

# Banker's Academy BRIEFINGS

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## **Remote Deposit Capture: Asset to Small Businesses**

By Dr. Linda Eagle

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As technology opens up more and more opportunities to connect with individuals and businesses across the country and around the globe, it also provides for a host of activities to ease operations for thousands of businesses and facilitate greater levels of productivity and efficiency.

One such function is the use of Remote Deposit Capture (RDC) by corporations, and most importantly, small businesses. It is estimated that 30% of retail banks are planning separate remote deposit initiatives aimed specifically at small businesses, recognizing the potential that this type of business client offers to the financial organization, as checks make up more than 75% of small business receivables (contributing to a large portion of their revenue).<sup>1</sup>

RDC should be considered an asset to small businesses as it provides a more cost-effective and efficient way for them to continue their operations, while allowing them to allot resources such as time, money and personnel to achieve goals and objectives that will ensure future successes.

### **What Is RDC?**

RDC, also known as corporate capture, merchant capture, image deposits or image cash letters, has clear advantages for businesses that process a great number of checks in a short amount of time. Congress passed the Check Clearing for the 21<sup>st</sup> Century Act (Check 21) on October 28, 2003, revolutionizing payments processing for the entire financial services industry. The Act allowed a variety of check types to be converted to electronic transactions, including third-party checks, corporate- and government-issued checks, personal checks and money orders.<sup>2</sup>

Prior to the implementation of Check 21, checks deposited by customers had to be physically transferred from the receiving financial institution to the one on which the check was drawn. Some attribute the events of 9/11 to the birth of Check 21 and RDC, as it was typical for air carriers to be involved in the transportation of these physical checks from one coast to another, and the security measures taken immediately following the terrorist attacks that day grounded many flights for several days.<sup>3</sup> Others state that the financial services industry was simply ready for change and needed more innovative and efficient methods for payments processing.

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<sup>1</sup> CELENT, "Manifest Destiny: Small Business Remote Deposit Capture," [<http://reports.celent.com/PressReleases/20080304/SMBusinessRDC.htm>], March 2008.

<sup>2</sup> NationalACH, "Check 21: Remote Deposit Capture," [<http://www.nationalach.com/check21-processing.php>], July 2009.

<sup>3</sup> Terrell & Terrell, "Remote Deposit Capture: Frequently Asked Questions," [<http://web.bterrell.com/selfservicedata/demo/Express%20Funds/Remote%20Deposit%20Capture%20FAQ%20for%20TT.pdf>], 2007.

## Understanding the RDC Process

The RDC process varies depending on the type and size of the organization, as well as the functions necessary to correspond with both the business' and its bank's operations. According to John Leekley, a typical RDC process can be explained in the following six steps:<sup>4</sup>

1. ABC Corporation receives payments by check in the mail or at its office.
2. ABC Corporation performs its normal remittance processing routine.
3. Checks are then typically provided to the Corporation's treasury area, where ABC Corporation prepares a deposit (i.e., counting checks and ensuring the accuracy of the deposit amount).
4. ABC Corporation scans the deposit ticket and checks using a desktop scanner.
5. The check images are captured, and:
  - a) An Automated Clearing House (ACH) file (for eligible items) or an image-based deposit is prepared.
  - b) The RDC system transmits the deposit to ABC Corporation's bank using an Internet connection and encrypted data.
  - c) The bank receives the ACH file or image deposit, posts to ABC Corporation's account, and assigns availability based upon an agreed availability schedule.

While there is still paperwork and data entry to be done on the business end during the remittance process, there is no longer a need to physically deliver the checks to the bank. This alone reduces time and money for the business, making its operations more efficient and cost-effective.

The final step in the RDC process described above involves the work of the financial institution, removing the burden on the business customer. At this stage, "checks converted to ACH transactions are processed electronically" and those that are non-ACH transactions often involve reprinted images called Image Replacement Documents (IRDs) which are then cleared and processed much like a paper check would have been prior to the passing of Check 21.

## Benefits of Using RDC

Apart from the obvious benefits of reduced paperwork and no shipping involved in these types of transactions, small businesses using RDC experience the following benefits:

- Increased access to working capital due to faster settlements.
- Ability to submit files later – RDC files can be submitted as late as 8 p.m. EST under Check 21 (paper-based deposits must be submitted by 4 p.m.).
- Check fraud risk is reduced due to shorter clearing times.
- Management can quickly and easily compile reports of transactions online.
- Increased flexibility and reduced relationship management costs – no longer do bank accounts need to be opened to begin a transaction with a new bank – RDC allows for the use of any financial institution as a depository account.

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<sup>4</sup> John Leekley, "Remote Deposit Capture: Revolutionizing the Check," *Credit & Financial Management Review*, [[http://findarticles.com/p/articles/mi\\_qa3857/is\\_200601/ai\\_n17174850](http://findarticles.com/p/articles/mi_qa3857/is_200601/ai_n17174850)], 2006.

- Expanded credit relationships – as organizations do more business with their banks, the balances in their accounts will increase, encouraging the bank to provide credit services to meet growing financial needs.
- Businesses save time and money on transportation expenses.
- Increased time allowed to process checks due to reduction in transportation needs.
- Accelerated business operations are possible through the automated check deposit process, as it is less vulnerable to error when compared to manual processing.

### **Educating Small Businesses about RDC**

As with any technologically-enhanced business function, small businesses should be mindful of the various risks that RDC may pose. The Federal Financial Institutions Examination Council (FFIEC) has published specific guidelines and recommendations related to using electronic forms of payments processing in its [Management Booklet IT Examination Handbook](#) and [Bank Secrecy Act/Anti-Money Laundering \(BSA/AML\) Examination Manual](#).

In addition to following regulatory guidelines, it is strongly recommended that small businesses examine their current operations and determine if RDC is the best option for their payments processing needs. If RDC is chosen, the business should train its employees about the benefits, functionality, procedural steps and other factors related to how the business will utilize this new system, keeping in mind that not all RDC solutions are the same and requirements may vary from one user to another.<sup>5</sup>

According to the FFIEC, “RDC customers may have unrealistic expectations of the system or may not understand their roles in managing risks and monitoring for processing errors or unauthorized activity.”<sup>6</sup> It is therefore the responsibility of both the business and its financial institution to be sure that everyone involved in this process understands every aspect of the transactions and the effects on the business’ operations and banking relationship.

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<sup>5</sup> John Leekley, “Remote Deposit Capture: Revolutionizing the Check,” *Credit & Financial Management Review*, [http://findarticles.com/p/articles/mi\_qa3857/is\_200601/ai\_n17174850], 2006.

<sup>6</sup> FFIEC, “Risk Management of Remote Deposit Capture,” [http://www.ffiec.gov/pdf/pr011409\_rdc\_guidance.pdf], January 2009.

## **Final Word**

Small businesses are charged with providing quality products and services to their customers. By recognizing the value that RDC provides to businesses and their customers alike, small businesses can harness this functionality to enhance the features of their products and services. However, in order to do this, small businesses must learn to effectively use RDC to manage operations and cash flow. Using RDC will ultimately result in leaner business operations, which will help keep customers coming back, ensuring the future success of the small business in the long term.



*Dr. Linda Eagle is Founder & President of The Edcomm Group Banker's Academy—a 23-year-old education and consulting firm dedicated to serving Banks, Credit Unions, Money Services Businesses (MSBs) and all areas of the Global Financial Community with thousands of generic and customized training programs in areas such as BSA/AML, Regulatory Compliance, Teller Training, Systems Training, Sales and Service Training, and many more.*

*The Edcomm Group Banker's Academy is headquartered in New York, NY. For more information, email [linda.eagle@edcomm.com](mailto:linda.eagle@edcomm.com) or call +1.212.631.9400.*