

RETAIL REMOTE CHECK CAPTURE

by [Steve Brown](#)

On the 3rd anniversary of when consumer check capture was introduced to the public, we thought we would give you an update on the state of this product. USAA and their vendors first started playing with the concept of giving consumers the ability to deposit a check using nothing more than the camera on the phone back in 2006. Unlike remote deposit capture that utilizes a scanner, mobile capture has to overcome a variety of image recognition problems (such as hard to read handwriting, warped checks, shadows and a host of other issues). By early 2009, technology had improved such that mobile image capture was accurately picking up 80% of the items on the first try. By August of 2009, USAA rolled out mobile capture and by July 2010 JP Morgan Chase chased them in a move that made mobile capture "must have" bank technology. Since then, US Bank, Citigroup, PNC, First Tennessee and about 50% of the largest credit unions now offer the product. Surprisingly late to the game, Wells Fargo introduced the product in beta 3 months ago, as did BofA, last month. When it comes to community banks, about 14% currently have the product and another 10% are in process of rolling out some form of mobile capture out by the end of 2013. On the demand side, a Javelin Research study last year of more than 5k consumers showed that a full 24% of retail customers considered mobile check deposit "desirable" or "very desirable." We point out that the last product that had numbers that high was online bill pay, a product that was a strong differentiator among banks. We think mobile capture has even more potential and our only hesitation is how much time banks have until digital payments make mobile check capture irrelevant. Our take is that while it is still too early to tell, banks have about 5Ys, enough time to recoup any investment many times over. Consider the basic cost savings economics. To process a paper check via image capture, costs run about \$1.11 per item (includes depreciation of equipment, handling, processing and indirect costs). This compares to an incremental processing cost of \$0.04 per item with mobile capture which we estimate turns out to be about \$0.12 with servicing - still a major savings. When you factor in branches that you can close or don't have to build, and include added convenience to the customer, the savings are even more significant. In addition to cost savings, mobile capture is providing some banks with a healthy revenue stream. Most banks, notably US Bank and BB&T, charge \$0.50 per item. First Tennessee charges \$0.99 per item but waives it for a limited time and then provides a bundled service (marketed as "free") for its premier level checking account products. Many banks offer this product for free for the first year, in order to speed adoption. Of course, the product comes with risks in addition to the general pains of innovation. Forgery, duplicate deposits and check manipulation all occur. However, the per-capital rates are about 80% less than traditional channels and we don't hear of many widespread intentional fraud patterns. While technology and databases will improve to mitigate much of this risk, we agree that as the product meets a wider distribution, a higher fraud level will occur. Customer profile (value and age of the account) also appear to be a significant contra indicator to fraud potential at a high level according to some reports. Unless you have a plan to go all digital (a topic of an upcoming issue), mobile capture still has a significant role to play in your delivery system - even if you are a commercially-focused bank. This year, if it is not already on your radar screen, consider this technology in your strategic plan.

BANK NEWS

M&A

In an effort to create operating efficiencies Piedmont Community Bank Holdings (\$1.1B, NC) will merge together Crescent State Bank (\$826mm, NC) and VantageSouth Bank (\$257mm, NC). Piedmont owns a majority in both banks.

Historic Low

The average 5Y CD rate dipped to 0.99% nationwide, according to a report from Market Rates Insight, reaching the lowest level in history.

Failed Bank Lawsuit

The FDIC has sued 11 banks for \$189mm in damages, saying they misrepresented the risk of \$388mm in MBS they sold to failed Colonial Bank.

Competition

Wells Fargo reports 12% of its ATM transactions are completed with an e-receipt where the customer is sent their receipt via email. The Bank said the option is so popular in fact, that it will now offer e-receipts on transactions conducted at the teller window.

No Fair Value

In a beneficial move for many community banks, the FASB ruled at its most recent board meeting that nonpublic entities will not have to disclose fair value amounts for financial assets and financial liabilities measured at amortized cost. Not doing so would have required privately held community banks to have fair value disclosures for loans held at amortized cost.

Bank Fees

A Moneyrate survey of the 50 largest banks finds: the minimum amount required to open an account and avoid fees has risen from \$391.41 last year to \$408.76 on average (+4%); overdraft fees rose to an average of \$29.83 up from \$29.23 (+2%); monthly service fees climbed to \$12.08 from \$11.28 (+7%) and the average minimum balance required to avoid fees jumped to \$4,446.57 from \$3,590.83 (+24%).

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