

# Front-End Image Capture Products

Only Fools Rush In

By

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Remember the debate some time ago over Beta vs. VHS, or more recently, Blue Ray vs. HD? What about those who picked Beta or HD? How did their early investment decision pay off?

Well here we are again. Front-end image capture systems for branch, teller, merchant, home, ATM and Kiosk first presentment points are available from a seemingly endless supply of providers. Rapid paced technology delivers one new solution after another, each with ever increasing promises of process streamlining, cost reduction and opportunities for better service to your members. *Just sign here and you will be set for the future!*

For those of you with no time to read through all of the complexities associated with moving from paper to image in these myriad applications, let me start with a single recommendation:

***“Be quick but do not hurry.”***  
**- Coach John Wooden**

This is complex stuff. Decisions you make today will impact your strategy tomorrow. A lot of money is at stake no matter what direction you decide to take. Your strategy is far too important to develop without expert counsel. My advice is seek out a resource you can trust to help give you an honest view of all the options available today. You know; the type of resource where you shake hands and you don't have to check afterward to make sure all your fingers are still there. Sounds simple; now try and find that resource!

With traditional item processing, image archiving, document imaging, core system, ATM hardware and many other providers all offering you solutions, how do you know what is best for you? Who do you partner with to carry you through the current wave of offerings and into the future of payment systems technology?

There are many things to consider when selecting your path, but some are common to all solutions:

- ✓ Does the solution being presented cover everything involved in the end-to-end processing of the item from original presentment, through processing, clearing to the drawee institution, archiving and ultimately the handling of Day Two processes (e.g.: adjustments & research)?
- ✓ How does the solution interact with technology you have already invested in? Or with other types of capture products you may be considering?
- ✓ What is the depth of experience the provider has in the particular application you are reviewing?

Let me give you a couple of examples of vendor presentation points we have encountered during the past year:

## CASE #1

The Promise: Our solution is completely *free* of any clearing fees!

The Reality: Nothing is free. In this provider's solution the processing fee was significantly higher than the industry average. There were no clearing fees, true. But these were replaced with the requirement that the credit union would have to establish direct settlement relationships with *every* bank that their deposited items were drawn on. In this case the credit union had a minimum of 10-15 institutions with significant volumes. That is a minimum 10-15 points of settlement; 10-15 daily reconciliations; 10-15 completely different reconciliation processes and statement types to work with. A quick call to BofA confirmed my suspicions that a major institution was really interested in setting up direct relationships with only the largest volume providers or consolidators. Certainly they do not charge item fees for direct relationships, but if your volumes are not significant you could be subject to monthly account fees.

I guess *free* is in the eye of the beholder.

## CASE #2

The Promise: Our solution has minimal *click* (per item fees) that include all aspects of processing.

The Reality: True enough; the per-item fee on the processing side is very low. But since this solution is not provided by a financial institution, there are clearing fees that will have to be paid to the Fed or other points of clearing. And since this part of the process is outside of the vendor solution, the clearing fees are not disclosed or considered in the analysis.

It is vital that you fully understand the total costs from the point of capture through processing and clearing. In neither of the cases above did the vendor even remotely discuss the costs to the institution for handling the ever-increasing volume of adjustments that we are all seeing as the industry shifts from paper to image. If you will be handling your own adjustments going forward, have you calculated in the labor costs involved?

There are many more examples, but you get the idea. This really is the Wild, Wild West. *Buyer, Beware* is not just a saying of the past. There are many things to consider and, unfortunately, many that can easily be left out of some vendor presentations. These are things that, if not considered, will cost you plenty in the long run.

## Applications & Vendors

Before we get to price negotiations, how does one go about selecting solutions with the right features and functionality for your unique environment? Well, this entails no small number of things to take in consideration. Let's look at a few:

### ***Branch Capture***

Tried and true. On the market for more than three years now. Most common application available today. Virtually every item, image, core system processor has a flavor of the month for this application. Branch capture is also known as the least expensive entry point to get into image processing and take advantage of efficiencies and cost savings.

- ✓ Are you looking for the processing software to be located within your own firewall or an ASP model where tellers access a remote server over the Internet to process their work? One seems to offer more control and possibly reliability; the other offers far fewer hassles when considering how upgrades (which occur with greater frequency these days) are handled. Both can be equally secure if deployed correctly.
- ✓ Should the solution follow the *best practices* workflow of correcting any image errors at the earliest possible time—at the point of capture to minimize or remove adjustments downstream? Or do you have a vision that elects to move all balancing and item correction to a remote location or third-party in order to allow the teller more time for other activities such as cross selling? If you move the correction process to a remote location, how will you handle the back and forth communication required to resolve adjustments due to read errors or piggyback items? (These may require pulling the original item for review.) No right or wrong answer here. It all depends on your vision.
- ✓ How much flexibility do you have for handling On-Us items?

### ***Teller Capture***

Teller capture is more recent; there are not as many vendors with a viable solution here. Simply put, teller capture is branch capture pushed out to the teller line. Items are captured as part of the deposit transaction. The most obvious advantage would be in dealing with item issues while the member is still present during the deposit. End of day balancing is more streamlined as the items have been resolved throughout the day. And there is the possibility in the near future that a teller solution will be able to interface with a fraud prevention vendor such as Early Warning.

- ✓ Teller capture sounds like and is a powerful application. But it is significantly more expensive due to the requirement that the application and scanner hardware is not one per branch but one per teller workstation. This additional expense must be compared to the increased efficiencies gained in the overall workflow.
- ✓ Does your vendor provide a solution that not only captures the items at the teller line but also indexes them to the core system transaction so the entire transaction can be archived at the member level? This type of solution would make it possible to make images available to members through home banking applications. Additionally research for subpoenas would be a snap. Now there is a powerful feature!

- ✓ Does your vendor fully integrate with your core system application so that the teller transaction and the scanning process are all connected?
- ✓ What is your view of the future of checks? Do you see them going away rapidly or simply more truncation at the first point of presentment with a slower decline over time? The answer to this could vary depending upon your geographic location and member base. Once you understand your view on this topic, the follow up question will be how much infrastructure do I want to invest in and maintain?

### ***Merchant Capture***

Merchant solutions are important if your view is that small business services is a viable option for credit unions to expand and attract truly new members to the movement. In a merchant solution the capture process is pushed out of the branch entirely and to the end user (the merchant) location. Costs for licenses and hardware may be shifted to the merchant. The benefit to the merchant is no requirement to come to the branch during business hours when they have deposits to make.

- ✓ In a merchant solution the credit union still maintains the role and responsibilities of the *Reconverting Bank*. In other words, you are responsible for everything that occurs at the merchant location. How will you handle this from a risk perspective? How will you design contracts to address this new relationship with your member? Who will you give this to?
- ✓ Is the solution being presented to you allowing you to define unique business rules for each merchant account?
- ✓ How will you handle items that fall outside the business rules established or items that have IQA (image quality assurance) or MICR line errors?
- ✓ How does the solution handle the credit posting transaction—online, ACH through the Fed, ACH format directly to you? What fits best in your environment?

### ***Home Capture***

The big buzz on campus today is home capture solutions. USAA Savings Bank hit a home run with their customers on this. Remotely located members can scan an item at home and have the credit posted to their account without having to go in to the branch. All the same *Reconverting Bank* and contractual issues inherent with merchant capture are also present with home capture products.

- ✓ Most products on the market today require additional back office infrastructure and processes to complete the transaction. Images from scanned items are frequently received at the back office and must be bundled, or worse yet, manually posted to the member account. Frequently the member is required to send in the paper items. Although the credit posting occurs within a day, the settlement part of the transaction can only occur once the original item is received. In these types of

solutions the credit union must deploy infrastructure to reconcile and handle receipt and processing of the original item.

- ✓ How about an online solution—one where the image from the scanned item creates an immediate posting to the member account and at the same time creates a settlement transaction? No operational need for the member to send in the original item. No need to deploy additional infrastructure to balance and reconcile. Ask your vendor for their views to the online approach.

### ***ATM/Kiosk Image Capture***

Another recent evolvement of front-end capture is with ATMs and Kiosks. Converting deposited items to images at the time of the deposit eliminates the need to service ATMs daily to check those envelopes and retrieve checks for processing. Big savings for the credit union.

- ✓ The key point here is this is all new technology. Although everyone is still learning, there are a few vendors out there that have tangible success stories for you to review. Make sure you see the application in production.
- ✓ Will you have to upgrade the software on your ATM to make it image enabled? Or will you have to upgrade both the software and hardware? This could be a significant investment. What volumes of checks are you receiving through the ATM? Is it likely to stay constant or increase? Does your ATM have a future as a deposit acceptor or only as a cash dispenser?

Now...

*What if some or all of these applications were available to you on a common platform?*

This is not a dream it is in the works today and already available by some.

Consider:

### ***Settlement, Archiving, Day Two***

These processes are at the back end of all capture products. There are important questions to ask in solutions you are considering, including:

#### **Settlement**

- ✓ Will you be receiving 100% Immediate Availability of Funds for all of your image work presented today?
- ✓ Are you required to have a low or no interest bearing compensating balance account?
- ✓ What type of account is your work settled in? Do you have to manually move funds in order to gain earnings?

### Archiving

- ✓ How long are your items available online?
- ✓ How long are your items archived?
- ✓ Does your Home Banking provider have access to this archive?
- ✓ How difficult will it be if you decide to move to a different solution?

### Day Two

- ✓ How will you receive your return items?
- ✓ Will you or your provider be working adjustments coming back through the clearing process (remember these are on the increase and require significant labor commitment)?

So to whom do you go to get these solutions? Who can you trust? The reality is that image capture is an extension of traditional item processing combined with document imaging. Traditional providers in these areas were the first to market and brought the most extensive experience. Then came some new-to-market independent vendors that focused only on this segment. Last to the party were the core system and ATM hardware providers. Each provider brings uniqueness to the market, and by the way, no one is best at everything! Here are some thoughts to consider when reviewing providers:

- ✓ How long has the provider been in the specific business of image front-end capture products?
- ✓ What experience did they bring to the development process? Is this really their expertise or just a secondary add-on product line?
- ✓ How many installations do they have?
- ✓ Do they have a focus on the credit union market place or are they primarily providers to banks?
- ✓ How well do their applications interface with other product types, core systems, image solutions, points of settlement, etc. that you may have already invested in?
- ✓ How open are they to hearing your needs and providing counsel for your needs rather than trying to force sell you on whatever they have available at the moment (remember – no one is best at everything)?
- ✓ How open are they in helping you to understand the full cost end-to-end in deploying these types of solutions?

### Pricing

What are the things you should consider in evaluating the costs and comparing solutions? How can you be sure that you have identified all of the *hidden* costs that some vendors have in their solutions?

Overall, the process is relatively simple. Every solution you consider should include pricing for:

- ✓ The front-end capture process
- ✓ Image correcting process for read errors (could be at the front end or remotely)
- ✓ Back-end processing, which would include receipt and archiving of images, duplicate detection, another round of correcting possible errors, presenting items through the clearing process
- ✓ Settlement
- ✓ Day two processes – returns, adjustments, research

The Investment...

- ✓ Cost of software or license
- ✓ Cost of hardware (e.g., scanners, servers)
- ✓ Annual maintenance

Daily Processing...

- ✓ Processing or per click fees at the front-end point of capture
- ✓ Cost to archive your items
- ✓ Cost to clear your items to the drawee institutions

Day Two...

- ✓ Cost to handle Day Two processes (adjustments)

Vendor Support...

- ✓ Call center support when you have issues with the product(s)

Some of the above are combined together in various solutions, but they are always somewhere. If you are reviewing a solution that does not address each and every one of these items then you can be sure that this is something that you will be paying to some other source or taking on yourself.

Now go forth, select wisely and prosper! And remember – *“Let’s be careful out there!”*

**Western Corporate Federal Credit Union is the largest Corporate Credit Union providing both Payment Systems and Investment Solutions. Related to image solutions:**

- ✓ **1998 – Initiated internal image processes for archiving items**
- ✓ **2003 – First institution in the 12<sup>th</sup> District to exchange image items**
- ✓ **2005 – Introduced branch capture to Members**
  - **Currently 205 Members representing more than 1,000 branches in 26 states, Italy, Guam, Puerto Rico, Japan and Korea are contracted for branch or teller capture**
- ✓ **2007 – Introduced teller capture**
- ✓ **2007 – Introduced ATM Image Capture, Kiosks and Convenience Store capture through partnerships with Ensenta & CO-OP branded.**
- ✓ **2008 – Introduced MYDeposit Home capture, a CO-OP branded product**
- ✓ **2008 – Introduced multiple merchant capture solutions**
- ✓ **2008 – *Scheduled – Common platform option for branch, merchant, ATM & home capture***

**At this time WesCorp archives more than 400 *billion* items for member credit unions and settles image items from more than ten third-party providers, including but not limited to:**

- ✓ **Bluepoint Solutions**
- ✓ **Ensenta**
- ✓ **CO-OP**
- ✓ **FSCC**
- ✓ **VSoft**
- ✓ **ProfitStars**
- ✓ **WAUSAU**
- ✓ **TUI**
- ✓ **Alogent**
- ✓ **Goldleaf**
- ✓ **Fidelity**
- ✓ **Miser**
- ✓ **NCR**
- ✓ **Diebold**

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