

How to Use This Manual

The Check Clearing for the 21st Century Act (Check 21), passed by Congress in 2004 after the country was absorbing the impact of the 9/11 terror attacks, allows institutions the opportunity to avoid the physical movement of checks and to exchange checks electronically under agreement. This legislation was created partly in response to the need to be able to transfer funds electronically if physical institutions were compromised, using the mechanism of the “substitute check.” Since its passage, Check 21 cleared the way for expanded access to accounts and its attendant risks for financial institutions.

Check 21 has opened up avenues to expedite and make check processing in financial institutions more productive. This publication discusses how to determine the appropriate strategic decisions that need to be made while considering opportunities available since the enactment of Check 21, and includes sample policies and procedures. As this technology changes and requirements for financial institutions change, this manual will provide updates to keep your operations current, including the rapidly expanding use of mobile access.

With remote deposit capture (RDC), institutions can offer their commercial clients the opportunity to take advantage of digital technology, by scanning and transmitting check images directly from their business site to the bank, eliminating the need to transport deposits with paper checks to the bank to be credited to their account. This unique delivery system is being implemented by financial institutions across the country to benefit their business clients, and is beginning to be offered to personal customers as well. RDC provides the institution with unique opportunities to provide additional convenience, improved funds availability, and faster return item notification, allowing them to solicit new business clients, regardless of geographic location, and enhance their relationship with existing business clients by providing such services.

This manual contains discussions of strategies, challenges, risks, and solutions for financial institutions considering implementation of remote deposit capture, along with sample checklists, forms, policies, and procedures for adapting your financial institution and its operations to accommodate remote deposit capture.

Topics covered in *Remote Deposit Capture: Implementation, Policies and Procedures* include the following:

- Regulatory Oversight
- Risk Mitigation
- Audit of Key Risk Areas
- ACH, Loan, Audit, Audit Committee Policies
- Remote Deposit Capture Policies and Procedures
- Agreements and Contracts
- Installation
- Client Approval Procedures
- Client Training Procedures

- Item Processing Procedures
- Pricing Procedures
- Return Items
- Vendor Selection
- Underwriting Procedures
- Internal Controls — Vendor, Financial Institutions, and Business Clients
- Auditing and Monitoring — Bank and Client
- Market Expansion through Remote Deposit Capture
- Marketing through Training
- Mobile RDC

The CD for this manual offers expanded references, policies, and procedures.

POLICIES AND PROCEDURES

It is the responsibility of the financial institution's management and its board of directors to approve, evaluate, and manage all banking strategies including any electronic banking activity such as remote deposit capture. To fulfill this responsibility, it is important that the institution develop policies and procedures devoted to managing this service. *Remote Deposit Capture: Implementation, Policies, and Procedures* provides an array of sample policies, procedures, forms, and checklists to ensure your financial institution establishes the essential guidance on how to identify measure, monitor, and control risks arising from offering the service to the institution's business clients. It also sets forth the expectations of the board of directors regarding the implementation and operations of this service.

AGREEMENTS AND CONTRACTS

Customer agreements and contracts are a critical component to any system or service a financial institution offers its clients. Remote deposit capture takes deposit-related functions that have traditionally been in the hands of the bank, and transfers them to the bank's customers. As a result, a strong and detailed agreement is necessary to outline the expectations and requirements of both the bank and the bank's customer.

In order to understand the role and requirements of an effective remote deposit capture agreement better, this manual explores each of the major components of the agreement individually, to ensure complete understanding of all the requirements of your financial institution, your clients, and your vendors.

VENDOR SELECTION

Vendor selection is one of the most critical elements of any remote deposit capture solution. It is important that the institution document its procedures for vendor selection, outlining the list of items reviewed and the results of each. The burden of proper vendor due diligence is of critical importance to every financial in-

stitution that considers offering remote deposit capture. This manual offers crucial factors to be considered specifically for selecting remote deposit capture systems.

MARKETING

Those institutions that select a quality vendor and implement remote deposit capture are likely to have a distinct competitive advantage with business clients and prospects. The very fact that an institution offers remote deposit capture today will enhance the image of the institution as a leader in providing the latest technology to its business clients. With remote deposit capture, financial institutions have an opportunity to identify and target profitable industries and specific businesses, regardless of their physical location.

There are also opportunities to reduce costs in several ways as a result of remote deposit capture. And, if the institution is successful in soliciting new profitable business clients as a result of its remote deposit capture ability, there is also an opportunity to increase income. This manual provides in-depth discussions of the opportunities, challenges, and benefits. Learn about benefits like processing efficiencies, acceleration in clearing, reduction in transportation costs and risks, and convenience, which can benefit the cash management of your institution.

Opportunities, target markets, training, marketing techniques, and strong, appropriate, and effective marketing tools are included that can result in methods and best practices that enable your institution to improve and expand your market share.

BUSINESS RESUMPTION AND CONTINGENCY PLANNING

As remote deposit capture becomes one of your institution's key delivery systems, the institution must also address contingency planning. The board of directors and management of each financial institution should be aware of the need for knowing and understanding the risks associated with technology for middle level operations, technology managers, and supervisors. They are also responsible for contingency planning for their institution. The contingency planning portion of the manual presents considerations and general guidelines for developing a contingency plan, including risk analysis, contingency planning for vendors, for your financial institution, and for your remote deposit capture business clients.

REGULATORY GUIDANCE

Key highlights of the FFIEC guidance on risk management of remote deposit capture include the following:

- Remote deposit capture is another deposit delivery system for financial institutions, with the Internet being the primary delivery method.
- Prior to implementing remote deposit capture, financial institutions should complete a risk assessment and establish sound risk management and mitigation systems, as well as requiring that client locations implement appropriate risk management, including control of nonpublic information.
- Most financial institutions use Internet-based remote deposit capture systems and therefore are subject to ensuring effective methods of authenticating the identify of clients. The guidance notes that single-factor authentication may not provide the necessary protection for Internet-based services.

- It is the responsibility of financial institutions to ensure that clients are educated about risk associated with remote deposit capture and that they establish effective procedures to protect assets and sensitive information.

Technological advancements are coming thick and furious, and you know that regulatory issuances will follow to keep up with new innovations. By adding Chapter 11, “Innovations and Advances in Remote Deposit Capture,” we provide you one location in the book to find what new advances are in the offing.

CUSTOMER START-UP PACKET

A complete Customer Start-Up Packet contains customizable forms, and the materials that the financial institution will need to give the potential new remote deposit customer. A How-To Reference guide can be customized by the financial institution to provide customers with the information they will need to begin processing deposits; the guide also contains answers to Frequently Asked Questions about the remote deposit system.

In the Packet, sample remote deposit customer agreement forms that can be customized include:

- The general service agreement, including the system administrator resolution
- Authorization for re-presentation of returned items
- An indemnification agreement for non-affiliated accounts
- A risk assessment form for deposit volume
- Sample remote deposit bank statement reconciliation procedures
- Initial sign-on instructions
- Forms to update customer account, administrator, and user information

APPENDICES

Appendices provide regulatory guidance documents, including complete *IT Handbook Booklets* in relevant areas — Retail Payment, Business Continuity, Supervision of Technology Service Providers, and Outsourcing Technology Services.