



White Paper – Item Processing

IS IT YOUR MONEY TREE OR MONEY PIT?

In the last 15 years, the volume of paper checks in the U.S. has declined by almost half (48 percent), which means that processing them will cost you more per unit, year by year, until they're finally extinct. Still, as paper checks continue their slow slide, they continue to facilitate some \$3 trillion in payments annually.

With these realities, you must handle checks in the most efficient manner possible. For your financial institution, that may mean managing an in-house item processing operation with all the staffing, maintenance and real estate requirements involved. Or, in keeping with current trends, you may be outsourcing to a third-party partner, which can present the core integration challenges and vendor management responsibilities that come with such an arrangement.

Whether in-house or outsourced, someone must step up and continually make significant capital investments to modernize – i.e., digitize – the item processing operation. Otherwise, the inefficiencies inherent in the manual handling of checks will drive costs up even further. Risk is a factor, too, because an antiquated system leaves room for check fraud, which at more than \$1,200 per transaction represents the largest per-loss amount among all payment types.

In-house processing: Because you've always done it that way?

If you're processing checks in-house, this capital investment falls to you. However, to modernize and digitize your in-house item processing operation, you would be sinking a sizable portion of your bank's limited resources into a diminishing business. Those dollars could be better used to focus on the strategic initiatives designed to grow your footprint, boost deposits, increase your loan portfolio and enhance your leadership position in the communities you serve.

The opportunity cost goes far beyond fixed dollars, because your bank has invested in the people that manage and staff the in-house operation. This talent could be redirected to initiatives that would contribute to more strategic goals that would more richly benefit your bank while offering a more meaningful career path for strong managers and loyal staff members.

For these reasons, more financial institutions are opting to outsource their check processing activities to third-party providers. That said, maybe it's time to ask yourself if you are operating an in-house IP business because "we've always done it that way." If you suspect inertia or resistance to change may be at work, consider taking the initiative to lead your institution in a new direction.

Outsourcing: The goose that lays the golden eggs

If you have outsourced your item processing, or are considering doing so, you may be freeing up hundreds of thousands of dollars for more strategic pursuits. However, it's important that you're working with the right partner or you may end up killing the goose that lays the golden eggs. That's because if your technology partner's systems don't integrate seamlessly with your core, you may find yourself struggling with a complex, costly, uphill battle that defeats your purpose.

Once you've ensured integration compatibility, look for other indicators that your provider will not just meet your basic IP needs, but bring added value:

- Are they making major capital investments to deliver maximum processing efficiency?
- Can they help you tighten security, detect potential fraud early and meet compliance requirements?
- Will they reduce clearance times, extend same-day processing and streamline branch workflows?
- As your individual bank's volume declines, will your invoices decline as well?
- Are annual software updates included? Is disaster recovery?
- Can you expect a 15 or even 20 percent cost savings by outsourcing to the provider?
- Does the potential partner offer choice (i.e., licensed software, where you maintain control but gain greater security and compliance; fully outsourced processing; or a hybrid approach that shifts fixed costs to them while you oversee processing locally)?
- Despite the industry decline in overall check volume, the strongest IP providers will be able to show a pattern of investment that deliver economies of scale to your business.



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