

THE C21 MARKETPLACE: DISRUPTION IN THE BANKING INDUSTRY

No one can fault the banking industry for being cautious. It's an admirable trait that connotes stability and safety, which in turn inspires the high level of trust and credibility so important to customers. But, there is another side to cautiousness that suggests resistance to change and slowness to action. The same mindset that keeps the industry safe and stable in times of market equilibrium can lead to timidity in times of market disruption.

Such disruption began to occur through legislation enacted in November 2004: the "Check Clearing for the 21st Century Act" - commonly called Check 21.

Check 21 permits banks to shorten - or truncate - the time and process required to handle check transactions through the electronic creation and transmission of a substitute check. By law, substitute checks can now be considered the legal equivalent to the original. The law, however, does not require banks to create substitute checks. Given this legal latitude, many banks - particularly those that step cautiously - are satisfied to dutifully study how best to implement Check 21. Some go so far as to make initial investments in the necessary technologies for check truncation.

Such thinking ignores the bigger picture. Check 21 is not just a piece of legislation or technology; it is a harbinger of the C21 Marketplace that forever changes the nature of the relationship between banks and their customers. Overly cautious banks stuck in old competitive paradigms will become followers, while nimble banks will ascend to leadership based on new opportunities created by new rules and new technologies.

Check 21 Changes Everything

For decades, the primary transaction vehicle has been the written check. Even with advances in online banking and electronic funds transfers, corporate America continues to write billions of checks annually.

The process for handling these checks has changed little over time:

Company A sends a check by mail to Company B for service rendered. Company B physically transports the check to its bank for deposit. Company B's bank in turn physically transports the check either directly or through an intermediary to Company A's bank - often over great geographic distances. There, Company A's bank verifies the original check and available funds, and settles the amount due to Company B's bank.

It is not unusual for this physical transportation of the original paper document to take several days and involve multiple modes of transportation - from courier services to armored cars to air transport.

A growing industry desire to take time and cost out of the check processing system grew in urgency when the heinous events of 9/11 exposed vulnerabilities in this venerable system. With planes grounded, banks were unable to physically transport original paper checks, which left deposits in a state of limbo. To overcome the vulnerability and accelerate the velocity of transactions, the Federal Reserve with the support of bank pioneers proposed a method for transmittal and acceptance of substitute checks. The Check 21 legislation was signed by President George W. Bush on Oct. 28, 2003 and became effective on Oct. 28, 2004.

Truncation of time and process made possible by check electronication, however, are only the beginning.

The C21 Marketplace: New Rules, New Technologies, New Opportunities

Just as a pebble dropped in a pond sends out ripples that ultimately covers the entire surface, the Check 21 legislation is a small catalyst sending out waves that will touch the entire banking industry. The new rules that legitimize substitute checks and new check-capture technologies have broader implications for the relationship between banks and their customers.

Consider, for example, the benefits of remote check capture, in which the process of check truncation is pushed beyond bank-to-bank communications and outward to the customers' premises. The immediate benefits to corporate customers are clear and include significantly reduced deposit-preparation time, relief from the pressure of deposit cut-off times, elimination of check transportation costs, and faster access to funds. Banks will similarly benefit through the creation of new revenue streams based on remote-capture solutions and services, and the elimination of in-house check processing since the data and images are already captured.

And there is more. Remote capture technologies all but eliminate traditional geographic boundaries of banking: Proximity is important in a paper world, but irrelevant in the C21 Marketplace. With geographic boundaries eliminated, corporate customers are freed to forge relationships with banks that best serve their corporate requirements, and banks are free to compete based purely on opportunity.

This scenario is not far-fetched. Major commercial customers have demonstrated their willingness to shift banking allegiances to those with greater foresight of the C21 marketplace. These customers appreciate how Check 21 - smartly implemented - will allow them to consolidate banking relationships from multiple banks and branches to one, to accelerate deposit transactions, and to improve treasury efficiencies.

The possibilities for further innovation are limited only by law and ingenuity.

What's clear, however, is that the banking industry's new leaders will be those who are best able to shift from management of check transactions, to management of the chain of information - purchase orders, invoices, bills of manufacturing and other business documents - that initiated the writing of the check in the first place.

Technology Choice Drives C21 Marketplace Success

As the rules of the marketplace have changed, so too have the criteria for selecting technology partners. Effective decisions cannot be made on the basis of yesterday's domain expertise - they must be made based on the fit of the technology concept with the new markets and the new rules.

Moreover, the technology decision to be made is not about which product to buy. Preparation for the C21 Marketplace is not a product decision - it's a platform decision, one that can carry the bank into the future.

The pre-requisite for early success and long-term leadership in the C21 Marketplace is adoption of a technology platform designed to drive business within the context of the new rules of competitive engagement. For purposes of speed and deployment, this technology must reside outside current payment systems yet provide a seamless integration into a bank's legacy processing engines.

The NetDeposit platform, for example, has been embraced by the largest cash management banks in the country because they satisfy these requirements. Robust, scalable and flexible the platform includes two product families:

- The NetCapture™ family, designed to enable the capture of remote data and images.
- The NetConnect™ family, designed to securely and easily deliver the captured data to the bank's existing processing engine without disruption to legacy systems.

The C21 Marketplace: A Question of How and When, Not If

The single greatest obstacle to success during times of market disruption is conventional wisdom. It's very easy to become stuck within the context of "what is" and lose sight of "what will be." Examples of industries and companies trapped by a myopic view of themselves and their industries abound:

- As air travel began to expand, the railroads refused to understand the market context had shifted from miles of railroad track to time and efficiency of transportation.
- IBM responded slowly to a market shift from centralized to distributed computing and underestimated the role of the personal computer - ultimately losing the franchise it had created to nimbler competitors.
- Toys R Us ignored for too long the online shopping dynamic only to lose significant market share. When it finally awoke to the new market reality, they compounded ignorance with old thinking and replicated their current business model online.

In the C21 Marketplace, the dangers of conventional wisdom are compounded by market confusion as banks grapple with managing yet another payment option and with defining a migration path away from a paper-based, centralized processing orientation. However daunting these challenges may seem now, they will be fleeting. Banks absorbed in conventional wisdom and short-term confusion will lose sight of the end goal and be placed at a significant competitive disadvantage.

That end goal is to leverage the new technology of remote capture to expand marketplace presence, reduce the cost and complexity of check processing, and provide the bank with immediate new revenue streams.

Today's decisions are not the end of the journey, they are the beginning. As all banks gain the ability to reach out to any corporate customer, anywhere in the country, marketing must assume a leadership role. Banks can no longer sustain payment profit margins by selling their existing paper-based products. C21 Marketplace success is dependant on providing the products and services that customers want. The thinking that proved successful in the past will be a formula for certain failure in the C21 Marketplace. The leaders in the new environment will be those banks that realize emerging new markets operate under new rules and aggressively move to master these rules.