

Making a Clear Case for Online Digital Check Imaging

Web-based digital imaging is streamlining operations and enhancing customer options.

By Lynn Koller

Americans write about 49.1 billion checks a year. A colossal number of those legal IOUs behave like boomerangs—no matter how far the checks are flung, they still return to their owners. Online digital images have the potential to eliminate the costly ricochet effect.

While the U.S. love affair with checks remains passionate—check usage is dropping only about 1% a year—banks are hunting for processing efficiencies. Digital check imaging coupled with Internet delivery is becoming an attractive option, and some banks are discovering that imaging applications can reach far beyond item processing. Nevertheless, many people feel great affection for their canceled checks, saving them as zealously as their high school love letters.

Moving to a check imaging system takes careful calculation since this technology can often repel more customers than it attracts. It happens to work for Bend, OR-based Bank of the Cascades, with 11 branches and \$495 million in assets. This bank stopped returning paper checks to all customers in 1994.

"We figure we lost about ten accounts total," says Marie Applegate, vice president at Bank of the Cascades.

Cost-savings more than compensated for that loss. Applegate says that when customers began receiving images with their statement in lieu of original checks, the bank saved about 60 hours per month previously spent sorting checks.

In early 2001, Bank of the Cascades replaced its original system with ImageCentre, a completely Web-based digital imaging application by BankWare, a technology company located in Birmingham, AL. ImageCentre runs on the bank's intranet, in conjunction with its Internet banking platform by Monet, MO-based Jack Henry and Associates Inc. The system handles check and other document imaging, remittance processing and computer output to laser disk (COLD) reporting. And online customers now can view the front and back of canceled checks through their Web browsers.

"Improving customer service is the number one reason for browser-based imaging," Applegate says. "This enables the branches to more effectively service customers, and enables the operations center to more effectively service our branches."

The bank recently began offering its business customers their check images stored on CD-ROM. Benefits include space efficiency and browser-based search capabilities.

Patrick Koster, spokesperson for BankWare, says that Internet access to checks and other documents provides the greatest system benefit for the bank. Authorized employees can access the system from any computer via the Net.

"In our world, if you have a PC and browser, that's all you need," Koster says.

Koster also says that by using the Web-based COLD storage, the bank has reduced its report output by 75% and left a more efficient electronic audit trail as a result.

Robert Hunt, senior analyst at TowerGroup, believes that the cost efficiencies of online images alone are impressive. For example, providing a copy of a check from microfilm can cost the bank up to \$7 and take three to five days, whereas online access eliminates both the cost and time. But, Hunt says the move to digital check images will truly be pushed by possibilities for the technology across an entire organization, as Bank of Cascades is discovering.

"One of the overlying trends is that the banks are now looking at image technology as enterprise technology," he says.

Steve Vaughan, president and chief executive of \$70 million-asset Texas National Bank in Tomball, TX, has felt the effects of online check imaging since the bank opened in 1996. The bank outsources its imaging to Fiserv, which digitally scans checks and transmits the images to the bank. At the bank, software called DocuBase by Integra Business Systems of Safety Harbor, FL, indexes and stores the images and interfaces with the Internet banking program by Wilmington, DE-based FundsExpress Inc., another outsourced service.

The net result is that it takes the customer about eight seconds to retrieve a check image after logging onto his Internet banking account. In addition to the efficiencies Texas National has realized, customers get what they want more quickly than digging through shoeboxes for canceled checks or requesting a copy from the bank.

Unlike Bank of the Cascades, Texas National will return canceled checks to customers if they insist. However, Vaughan discourages the service with an effective method of dissuasion. "I discourage it by charging heavily for that service," he says.

Carl Faulkner, managing director at Cornerstone Advisors Inc., a financial services consultancy located in Scottsdale, AZ, says that real efficiency is gained by going cold turkey.

"To really make this work for the bank, they really have to stop sending paper items back to all their customers. If they have to send any checks back, it drives the cost up," says Faulkner, adding that even including check images with a paper statement reduces cost savings.

Texas National uses digital document imaging extensively, electronically storing the majority of its documents, including voluminous loan packages. The bank is helping Integra test improvements to the indexing component of DocuBase. It may soon index according to a bar code applied to each document that contains the account number, type of document and an array of additional information.

"One of the bottlenecks in imaging is indexing, but systems are getting smarter all the time," Vaughan says.

Al Wiessner, president and chief executive of Integra, says that banks most often purchase DocuBase (priced at between \$25,000 and \$50,000 for a full implementation) to digitize checks or loan documents, but the system also can index and archive all types of documents. These include data processing reports, item processing reports, bank statements and more.

"No one really understands what they have until it's installed and they're starting to use it," Wiessner says. "They buy it for one application, and once they have it, they find other uses."

First Internet Bank of Indiana has offered online check imaging since it opened in early 1999. This all-Internet institution uses an imaging system by Virtual Financial Services Inc., a company purchased by Digital Insight Corp. earlier this year. Nicole Sunkel, spokesperson for the bank, says no one gets returned checks or statements, and customers have not complained. Checks usually are available within seven days after clearance and remain available online for ten months. Notably, First Internet customers average only four to five checks per month.

Del Mar, CA-based Bank of Internet, with \$210 million in assets, opened in July 2000, and has saved a few trees and a lot of postage with its "no monthly mailings" policy. For its check imaging, Bank of Internet works with service bureau Jack Henry, which processes its checks daily.

"Every morning at six o'clock [Pacific time], customers can go online and look at their check images from the day before," says Gary Lewis Evans, president and chief executive of Bank of Internet. "The people who are tuned into it like it a lot."

The bank also is using a new document management system from LaserFiche, a division of Compulink Management Center Inc., located in Long Beach, CA. The application, LaserFiche United, digitizes and indexes all other paper-based documents—everything from loan documents to customer correspondence that will be tagged with bar codes.

Internet-only customers probably care less than others about getting their paper checks returned. Chris Musto, vice president of research at Gomez Inc., a research firm located in Concord, MA, says that Gomez asked online banking customers how willing they would be to accept an online check image in lieu of the original. Of the respondents, 68.9% were willing or very willing to do so.

Smaller banks have been quicker to adopt digital check imaging than big institutions, as a result of a reversed economy of scale. However, while large banks have an enormous investment in their older item processing systems, some are moving toward digitization. Wachovia Corp., with \$330 billion in assets and born from the merger of Wachovia and First Union in September 2001, began offering online check images earlier this year to all of its customers, including FirstUnion.com users.

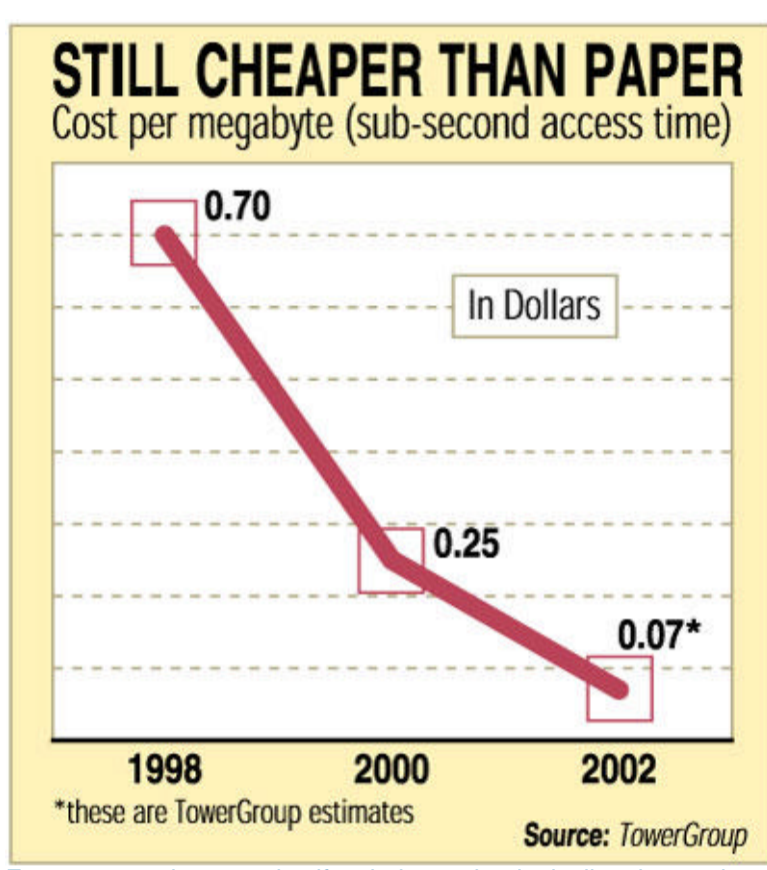
Viewpointe Archive Services was established last year by Bank of America, J.P. Morgan Chase & Co. and IBM to help exchange check images among banks and eventually enable customers to retrieve digitized check images on the Internet. When the archiving service is fully functional, it supposedly will reduce industry check processing costs by 30%. BofA processes 40 million check-related items each day. Viewpointe is being tested in various markets and is expected to be available for all BofA customers later in 2002.

"We've already rolled out the check imaging to our banking centers in the majority of our states and will follow that up with online imaging sometime this year," says Brad Russell, spokesperson for BofA.

While online check images might be a convenience to consumers, related technology may also prelude vast changes in their financial habits. The Federal Reserve, by far the largest clearinghouse for checks in the country, has proposed the Check Truncation Act and is developing its own digitization system, which could effectively eliminate float time—the time between when a check is written and when it is paid. Hunt says there is about \$700 million "floating" in the Fed system daily. In the aftermath of the terrorist attacks on Sept. 11, 2001, planes that normally carried sacks of checks remained grounded, and the "float" figure increased to \$45 billion per day for four days. The Fed wants to reduce costs and industry reliance on the transportation system to process checks.

As electronic payments and debit cards continue to gain footing, the nation's love for checks may wane. But this probably will not happen any time soon.

"We still have a whole culture that looks at the check as their primary payment mechanism, so there is a real need to process checks efficiently," Hunt says.



For a country that touts itself as being technologically advanced, the United States still has a while to go before fully embracing electronic payments in general.