

# What Is Remote Deposit Capture?

## Definition and Background

*Remote deposit capture* (RDC) is the process whereby the consumer or business can deposit a check at their depository bank, without physically going to the bank. It also means that a bank can scan checks in the branch, or anywhere, for that matter, without physically sending the checks to the Proof of Deposit center. RDC became an acceptable business practice following Congressional passage of "The Check Clearing Act for the 21<sup>st</sup> Century," and a one year waiting period. Prior to this, banks had been lobbying for years to legalize an image cashletter, but there were still some states that required the original check as evidence in a court case. So, checks were flown all around the country every night to be physically presented to the bank that they were drawn on. This created a whole industry of float optimization (mail float, availability float, and processing float). All this changed with the tragedy of 9-11. At that time, about half of the checks in the country were cleared by the Federal Reserve, and the Fed guaranteed availability with their time stamp. When 9-11 occurred, planes were grounded for days, and the Fed ate the float on those checks. This was the impetus that Congress needed to overrule state requirements and impose a national standard, called ANSI X9.37. Banks were not required to digitize their checks, but the law allowed them to destroy the original check, and then reprint an "Image Replacement Document," which had the validity of the original check. Banks have been slow to deploy RDC to their customers, and while most large enterprises have adopted it, most SME's have not. Recently, banks have deployed a mobile app to their customers, allowing them to take a photo of a check and send it to the bank via their mobile phone, and RDC continues to evolve.

## Other Considerations

Checks are still around, and check processing is a big business. The common misconception is that "checks are going away." The Fed does a check study every 2 years, and the most recent study found that virtually all B2B payments are check based. Also, there will be roughly 25 billion checks written in the US this year.

Check processing is a complicated business, and there are only a few major players. There are about 8000 banks in the US. Aside from the Top 100, they are all "community banks" with less than a billion dollars in assets. These banks do not have their own data processing facility; they use a core processor. The 3 major core processors are Jack Henry and Associates, FIS, and Fiserv. Community banks rely on their core processor to deploy an RDC solution for them.

Before 9-11, processing checks was about moving paper, but even then, it was a highly organized and cost effective business. There is a misconception that check processing was inefficient, but look at the facts: you could deposit a check at your bank at 3 pm today, and the bank would charge you fifteen cents to clear it, no matter how large the amount, and you would have good funds in your account in one or two business days, with finality of payment (with limited exceptions, such as forgery). That was a highly efficient business.

Checks and ACH live in two different worlds. There is a misconception that “checks are bad and ACH is good.” Nothing could be further from the truth. ACH works well in certain instances (e.g. recurring payments), but not for high dollar, or high risk, or non-recurring transactions, or “consumer not present” merchants. Merchants want to have the certainty of the Uniform Commercial Code when they process transactions, plus 200 years of banking law. The ACH world is regulated by the NACHA Rules and Regs, and Reg. E, a consumer protection statute, and consumers have 60 days to dispute a transaction.

Some people think converting checks to ACH is equivalent to RDC, but again, nothing could be further from the truth. NACHA rules prohibit conversion of business checks, cashier’s checks, money orders, high dollar checks, etc. So, a merchant who converts checks to ACH would still have to go to the bank. When you convert a check to ACH, you capture the MICR line, not the whole check, so this would not work for updating the G/L, etc.

### Conclusion

Predictions about adoption of RDC by corporate America have fallen short, and SME’s particularly have proven resistant to adoption. But this is changing over time, particularly with the rapid consumer adoption of RDC via a mobile phone, popularized by USAA insurance company as the early adopter. The early concerns, quality, cost, and reliability of the scanner have been addressed by the major scanner manufacturers. Now, there is really no excuse for a merchant not to use RDC, and it is only a matter of time before banks start charging merchants extra to go to the branch to make deposits. Banks have enjoyed enormous cost savings from RDC, not the least of which is getting the float, a non-earning asset, off the balance sheet, and finding out about return items the next business day. So while RDC has had a slow start, the future looks very bright indeed.

### **About CrossCheck, Inc.**

CrossCheck, Inc., an established leader in the payments industry, processes and approves billions of dollars worth of check transactions annually for retail and dealer outlets throughout the U.S. For more than 28 years, its goal has been to increase merchants’ profits by providing efficient and affordable check approval, guarantee and conversion services that can help increase sales and reduce risk. The company has offices in Petaluma, California, Phoenix, Arizona and Dallas, Texas. Their suite of services includes check conversion technology, ACH, web-based transactions and remote deposit capture products and, through subsidiary Optio Solutions, cost-effective debt management tools.

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