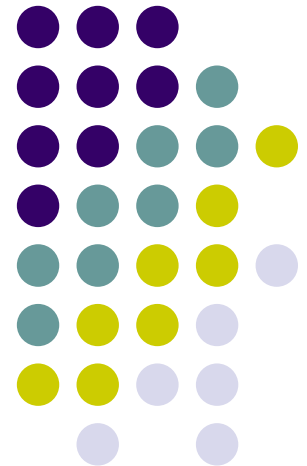


Remote Deposit Capture

Virtual World of Check Deposit



George Mori
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Agenda

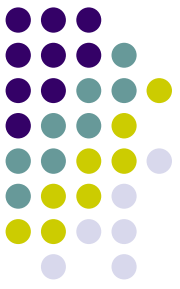


- Surveys and headlines.
- Benefits.
- Risks.
- Risk management:
 - Considering RDC,
 - Customer contracts and
 - Internal controls.
- Other things to consider.
- What is next?
- Online resources.

The following presentation contains the views and opinions of the speaker and his interpretation of regulatory guidance, and does not necessarily reflect the views of the management of the Federal Reserve Bank of San Francisco or the Board of Governors.

IBAT and Abound Survey

September 2007



“The Independent Bankers Association of Texas (IBAT) and Abound Resources Inc., an Austin consulting firm, conducted the survey of the IBAT’s 520 member banks...142 responded.”

RDC for customers:

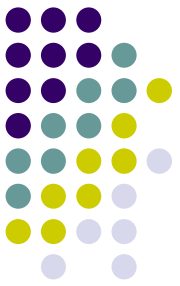
- 32% have it,
- 25% have signed contracts for it,
- 8% are evaluating vendors for it, and
- 90% offer RDC to customers for a monthly service fee, averaging to \$62 per month.

Branch capture:

- 18% had it,
- 12% have signed contracts, and
- 46% are planning to implement it.

Source: “Summary of Survey Findings” report by Abound Resources, Inc. dated October 2007.

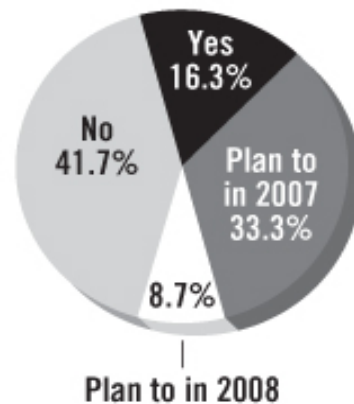
11th Annual ABA Banking Journal Survey



The American Bankers Association released a survey at its National Conference for Community Bankers on February 19, 2007.

Catching On

Does your bank offer remote deposit capture?



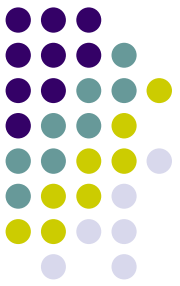
Percentage of bankers who said remote deposit appeals to:



Source: ABA Banking Journal

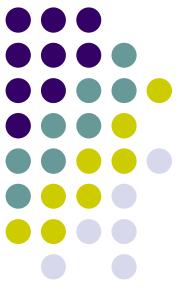
Source: ABA article titled "Remote-Capture interest Runs High at Small Banks" by Katie Kuehner-Hebert dated February 21, 2007.

Selling Remote Deposit Capture to Healthcare Providers



“The US healthcare market is a big one, with over a half million points of service. The provider landscape is dominated by small businesses: 90% have fewer than 20 employees. These businesses have below general market awareness of remote deposit capture and above general market interest in the product...”

Source: Celent press release titled “Selling Remote Deposit Capture to Healthcare Providers” dated January 14, 2008.



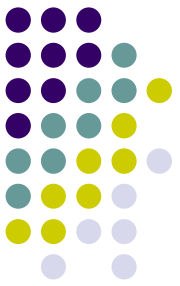
Benefits

- Customer

- Convenience,
- Safety,
- Faster access to funds, and
- Link to accounts receivable system.

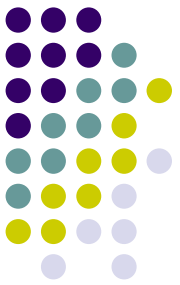
- Bank

- Customer retention / attraction,
- Deposit retention / growth,
- Increase reach in virtual market,
- Expand e-banking services,
- Operational efficiency,
- Service fee income, and
- Reduce processing cost.

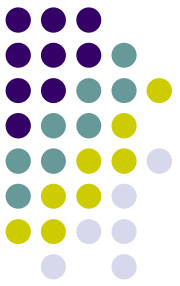


Associated Risks

- Security
- Integrity (errors/omissions/fraud)
- Quality (image requirements)
- Credit (liquidity)
- Legal
- Reputation



Risk Management

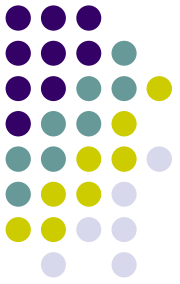


Considering RDC

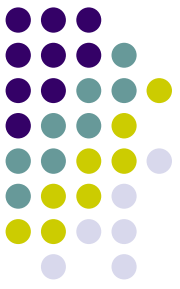
Some things to consider when making this decision?

- Why?
- Who?
- How?
- Where?

Customer Selection



- Determine whether the service aligns with the customer's business.
- Verify customer enrollment information.
- Review customer relationships with bank and prior account activity.
- Perform a risk assessment of the customer.
- Visit customer site based on risk assessment.

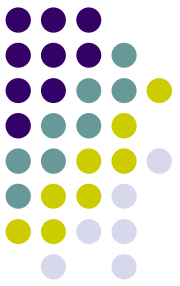


Customer Contracts

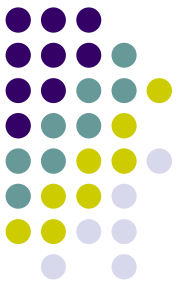
- Roles, responsibilities & liabilities for:
 - Image quality.
 - Funds availability.
 - Information security / confidentiality:
 - Document management,
 - RDC application security, and
 - Network / PC security.
 - Minimum IT requirements & maintenance standards.

Customer Contracts

(continued)



- Roles, responsibilities & liabilities for (continued):
 - Customer RDC transaction limits.
 - Deadline for deposits to process that day.
 - Customer notification process.
 - Bank method(s) to clear / settle checks.
 - Bank's right to audit customer's RDC function.

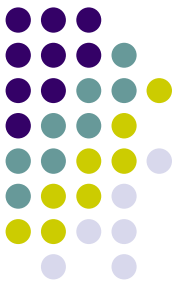


Internal Controls To Consider

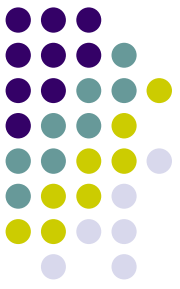
- Information security:
 - Regulatory factors.
 - Logical security (application & data).
 - Data in transit, such as:
 - Customer to bank or service provider,
 - Within the bank and
 - Bank to service provider or Federal Reserve.
 - Document management.

Internal Controls To Consider

(continued)

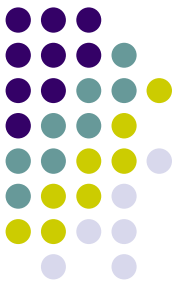


- Image quality controls:
 - How & where to test quality,
 - Response for potential quality exceptions, and
 - Process for checks that cannot be adequately imaged.
- Integrity controls:
 - Change control procedures.
 - Segregation of duties.



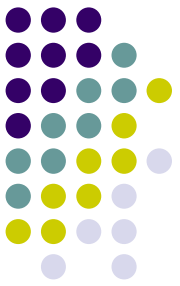
Internal Controls To Consider (continued)

- Integrity controls (continued):
 - Customer batch total validation,
 - Duplicate items identification process,
 - Monitor image issues or returns,
 - Evaluation of check data,
 - Trend in check issuer contested transactions, and
 - Customer profile vs. check activity.
- Availability controls:
 - Business continuity planning.



Internal Controls To Consider (continued)

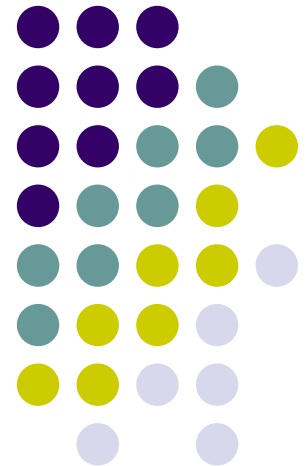
- Credit controls:
 - Customer check activity (trends & relative to limits) and
 - Overall risk or loss levels.
- Legal / compliance considerations:
 - BSA / AML compliance,
 - Check Clearing for the 21st Century Act (Check 21 Act) and
 - Other payment system regulations and industry standards.
- Other general operational controls:
 - Vendor management and
 - Insurance.

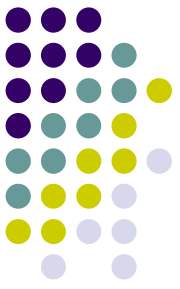


Other Things to Consider

- Scanner
 - Specifications,
 - Availability, and
 - Maintenance.
- Telecommunications bandwidth.
- Customer education.

What is next?





Online Resources

- Pending FFIEC guidance on RDC
- GLBA 501(b)

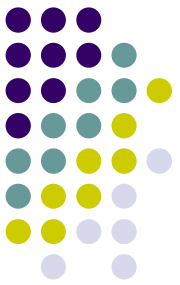
<http://fedweb.frb.gov/fedweb/bsr/srltrs/SR0115.htm>

- Authentication for an internet banking environment

http://www.ffiec.gov/pdf/authentication_guidance.pdf

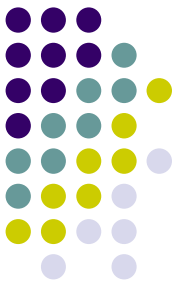
- FFIEC examination handbooks:
Management, Information security, BCP, Retail payments, and Outsourcing.

http://www.ffiec.gov/ffiecinfobase/html_pages/it_01.html



Online Resources

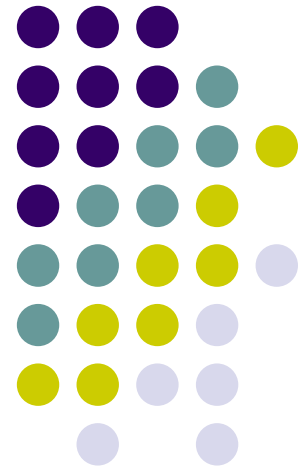
- **Check Clearing for the 21st Century Act (Check 21)**
http://frwebgate.access.gpo.gov/cgi-bin/getdoc.cgi?dbname=108_cong_public_laws&docid=f:publ100.108.pdf
- **Regulation CC subpart D**
http://ecfr.gpoaccess.gov/cgi/t/text/text-idx?c=ecfr&sid=635f26c4af3e2fe4327fd25ef4cb5638&tpl=/ecfrbrowse/Title12/12cfr229_main_02.tpl
- **Check 21 FAQ's**
<http://www.federalreserve.gov/paymentsystems/truncation/faqs.htm>
- **FRS Consumers Guide to Check 21**
http://www.federalreserve.gov/pubs/check21/consumer_guide.htm



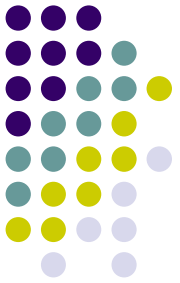
Online Resources

- OCC Interpretive Letter #1036 (Aug. 2005)
<http://www.occ.treas.gov/interp/aug05/int1036.pdf>
- ANSI 9 (standards for image replacement)
<http://webstore.ansi.org/RecordDetail.aspx?sku=ANSI+X9.100-140%3A2004>
- BITS
http://www.bitsinfo.org/p_publications.html
- RemoteDepositCapture.com
<http://www.remotedepositcapture.com/>

QUESTIONS?



Contact Information



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