Trent's Comments

The end of the year is fast approaching. Let me take this opportunity to wish you a Happy Thanksgiving, a Happy Hanukkah, a Merry Christmas, and a Happy New Year! This will be my last issue this year. Shortly after the new year, I will have an issue out with some key things you should be focused on for 2013 and beyond.

Exploring Teller Capture

As many of you know, I cut my teeth in the banking industry on check processing. In the early 1980s, we still had branch couriers, centralized proof operations, and big electro-mechanical reader sorters that helped us sort checks into some sort of order so that they could be cleared.   In today's world of emerging electronic payments, I'm concerned that we tend to overlook check processing. We've made great progress since 2004 when the Check 21 Act allowed us to begin using substitute documents, yet there are still lots of checks being processed. Innovations, ranging from improved fraud detection to mobile capture, still deserve our attention. No doubt, 45 billion checks being reduced to 24 billion checks is a big drop, but the next 21 billion will not be as easy. The low hanging fruit is largely gone, and it will take work on the part of bankers to achieve additional dramatic reductions in check volume. Thus, in addition to efforts to influence customers' behavior away from writing checks, we need to address opportunities to improve check processing, and reduce costs, including fraud losses.

In this issue, I want to look at teller capture. This has been an on-again, off-again technology for a number of years. I believe it is more viable now, for more banks, than ever before. Declining check volumes, along with a focus on faster, more accurate transaction processing, are contributing to renewed interest, along with the opportunity to reduce costs on the bank side. <u>Remember that the ultimate goal of all distributed item capture is to capture the item as close to the source as possible</u>, reducing errors, and eliminating secondary handling costs. I don't believe every bank should move to teller capture. I simply want to point out some potential advantages, and give you some key considerations for your own evaluation of this technology.

First, let's define it: by Teller Capture, I mean the process of fully processing the transaction while the customer is at the window. Capturing the image and MICR data, balancing the transaction, submitting it for processing, and providing the customer with a final receipt.

Properly done, teller capture can be a great improvement to a bank's workflow and productivity. It also provides us with opportunities to extend a variety of fraud and security tools to the teller line, stopping checks from coming into the system rather than handling them the next day as an exception.

In my experience, there aren't yet enough implementations to provide a "standard" installation. Each bank ends up with a slightly customized version of the solution, depending on their intended application, and the extent to which they want to modify policies and procedures to take advantage of what teller capture offers.

The primary reasons, in my estimation, to consider teller capture, are as follows

1) Improve efficiency and accuracy of teller transactions. The transaction is completed while the customer is in the branch, thus errors are resolved before final posting. An accurate receipt is provided to the customer, so their records are complete as well. Most, if not all, transaction errors are corrected before the teller leaves the bank. Your back office processes for same day transaction processing, and subsequent day reconciliation efforts, should greatly diminish.

2) Reduce costs through use of virtual tickets. Most, if not all, internal bank documents can be created as electronic images from information the teller provides about the transaction. Only those pre-printed documents (primarily checks, and loan payment coupons) provided by a customer need be physically processed. The reduction in cost for pre-printed internal documents can be significant. I suggest you look into what those tickets cost you today.

3) Opportunities to identify and reject fraudulent or insufficient items before they are accepted for deposit. Using predictive fraud technology, along with real time access to fraud and insufficient funds databases, tellers can identify and refuse items that are likely to be returned. The best method of dealing with such exception items is to prevent them from entering your system in the first place.

Here's a short list of things to consider before making a decision to move to Teller Capture

1) Policies and Procedures

A willingness to change how your staff operates, and how you interact with customers, is a critical part of the success of Teller Capture. Training and education for your staff will go a long way toward alleviating their fears, and such training should include what to say - and what NOT to say - to customers about the change. In addition, if you choose to implement fraud tools that call for decisioning at the point of customer contact, more training, and management support, will be necessary.

2) Current Practices

Often, your tried and true practices ("that's the way we've always done it") will be called into question. The idea of having a customer sign a deposit ticket when requesting cash back, for example. What if there is no longer a deposit ticket? Options including implementing dollar limits, using technology like PIN or signature pads to provide the authorization, or just eliminating the practice. Be prepared to challenge many current practices in order to fully benefit from this new technology.

3) Higher Volume Deposits

Deposits with more than 50 items are not generally suitable for teller capture. Ideally, you will move these customers to their own Remote Deposit Capture solution prior to implementing teller capture. You will benefit from reduced branch deposit volume, and the customer will benefit from an improved deposit process, and extended deadlines for same day availability.

4) Teller System Concerns

If you already have a teller system in place, you ideally would find a Teller Capture solution that integrates to it. If no such system is available, or if you currently don't have a system, then evaluating a complete solution makes more sense. You should evaluate your core vendor's offerings, your IP vendor's offerings (if separate), and one or two third parties to get a sense of what is available in your environment. As I mentioned earlier, there does not yet seem to be a "one size fits all" solution, so look carefully.

Now you know enough to begin considering Teller Capture as a part of your overall item processing strategy. That's the real key. As transaction activity is changing, be sure that you have a strategy for dealing with old and new transaction types, and that you are actively managing risks and costs associated with each. As always, please contact me if I can help you with these or other matters.

Recent and Upcoming Speaking Engagements

November 2012

- 1: Graduate School of Banking *IT Management School*

- 6: Iowa Bankers Association *Compliance Conference*

- *9:* State Banking Associations *Webinar on Emerging Trends in Payment Processing still available on demand:* http://www.bankersed.com/tba/intro.asp

- 29:Arkansas Bankers Association *Technology Conference* http://arkbankers.org/education/12NOV_Technology_Conference.pdf

December 2012
- 3: Northwest CEO/Directors' Conference, Seattle https://m360.wabankers.com/event.aspx?eventID=46780&instance=0

January 2013
- *January 24 –* North Dakota Bankers Association *Bank Management Conference, Bismarck*

- January 28 & 29, 2012 – Idaho Bankers Association *Management and Directors' Leadership Conference, Boise*

//In Between Newsletters//

If you haven't already, please subscribe to my blog to ensure that you get updates on urgent matters in a timely fashion. bankinginsights.blogspot.com For example, I recently posted about the importance of educating your employees and customers about the "hacking activities" on selected large bank web sites. In addition to easy ccess to my blog, my newly updated web site now includes expanded information about my speaking and consulting services, and offers back issues of my newsletter in PDF format.

That's it for this issue - please call, email, tweet or FaceBook if I can help you with these or other matters.

Trent's Comments is published six times each year and provides insight into strategic topics facing financial institution executives. Please feel free to share this with your staff and colleagues. Should you not wish to receive this newsletter, simply send me an email and I will remove you from future mailings.

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