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Scanning at Teller Windows: Small Banks Get into the Act

■ BY STEVE BILLS

A growing number of banks are installing check scanners at their teller windows to maximize the advantages of using imaging technology.

Bankers have long said that converting the paper checks into digital images offers faster settlement, lower transportation costs, and improved operational efficiency. Doing so at the moment when they are first presented to the bank can increase these benefits, they say.

At least one major banking company, JPMorgan Chase & Co., has been using teller capture systems since last year. KeyCorp of Cleveland and Wells Fargo & Co. have both said they plan to install teller capture systems.

However, several of the pioneers in this technology are smaller banks.

First Bank Kansas in Salina began using such systems in mid-November at its headquarters and plans to have the scanners running at the rest of its seven branches by mid-December.

"If we can find ways to eliminate paper, we can focus more on the customer," said Lloyd Davidson, the president of First Bank, a unit of the \$369 million-asset Ottawa Bancshares Inc. of Salina.

"The speed of the transaction in the customer's eyes is about the same," Mr. Davidson said, and though the tellers are taking more responsibility, they do not seem to be having "any more error problems than they were before."

He said the bank expects that eventually "the error issues will be less than they were before."

First Bank Kansas worked with its long-time check-processing vendor, Data Center Inc. of Hutchinson, Kan., for more than a year to design and test the system.



Davidson: Eliminating paper will help his bank "focus more on the customer."

Data Center Inc. sends a file of First Bank checks to the Federal Reserve Bank of Kansas City once a day; Mr. Davidson said the bank could do multiple transmissions but has chosen to keep its bookkeeping simple for now by putting a full day's work in a single file.

First Bank Kansas clears 85% of its checks through the Fed and 15% through the Endpoint Exchange Network operated by Metavante Corp., the technology subsidiary of the Milwaukee banking

company Marshall & Ilsley Corp., he said.

John H. Jones, the president and chief executive of Data Center Inc., said teller capture makes balancing transactions more accurate. His company plans to offer the system to the other 150 financial institutions for which it provides check processing, he said.

Northern Trust Corp. of Chicago said in July it planned to introduce a teller capture system. Michael Valdez, Northern Trust's vice president for personal financial services, said last week that it expects to begin testing in February and start rolling out the technology at its 84 branches in April.

He said that he expects the imaging technology to drive down wait times at teller windows. Perhaps more important, the technology can cut fraud by enabling tellers to view images of signature cards or verify a deposited check against a business customer's positive-pay list, Mr. Valdez said.

For one start-up bank, St. Louis Bank, which is based in the St. Louis suburb of Town and Country, the decision to use teller captures systems was easy.

"When we started this bank, we wanted to use ... [teller capture] right from the beginning," said Kimberli A. Palmer, a senior vice president and the chief operations officer of the \$105 million-asset community bank, which does all its check processing in-house and clears through the Federal Reserve.

In fact, St. Louis Bank developed its business practices around teller capture. For example, to help speed other customers through the queue, a teller may defer processing a small-business customer's deposit if it contains numerous checks. The teller could scan those checks and verify the deposit later, when the branch is not busy, Ms. Palmer said. Being able to scan the checks at the teller window "outweighs the discomfort of having a big backroom operation."

St. Louis Bank was founded by a group of executives who had been at \$2.2 billion-asset Allegiant Bancorp Inc. of St. Louis, which was acquired by National City Corp. of Cleveland in April 2004.

Allegiant had pilot tested teller capture, but National City did not pursue the Allegiant project. It opted instead to convert the Allegiant branches to its own system as part of a separate four-year project to upgrade teller systems in 1,300

branches. That project was completed a year ago.

Kevin Furgason, a vice president in corporate operations and information services at National City, said it made more sense to establish image-clearing capability before beginning branch capture.

Mr. Furgason said National City's plan is to build out image-clearing systems in its back office first. "As that grows, we have thought in terms of moving more toward the front of the line."

National City has scanners on the teller line now that can read a check's magnetic ink character recognition data, and it can upgrade them to capture images in the future, he said.

Jeanne Capachin, the research director of corporate banking at Financial Insights Inc. of Framingham, Mass., a market research unit of the technology publisher International Data Group Inc. of Boston,

said that using teller capture systems has benefits but may not be appropriate for every banking company.

"There are some real customer service benefits from doing it right at the teller window; the customers like knowing right then and there whether they've added correctly, whether the deposit is going through," she said. "The drawback is integrating with the teller system."

A bank with an older system may find it more economical to perform branch capture at a back counter unless it has other reasons to upgrade its teller system, Ms. Capachin said. "It's really hard to justify upgrading the teller terminals, because there isn't enough hard-dollar benefit."

But "for those that are ready, it's a no-brainer," she said. If all it takes is a scanner and a minor software upgrade, "it's not that expensive — and the payback is pretty quick." ■



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