



## **Consumer Item Capture: Relationship Building or Unnecessary Risk**

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***Extract: As with any ground-breaking technology, not much time elapses before “second generation” offerings that use or mimic the original technology emerge. These later versions may be slight variations on the theme, simple replications under a new brand, or new deployments of the main technology core that led the initial model to its success in the first place. An example of the last type of follow-up technology mentioned is the gradual introduction of Consumer Item Capture. The same core technology that drove financial institution and business efficiencies with branch capture and merchant capture, respectively, is now addressing the check depositing opportunities of the consumer market. Consumer capture has a built-in captive audience, but that same audience will often seek out and follow the clear direction of its trusted financial institution. Are those financial institution partners ready to direct consumers without hesitation? Even if they can, should they?***

### **The Need**

Consumer check deposits are a key element of any financial institution's branch network volumes. The personal interaction between branch personnel and consumers making deposits can cement a long-standing financial relationship and add to additional product sales and heightened loyalty. Consumers, however, are eager for advances in technology that allow them to perform banking transactions with more flexibility and convenience. Online banking and image technology are offering these conveniences in forms of e-statements, self-service research requests, account openings, and check re-order needs.

### **The Definitions**

Consumer Item Capture is easy to define, mostly because it has industry-proven predecessors. Consumer Item Capture involves the image capture of check deposits at a place of the consumer's choosing and subsequent secure transmission of the check images to the depository financial institution. In this way, Consumer Item Capture is not discernibly different than Merchant Item Capture, which has seen industry-wide adoption by thousands of businesses, serviced by many financial institutions. However, Merchant Item Capture has generally been defined by the presence of a MICR-capable scanning device, likely deployed in the merchant's accounting office at its place of business. For consumers, capture could occur at home, in the business center of a hotel while traveling, in an airport while logged on via wireless connectivity, or other less predictable scenarios. Therein lies the rub.

### **Overcoming Most Common Hurdles**

New technology demands new and creative forms of investment consideration by financial institutions. When, how, and for whom to deploy new solutions are decisions that must be made to allow appropriate tracking and success measurement of product decisions. For Consumer Item Capture, there are three primary obstacles to overcome for a credit union or bank to market a solution aggressively and successfully: risk profile, underwriting guidelines, and scanner technology.

One, the risk profile of the financial institution will be the paramount gauge against which Consumer Item Capture will be measured. Remote check capture at business locations can be seen as an increase in fraud and risk opportunities. However, merchant capture risk has been actively mitigated by two key components: the use of MICR-enabled scanners and the presence of a product-specific service agreement between the business and the financial institution.

MICR-enabled scanners assist in the recognition of original negotiable items, such as consumer and business checks, money orders, or Treasury checks. Photocopies or checks printed without magnetic ink should be systematically filtered out and require manual input by an operator (either at the business or the financial institution). The financial institution can then decide whether to accept an item that was not automatically read by a MICR-enabled scanner. With consumer capture, however, the cost model of MICR-enabled scanners does not make it attractive for widespread consumer acceptance. Manufacturers have steadily improved lower capacity and, therefore, lower cost models of MICR scanners, but the willingness of the financial institution or the consumer to accept the cost burden of deployment is suspect, at best. Flatbed, multi-purpose, or extremely inexpensive scanners must lead the consumer capture model. (Please see Scanner Technology section below.)

Service agreements between businesses and financial institutions are typically enforced via a master contract (containing general terms and conditions and service levels), product-level service exhibits that serve as self-standing individual contracts, or a combination approach that attaches product-level services to the underlying master. No matter the contractual method favored by the financial institution, there is a clear declaration and acceptance of binding terms and conditions of use of the merchant capture product. It is far rarer to find any type of contract between consumers and financial institutions regarding the use of banking services. Therefore, supplementing an existing contract with a remote capture “rider” is not a realistic expectation of the risk mitigation process for consumer item capture. The relationship as it has existed between the consumer account holder and the financial institution must often be the foundation upon which additional service offerings will be based.

Two, underwriting guidelines must be clearly defined to answer the question of what market segment(s) will be targeted with this service. Underwriting guidelines exist to provide a traceable and systemic mitigation to the risks recognized as natural extensions of the product or service itself. Examples of underwriting guidelines that may be considered regarding consumer item capture 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 and/or type of banking services actively used by the depositor. It is possible to equate this evaluation related to consumer authorization at the product level to the common scenario of offering Information Reporting services widely and often at no charge to commercial customers, while limiting, closely monitoring, and (often) charging service fees for financially impacting services like wire transfer or ACH origination. So-called “premier” consumer customers may be offered consumer item capture as part of a service package tied to account balances or types of investment or loan transactions.

Three, the overriding scanner technology to be used to facilitate consumer capture will be the engine that makes the process work, stagger, or fail outright. As mentioned earlier, the benefits of MICR-enabled scanners do not seem to be naturally available to the consumer market due to cost concerns. The alternative (non-MICR scanners) capture methods simply require additional interrogation of resulting images that may not be required of MICR-enabled capture sessions. For example, an image captured on a common TWAIN or ISIS interface will require intelligent character recognition to validate orientation, automate data capture, and ensure completeness. This intelligent review may take place solely at the central operations area of the financial institution, as self-validation by the consumer may not be considered adequate control for risk. The capture of non-MICR documents is a fully mature and frequently automated process. Indexing can also be automated according to document-level business rules or defined templates. 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, whereas business capture with a MICR scanner can be automated and validated without operator intervention in a high percentage of cases.

### Key Decision Points

Assuming the risk, underwriting, and technological considerations above have been managed to the satisfaction of the decision making board of the financial institution, the next set of discussions will relate to strategic placement and synergy with other initiatives.

- ✓ Is our consumer item capture direction running in direct competition to our direction on image-enabled ATM? Consumers are embracing ATMs that offer broader services. Kiosk models are distributing postage stamps, accepting payment coupons, and offering cross-financial institution transactions. Investments in consumer item capture should not be wary of ATM development, but should be cognizant of ways in which the services could be offered in a complementary manner.
- ✓ With online banking, ATM networks, and consumer check capture, what reason will retail customers have to come into my branches? This is a very fair consideration and one that must be in concert with the overall branch network strategy of the financial institution. At a minimum, it must be recognized that not all consumers will be in a position to take advantage of these technology-based services. Furthermore, and perhaps more importantly, financial institutions are compelled to find reasons for its consumer customers to create branch traffic.

- Campaigns, additional product implementations, and relationship reviews may still merit in-person treatment.
- ✓ Am I already allowing deposits to consumer accounts for small businesses using merchant capture solution? Many financial institutions are permitting small business owners or operators to create deposits into consumer accounts via existing merchant capture workstations. Granted, these workstations are likely using MICR-enabled scanners, but breaking the ice on allowing remote capture deposits to consumer accounts may have already been successfully broken.
  - ✓ Am I most challenged by the potential fraud risk, the lack of a capture agreement (like I have with merchants), or the required technology? Most cost-benefit analyses require the prioritization of elements. These elements may be resource constraints, financial limits, or definitive timing requirements. With consumer capture, perhaps locking on a definitive and unbending solution for two points of challenge may create the opportunity to be moderately relaxed (within acceptable levels) on the third consideration. It is the responsibility of each financial institution to determine if this type of trade-off is acceptable in their business model.
  - ✓ Can I actively grow deposits through a concerted marketing effort on just this functionality? If not, do I need it? The placement of consumer item capture in the continuum of products must be understood by the financial institution. It may be completely acceptable for consumer capture to be an offering of convenience and competitive parity. It may not be actively marketed as a deposit growth engine, or it may be the dynamic lynch-pin of a new deposit campaign. Regardless, the reliability and accuracy of the product must precede any marketing decisions.

### Points to Ponder

Check truncation, as empowered by Check 21 legislation, has been a widespread success in the financial institution marketplace. The benefits of branch capture (whether front counter or back counter) and merchant capture are undeniable to both the financial institution and the depositors using the solutions. These benefits have also been spread commonly across the type of institution, including commercial banks, retail banks, savings banks, and credit unions. Consumer item capture, however, may separate these institution types, according to traditional consumer account management.

Consider: Is consumer item capture an instance of an application that will work for credit unions but not for banks?

Rationale: Traditionally, credit unions have leveraged an affinity-based membership to protect and promote product offerings. The common characteristics of members, whether it be geography or employment, for example, create bonds that lend themselves neatly to directed campaigns and specialized services. Risk models can be more easily internalized, as a certain personality of the membership is already known. Loyalty is also a hallmark of credit union memberships. Traditionally, again, banks have not always had this level of intimacy with their consumer depositors. That is not to say that service levels, product offerings, or interpersonal engagements in banks is inferior in any way to that of credit unions. Rather, some informational and relational links are in-born in credit unions and their ability to leverage this is indisputable.

Consider: Is consumer item capture attractive only to high net worth and/or geographically dispersed account holders?

Rationale: Financial institutions will have to reconcile the acceptance of a new risk model with consumer capture against some benefit. Clearly, assisting investment goals of high net worth account holders or breaking down geographic challenges with dispersed depositors are obvious benefits that will be easier to market. Each financial institution will then need to consider the application of the product outside those two demographics. Niche products can be wildly successful, though relatively narrowly offered. Consumer item capture may prove to be this type of niche offering to some institutions, according to their risk profile, underwriting guidelines, and use of scanning technology.

## Conclusion

It has been said that “imitation is the sincerest form of flattery.” If that is true, then merchant and branch capture must be blushing. The new kid on the block is Consumer Item Capture and its challenges may be more than overcome by the value it creates for its pre-existing market. Consumer check capture capitalizes on technology, consumer comfort with transactions that are not conducted face-to-face with a representative of a financial institution, and adherence to standards of underwriting and risk management that are consistent with the goals of the credit union or bank. The maximum efficiency of check handling involves truncation at the earliest possible point. Enabling consumers to create that truncation effectively will further efficiency in the check clearing industry.

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