

CHECK IMAGING

Image Exchange Emerging...Slowly

BB&T, Northern Trust prepare for future growth

Steve Anderson's strategy to make sure BB&T takes advantage of check innovation is akin to navigating the early stages of a marathon—keep abreast of what the other runners are doing so you don't fall too far behind. But don't race too far ahead, either—because the real race really hasn't started yet.

"BB&T's tried to stay at about the same pace as the rest of the industry for all support technology for image exchange and IRD production," says Anderson, BB&T's check clearing manager. BB&T's adoption of post-Check 21-related technology has been decisive yet gradual, and indicative of a wider industry trend toward adopting imaging piecemeal. The bank is ramping up with gradual roll-outs of remote capture technology, image replacement documents and plans to move forward with a variety of image exchange pilots in the coming year. It's in response to a check image adoption curve that's started slowly, but's soon expected to ramp up quickly, possibly within the next year.

Banks know they have to dump traditional paper-based check processing—the market's full of research revealing declines in paper checks and increases in check conversion. Throw in economic evidence that includes increased productivity and reduced expense from air and land travel, and the argument for a check image boom is pretty clear.

But so far, the path to full check image exchange across the industry is proving bumpy, partly because some banks stand ready to exchange images, while many others, mostly small institutions, haven't. And since banks do business with each other, partial adoption holds back the entire pack. "Institutions are all over the place right now in terms of imaging," says Alenka Grealish, research manager at Celent Communications.

"We've had some early movers. For those who have actually made an attempt to jump on the bandwagon early, they're surprised at how slow things have gone."

Celent says that while the decline in checks written over the past three years has been moderate, a negative 4.8 percent compounded annual growth rate, the majority of banks still have not started down the road to full image exchange/share. That's left a mix of strategies and pace of adoption among institutions, which further hinders the growth of imaging. The result: a mix of paper checks, substitute checks and images which will likely coexist for at least the next four years.

Most of the current moves revolve around remote truncation, either at the branch level or offerings that allow corporate customers to deposit checks remotely. For example, NetDeposit recently unveiled NetCapture Business 5.0, which was developed via a collaboration between NetDeposit and Bank of America, ABN Amro, Zions Bancorporation and Harris Nesbit. It allows corporate banking customers to make deposits at any time along with improved access to deposit data.

Grealish attributes the fits-and-starts growth of image exchange thus far in part to tangential factors tied to checking that still remain manual. These factors were an afterthought, if thought of at all, when imaging strategies were first making the rounds, yet they've managed to slow down full adoption. "There are so many moving parts. Some commercial banking customers, for example, still work on paper. So how do you change that paradigm? It has nothing to do with technology, it has more to do with the way in which business is done."

For its part, BB&T hopes the mix of check processing

styles will be increasingly weighted toward the electronic side. The institution recently installed IRD Author, a Carreker product, to generate IRD files that can be printed locally or transmitted for remote printing and presentment to banks that cannot receive images. The move is allowing BB&T, which was already using IRD Author to support its remote capture offering, to take another step toward check imaging. IRDs are an interim step between old school processing and image exchange, and the goal of most firms is to eventually reduce IRD usage in favor of images. Financial Insights predicts IRD usage will peak in 2007 at 1.6 billion items, and then gradually decline.

Anderson wouldn't reveal the volume of IRDs BB&T is processing, or give specific imaging volume targets for the future. He is emphatic that IRDs won't be the tool of choice forever. "There will always be a need for a volume of substitute checks. But we hope it's a low volume. We will do all we can to add to the volume of check images," he says. He adds that while there's lots of optimism about imaging, there are complications that have delayed a dramatic spike in image-based clearing and settlement. Anderson points to the integrating of back office operations in particular as an example of the challenges that have hindered a quick ramp up to images.

Most sources agree that the larger image exchange wave is inevitable, and some early proof is already emerging. Celent says the rising cost of paper and the improved pricing of outsourcing services will boost small bank adoption to 70 percent by next year. And by 2010, almost 90 percent of transit items will be electronically cleared and settled. Celent says 2006 will be a key year, as a significant number of banks will start to receive check images, with the share of transit items sent and received electronically approaching 20 percent. That percentage should pass 50 percent by 2007. And most recently, SVPCO-Electronic Clearing Services, the electronic check and check image exchange business of The Clearing House Payments Co., said check image volume in its large payments network grew by 18 percent in January over December, moving to \$4.1 billion in daily average dollar value. "We're going to see huge volume moving to end to end image exchange, as the top large banks get on the ramp," Grealish says. "Once they bring on their volumes, we'll see some critical mass."

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—Alenka Grealish, research manager at Celent Communications

The move by large banks will be a main driver in big-time adoption, since smaller banks that share the same road and air transportation routes with larger banks will lose the price advantage of shipping check documents in tandem with the big institutions. That price increase combined with price compression for image technology products and outsourcing services that sources say is on the way in the next few quarters, could remove a final incentive for smaller banks to stick with traditional methods. In certain cases, it's still less expensive to ship checks manually than it is to buy imaging software or job out processing. "Today, pricing still varies for image technology,"

Grealish says. "If that gets around to better pricing, it will become more cost effective to get paper out of the way."

Another factor that portends a spike in imaging is the ancillary benefits, particularly as a customer relationship management tool. Northern Trust is deploying image deposit automation technology, which enables check truncation at the branch level—a move that should make tellers much more productive as customer service reps.

Mike Valdez, a vp at Northern Trust, says his institution, which establishes de novo operations across the county, to move images from remote operations to the institution's corporate center in Chicago. "We were concerned with how to process the items that are being transacted remotely. We'll be able to use images to process transactions prior to the paper arriving two days later."

This rollout will eliminate physical inspection of checks, and the need for branch staff to microfilm items. Reducing these steps will allow tellers to interact with customers more directly. "We can change the teller function, from performing a transaction to providing attention to the client that's in front of them," Valdez says.

Northern Trust is piloting the technology, which was sold to them by Alogent, with plans for a rollout in the second or third quarter. As such, Valdez wasn't able to reveal check volumes or give a numerical sense of how the product has worked. In a phone interview, Alogent said other clients have achieved average teller keystroke reductions per customer to five from 55. "It's a unique opportunity for us. We have a chance to replace an existing teller system," Valdez says.

—John Adams