financial institution should be the foundation upon which additional service offerings are based. Online banking habits, re-ordering checks online, and use of other technology based banking services could be indicators that depositing checks remotely will be embraced. Evaluate your existing customer base, as well as potential new customers. This assessment process can also contribute to helping you analyze overall risk and define the ideal type of consumer to target in your marketing efforts.

#2 – Integrate Consumer Capture into your financial institution’s overall strategic plan.
The Board of Directors is ultimately responsible for the success of your financial institution’s products/services. Setting goals and objectives for the use of RDC and how it is priced and packaged should be integrated in your institution’s overall strategic plans (prior to offering the service). Modifying your target customer base for any product/service requires a trip to the board room.

#3 – Create RDC suitability/underwriting standards for consumers.
You will most likely implement a unique set of standards for approval of consumers for use of RDC. Examples of underwriting guidelines that may be considered include the length of time the account holder has been an active depositor with the financial institution, the number of returned deposited items over a monitored period of time, the depositor’s overall account balances, and the number or type of banking services actively used by the depositor.

#4 – Create a customer agreement that is unique to consumers.
It is unusual to find any type of contract between consumers and financial institutions regarding the use of banking services. Therefore, supplementing an existing merchant contract with a remote capture “rider” is not a realistic expectation of the risk mitigation process for consumer capture. The customer agreement is the most important tool in mitigating legal and compliance risk associated with RDC. Different stipulations will apply for merchants versus consumers.

#5 – MICR enabled scanners or TWAIN scanners?
The ability for most flatbed scanners (non-MICR enabled or TWAIN scanners) to be utilized by consumer capture systems provides a cost effective solution for consumers, but can also may creates image risk. Capturing checks for clearing purposes in a non-MICR environment places the requirement for validation on multi-level recognition engines, operator intervention, or a likely combination of both. Ensure that your formal risk assessment matrix identifies this risk and assigns appropriate security controls that are measured and monitored.

#6 – Take inventory of security and monitoring capabilities.
Your chosen Consumer Capture application should include security features that allow your financial institution to control the flow of remote deposits in real time and allow customization of security criteria. These features include the ability to flag and hold deposits that meet criteria for review, so that suspect deposits will not be processed until approved. Ongoing periodic monitoring of activity will assist in determining appropriate parameters for consumer use of RDC technology.
A successful consumer RDC program is dependent on a solid platform based on regulatory guidance, best practices, and industry standards. Taking steps to appropriately address the unique aspects of risk associated with consumer RDC will help to maximize the benefit to your customers and to your institution.

**FOR MORE INFORMATION** about our industry-leading Remote Deposit Capture and managed security services, please contact us at 800-356-9099 or 877-GLADTECH.

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