

Remote Deposit Capture

What is Remote Deposit Capture?

Remote Deposit Capture has been called “The most important development the (U.S.) financial institution industry has seen in years” by the Federal Reserve and others. Nearly all of the top financial institutions in the USA are currently providing the service, or are well on their way to doing so, and many community financial institutions and credit unions are also offering business and consumer customers and members the service. The benefits of this service include convenience, better deposit availability, processing efficiencies and, maybe most importantly, reduced transportation cost & risk.

Remote Deposit Capture, in its most simple terms, is a service which allows a user to scan checks and transmit the scanned images to a financial institution or credit union for posting and clearing. The basic requirements for an RDC service currently include a PC, an internet connection, a check scanner and a service provider, either a financial institution or third party provider. Checks received at a company or financial institution location can be scanned to create a digital deposit. This digital deposit is then transmitted (usually over an encrypted internet connection) to the RDC financial institution or service provider, which then accepts the deposit, posts the deposit to the account and assigns availability based upon the financial institution’s availability schedule.

Branch capture offers similar benefits to financial institutions to expedite their own check process, extend branch hours, and reduce expenses by scanning and transmitting check images directly from the branch to a processing site without having to physically transport checks for processing. Branch Capture offers financial

institutions the opportunity to capture work throughout the day, which enables the financial institution to manage workflow, meet deadlines and solve geographical challenges.

The Remote Deposit Capture Process for Companies

In its most basic application, here is an example from a corporate perspective:

1. ABC, Inc. receives payments by check in the mail or at their office.
2. ABC, Inc. performs their normal Remittance Processing process. This process includes opening the mail, data entry from the payment coupon / control document (application, form, invoice, etc.), data entry from the check (dollar amount, date, account number, etc.), and information uploads to the Accounts Receivables, Customer, and other databases.
3. Checks are then typically provided to the corporation’s treasury area where ABC Inc. prepares a deposit (deposit ticket with total and accompanying checks). This process typically includes counting the number of checks and adding the value of checks at least twice to ensure the deposit is accurate and balanced.
4. With Remote Deposit Capture, instead of physically going to the financial institution to deposit the checks, ABC Inc. can now scan the checks using a desktop scanner.
5. Once the check images are captured, an image-based deposit is prepared. The RDC system can then transmit, via an encrypted file over a secure network, the deposit to ABC, Inc.’s financial institution.
6. The financial institution receives the image deposit, posts to ABC, Inc.’s account and assigns availability based upon the financial institution’s

availability schedule.

Many RDC service providers have additional features which can automate the Accounts Receivables

posting as well as account reconciliation, further enhancing the efficiencies of Remote Deposit Capture for a corporate customer.

Consumer RDC

RDC can also be provided to consumer accountholders in much the same way. Through the provision of a mobile application to the consumer by their financial institution, a consumer can take a picture of the front and back of a properly endorsed check via a smart phone or scanner, and transmit that image directly to their financial institution for credit to their designated account. Posting and availability is provided based upon agreement between the consumer and the financial institution.

Whether RDC is offered to corporate or consumer customers, an agreement is necessary to define obligations and liabilities. Secure retention and timely destruction of the imaged checks need to be specified by agreement, and accountholder due diligence performed by the financial institution before RDC is made available.

Legal Governance

The Check 21 legislation (Regulation CC) generally places the responsibility and risk involved with transforming an original paper check into an electronic format upon the converting/capturing financial institution. RDC is a process which effectively moves the traditional task of check processing from inside a controlled financial institution environment to a new environment, to that of a corporate or consumer accountholder. Therefore, most RDC agreements between a financial institution and their corporate or consumer clients necessarily assign much of the risk and responsibility to the accountholder.

Items cleared via RDC have the same legal and regulatory considerations as physical checks with regards to account holder rights, return time frames, etc. for the paying financial institution.

Frequently Asked Questions

Q. Who is a candidate for RDC?

A. The best candidate for RDC is a known customer, with little or no NSF activity, and no history of fraud. For corporate customers with high check volume, multiple offices that receive check payments and/or are located outside the geographic footprint of the financial institution, RDC is a good option. Whether the customer is a company or a consumer, it is essential that the financial institution has established vetting standards that include reviewing account history, length of time with the FI, average available balances, and the extent of the total relationship. RDC is not for the new and/or unknown customer.

Q. How can RDC prevent a duplicate check presentment?

A. One of the risks of RDC is duplicate presentment. A check can be scanned and deposited as an image, and deposited in paper form. A financial institution should ensure its RDC customer is in good standing and has no history of NSF or fraud. A duplicate check presentment means, for a corporate or consumer customer, either poor operational controls or attempt at fraud. The financial institution should

chargeback the duplicate item upon return by the paying bank and either suspend, cancel or restrict the use of RDC for that customer. It shouldn't happen twice.

Q. What kind of controls should be established for RDC customers?

A. A financial institution should have processes in place to review items being remotely deposited. Establishing single item dollar limits and total deposit dollar limits based on account deposit history can provide controls to view and approve items or total deposits if the limit is exceeded. Reviewing images for quality can ensure images flow correctly through the check collection process. In addition, some systems provide duplicate presentment reports that detect an item that has previously been deposited; these reports should be reviewed daily. This will not, however, detect a duplicate item deposited at another financial institution.

Q. Does a remotely deposited check clear faster?

A. Now that check image exchange is the primary collection method, all checks clear faster. Using RDC can improve the speed with which a check clears by getting it to the financial institution for deposit faster.

Q. If the item is dishonored by the paying financial institution, how will it be returned? Will it come back faster than a check deposited in person?

A. A remotely deposited check that is returned by the paying financial institution should be charged back to the depositor in the same manner as a check deposited in person. In general, check image exchange beginning at the accountholder level can speed up the collection and return process. The paying financial institution can make the decision sooner and return it to the financial institution of first deposit sooner. The depositor can learn of a dishonored item sooner than when checks were presented in paper form.

Q. Can a returned substitute check be re-deposited?

A. Remember that an image return of a check will be printed as a substitute check, the legal equivalent to the original paper check. Any check returned NSF or Uncollected can be re-deposited *one time*. However, a depositing financial institution may choose to require items (substitute checks) re-deposited to be done in person. Checks returned for any reason *other than* NSF or Uncollected, or any check bearing a "Do not re-deposit" stamp cannot be re-deposited.

Q. Since check image exchange is faster than paper exchange, are remotely deposited checks available sooner?

A. Regulation CC governs the availability of checks deposited in person or at an ATM. As all checks are now considered by Regulation CC as local items, funds from checks deposited ***in person to an employee of the financial institution*** must be made available no later than the second business day following the business day of deposit; the first \$225.00 of the deposit must be made available the first business day after the business day when the check was deposited. A financial institution *may choose* to delay availability for remotely deposited items as they are not deposited in person to an employee of the financial institution, but must disclose the availability schedule for such deposits.

Q. Are there checks that cannot be presented through RDC?

- A. Checks drawn on a foreign financial institution cannot be presented for deposit through RDC. Customers who receive foreign checks must make arrangements with their financial institution to present them in their paper form. To manage their risk of unauthorized remotely created checks being deposited, a financial institution may choose to require a remotely created check to be presented for deposit only in its original paper form, not as an RDC item. A remotely created check is defined as a check created when the holder of a checking account authorizes a payee to draw a check on that account, but does not actually sign the check. A financial institution can choose what types of checks it will accept via RDC, and must disclose appropriately.