

Kofax White Paper

Enterprise Capture: Enabling Customer Service Improvement, Cost Cutting, and Compliance for Financial Institutions

Less than a decade ago, the biggest concern of large financial institutions was whether their systems would be prepared for a changing date. The banks were more than ready for the year 2000. Little did anyone suspect the turbulence that lay ahead—most of it paper based.

The housing boom of the 1990's brought a flood of new loans, mortgages and a wide range of new and creative banking products. Financial institutions broadened their services, offering brokerage accounts, NOW accounts, Roth IRAs, savings plans and lines of credit. The response was an ever increasing number of depositors. Correspondingly, paper volume increased.

Today the financial services market is experiencing unprecedented transformation. Restructuring, consolidation and volatility are driving significant structural changes in the investment and retail banking sectors. Banks are responding by actively looking for ways to improve liquidity, restore investor confidence, increase customer retention and better compete for deposits. They recognize the need to streamline business processes to better support their clients during account opening, loan origination, mortgage processing and portfolio management.

Banks must also comply with increasing government requirements for accountability and transparency. Regulatory compliance has become a critical and costly issue for financial institutions. In addition to regulations protecting depositor assets (such as CRD in Europe) and shareholder interests (such as SEC requirements in the US), financial institutions also must now concern themselves with a myriad of oversight and regulatory requirements that are document driven in nature. New regulations, growing and changing customer demand, refinancing, a new competitive landscape, and lack of investment capital require banks to radically improve their risk management, operational efficiency and customer service. That means they need to cope with an ever rising volume of paper and documents, but even more, with its effective and transparent processing.

Document Capture Takes Two Paths

Banks and other financial institutions have responded to this avalanche of paper by deploying a number of back office document capture systems, usually at a central office or remote document processing facility. Meanwhile, looking to reduce their own paper backlogs, the local branches of these same financial institutions have made separate investments to automate their document driven business processes.

The benefits brought by automated document capture are numerous. Business processes are more efficient in an electronic data environment. Customer accounts can be opened faster, and loans approved more quickly. Transactions can be handled more accurately, and information shared across departments more quickly. By automating the repetitive tasks of document handling, data entry and validation, banks can significantly reduce labor, risk and storage costs. In the high volume document processes of financial institutions, these efficiencies translate to substantial cost savings.

Branch offices have installed office productivity tools such as multifunction peripherals (MFPs), desktop scanners, and fax systems. However, there is a misconception that these tools are solely for office tasks such as copying and document sharing, and not an integrated part of a solution to automate document driven processes.

Likewise, the back office operations processing loan documents, credit applications, investment documents and account forms, have in place their own high speed scanners, enterprise capture software and data repositories. Similarly, there is a misconception that these tools are solely for records management and archiving, and not an integrated part of business process automation. Capable of processing millions of pages of paper, these systems automate such labor intensive functions as mail opening, check sorting, and forms processing. Information from structured documents is extracted using sophisticated character recognition and document identification applications.

Because large scale, back office capture systems were originally most effective in extracting highly structured form data, their use was limited to very high volume repetitive documents. The carefully encoded, magnetic ink characters on the bottom of checks is one example. Over time, the software has been used for increasingly more complex document processing, but almost always large volume, structured forms. This evolution has led to a disconnect between the customer facing, front office processes where many transactions originate, and the back office document capture system, which feeds the data repositories.

While the elimination of paper storage is a tangible advantage to document capture systems, the fact remains that archiving is just a small part of the potential benefit these tools can bring. Viewing capture solely as

an electronic file cabinet overlooks the gains brought by automating transactions from the start.

So how can financial institutions optimize their investments, and get these two sides of the same coin to work more cohesively to facilitate their branch oriented, document driven, transaction processes?

Transactions Begin at the Branch—So Too Should Capture

For most financial institutions, a transaction begins at the branch, not in the back office. With the pervasiveness of ATMs for cash, and Internet banking for routine account transactions, the branch office is increasingly used to conduct more complicated (and for the bank, higher value) transactions. Walk-in customers are just as likely to be opening an account, seeking lines of credit, or securing a home mortgage as they are to be cashing a check.

In this environment, when a customer walks up to a loan officer or credit specialist and inquires about a loan, they expect immediate action. By exploiting the document capture system already in place, there is an opportunity to immediately automate these transactions. Verification documents such as proof of income or W-2 forms and valid identification can immediately become a part of an approval workflow. Instead of converting these paper documents to images later in the back office, they can and should be captured immediately in the front office.

For mortgage loan applications, financial institutions face some of the most difficult and expensive document processes. With multiple branches where loan papers may originate, countless different forms and legally mandated documents, as well as the competition to provide the fastest possible response, this is an increasing challenging segment. Fortunately, it's also an area with the greatest benefit from an integrated branch office / back office capture process.

A mortgage workflow based upon the immediate capture of transactional documents significantly shortens the time needed to make a decision. For credit applications, documents can be sent to central offices where a single loan officer might govern over a number of branches. Any missing documents can be immediately forwarded to complete a transaction. Business customers enjoy faster approval of line of credit requests (Or more timely denials when appropriate, minimizing potential loss). Mortgage applicants receive faster access to funds.

Enhance Document Capture in the Back Office to Automate Banking Processes

Capturing documents that originate in the branch and then quickly routing them to the back office can greatly enhance productivity as discussed. But whether the documents arrive electronically or in a paper based format the information that these documents contain is what is driving critical business processes. The information from these documents allow financial institutions to enroll new customers, take deposits, and generate revenue. Without this information an institution cannot assess a customer's risk or their credit worthiness. And information from these documents is necessary in the event of a regulatory audit.

Yet many financial institutions are still relying on manual methods to identify different document types and extract data from them. Or when they are ready to process or archive the documents with a capture system they are manually sorting and separating documents. This, of course, becomes an expensive and risky proposition due to the labor required to complete these error prone tasks manually. In fact, analysts have estimated that the cost to process a single mortgage loan, for example, adds up to \$877. Furthermore, errors and exceptions are inevitable with manual processing.

Again, since financial institutions have already established a back office capture infrastructure, the tools exist to do more with each transaction. Document capture tools can do more than just electronically archive documents and can be enhanced to automate document driven business processes. Bottlenecks such as manual document sorting, document identification, and data extraction can be reduced or eliminated altogether. For each step that removes a manual process, the transaction is conducted faster with substantial cost savings.

Let's go back to the example of a mortgage loan. A typical loan folder can contain between 200 – 300 pages with a wide variety of document types. Each of these document types have to be classified (e.g. application, appraisal, disclosure, etc.) and information needs to be taken from these documents to drive the mortgage loan process. Finally, when the document is ready to be archived or imaged someone will likely sort through the loan file and manually separate the different document types by inserting separator sheets (adding more paper to the process!).

Fortunately this process can be improved. An automated processing system leveraging new and existing document capture technology can convert mortgage documents to images (or even better receive them from the branch as images), automatically identify and separate the different document types, extract the critical data from the documents, and then deliver the data and images to the systems that drive the rest of the process. Enhancing this process with document capture technology increases data accuracy, information availability and the overall efficiency of this process, reducing processing time and cost at the same time.

The Tools to Extend and Enhance Document Capture

Recent advances in document capture, optical character recognition (OCR), document identification, and content analysis have enabled many tasks to be automated. For financial institutions in particular, these tasks might include the separation of individual documents prior to scanning, or the sorting and routing of new account forms or credit requests from batches of incoming mail.

As stated, many financial institutions already have most of the tools needed to incorporate document capture into their existing transactional processes. The capture technologies in the back office simply need to be extended for greater value. Enterprise capture applications such as Kofax Capture offer the flexibility to accept scanned images from front office business processes. Conversely, the work productivity tools such as workgroup and desktop scanners, MFPs and fax machines, are likely already familiar tools to the front office staff. By combining the forces of these technologies, exponential benefits can be realized.

As opposed to many back office capture processes, which rely on the consolidation of documents in a central location, a distributed batch capture model moves the imaging of documents to their point of entry. This offers a number of advantages. Paper forms more readily mix with their electronic counterparts. By extending the front office to the back office, multiple parties can be working on the same transaction, without having to wait for a response when making business critical decisions.

Kofax offers several solutions that enable existing branch office tools to integrate with back office processes. These solutions enable customer facing employees to trigger back office, business processes directly from familiar front office equipment such as digital copiers,

desktop scanners, and fax systems. With a Kofax solution and a front office capture device at the branch, customer advisors opening an account or loan officers assisting in a loan application can submit documents (paper or electronic) into a back office application managing documents at a central office.

Because employees use their familiar business applications, they can start processes with a few clicks at their digital copier, desktop scanner or MFP. This minimizes the need for training. For the customer, the increased responsiveness and front office contact combine to produce superior service. For the bank, the result is an overall reduction in operational costs.

For branch offices with higher document volumes that could potentially overwhelm shared equipment or users Kofax offers a high volume, branch oriented solution that captures documents and data from multiple branch offices and transfers them directly into a central Kofax Capture installation through a financial institution's network or over the Internet. Kofax Capture can then process these documents thereby routing them to the proper approval workflows, or into content repositories. This mature technology is a proven, reliable method for accelerating remote business processes and reducing costs.

Each of the financial industry's branch level business processes—new account servicing, loan origination and mortgage processing—involve a variety of mixed documents. These documents often pose image quality challenges. The advantages of image clean-up using Kofax VirtualReScan (VRS) cannot be overstated. Whether extracting data from “key from image” applications, or maintaining documentation for fair credit regulatory compliance, VRS accurately represents otherwise unreadable or unusable document images.

As the front office employees are working directly with customers in branch locations, a series of back office processing steps can occur remotely—and simultaneously. By using advanced document transformation technology from Kofax, business documents are automatically transformed into structured electronic information and the process of document classification and data extraction is further automated. Kofax's advanced capture and transformation technology can process forms, trailing documents, correspondence and any other document type on a single platform.

Offering tremendous flexibility, advanced capture and transformation technology from Kofax also integrate seamlessly with existing applications such as Kofax Capture, giving access to the widest range of document scanners and back end archiving and content management solutions.

When combined, this collection of information capture and processing modules enable front office employees in bank branches to easily capture information and automatically process documents when they reach the back office. By eliminating much of the manual handling required to process forms and the many documents needed to open a new account or originate a loan, a comprehensive solution from Kofax decreases the cost, time and effort required to complete key banking processes. So whether a customer transaction is a new account opening, loan origination or request for extension of a line of credit, the integrated capture system between the customer advisor and customer in the front office and the banking back end systems is seamless.

Financial institutions recognize the advantage of capturing documents early, but most have not yet deployed systems to do so, largely because capture systems have been too disruptive to existing business processes. According to a study by the research firm

IDC, 61% of respondents agree or strongly agree that that document scanning and indexing should occur at the beginning of the Loan Origination process but only 39.5% indicate that this is where scanning and indexing actually takes place. A Kofax solution overcomes this obstacle with applications that integrate with, rather than replace, existing business applications.

In Practice Today: Front Office

Bridging the front office and back office capture systems is now possible. A number of financial institutions have begun to integrate Kofax solutions for their branch offices to unite their front office line of business applications with back office document processing.

“A Smoother, Swifter Process”

Randolph Brooks Federal Credit Union (RBFCU), one of the nation’s top 10 credit unions, is using a Kofax solution in its branch locations throughout Texas. By capturing documents at their point of entry into a workflow the Kofax solution has simplified distributed capture by integrating with RBFCU’s existing applications.

RBFCU installed the Kofax solution to facilitate the capture of loan related documentation remotely from its branches in order to better service loan requests centrally. As a result, the Kofax solution helped pave the way for credit union members to be able to walk into a branch and provide their documentation, which is then scanned and integrated with the credit union’s server-side enterprise systems.

Members’ loan documentation is immediately available to any loan officer, regardless of their location. RBFCU officers simply pull up the application and supporting document images within a Web browser. A loan process that once may have taken days to process can now be completed at the time the customer fills out the application.

“By integrating electronic and paper based document capture into our mainstream business processes, we’ve created a bridge between the back office and the front while changing the way we handle documents from batch based to transactional,” said Ken Truitt, RBFCU’s system administrator. “It is a smoother, swifter process that reduces costs and allows us to serve our members more quickly and efficiently, which is enabling us to achieve our project goals and expand the capabilities of our loan origination processes.”

Front Office Document Capture: Reducing Cycle Time and Cost

Another major banking institution has dramatically reduced its document processing costs, while greatly improving response times. Previously, when one of its 600 branches needed to process brokerage account forms they would wait until there was sufficient volume to justify shipping (using an express service) to a centralized facility to scan, index, and process.

With volumes approaching 15,000 pages per day across all branches, the company recognized the opportunity to speed up processing and save on shipping costs by deploying a Kofax solution. Each branch location needs only a scanner and workstation. Once scanned, documents then go to a centralized solution for further processing.

The bank is now able to electronically capture its account documents at the branch sites, and transmit to a central site for data extraction. In addition to the savings in shipping costs, processing time went from several days to several hours. Estimated cost savings for this institution approach \$500,000 annually.

In Practice Today: Back Office

In addition to streamlining capture at the branch level, several financial services institutions are enjoying substantial savings from improving their back office capture operations.

Automated Document Separation

One of the most document intensive segments of the financial services industry is the area of mortgage loan processing. With each individual loan containing an assortment of multiple-page documents, each file may contain hundreds of pages. When combined with the millions of loans a large institution may originate, the paper loads become formidable. Simply separating the individual documents within each loan package (e.g. appraisal, credit history, home inspection) has required teams of skilled workers who must manually insert separator pages prior to scanning. Add the cost of toner and paper for those applications using barcode separation, and the consumable cost alone can reach hundreds of thousands of dollars annually.

Just this sort of application was in place at one of the country's financial institutions. With advanced document transformation technology from Kofax, document recognition and separation has automated the mortgage loan process. The Kofax solution simplifies the transformation of business documents into structured electronic information by automating document classification and data extraction. Using learn by example techniques for classification, separation and extraction, the software has eliminated the need for separator sheets.

The result has been a substantial reduction in operating costs, increased productivity, better data quality and improved regulatory compliance (of paramount importance in the mortgage industry). Consumables costs alone have dropped \$100,000 annually and labor savings exceed \$450,000.

The Cost of Compliance

Regulatory compliance has become a critical (and costly) concern for financial institutions. Since the bank failures following the 1929 stock market crash, the financial services and banking industries have been some of the most heavily regulated. This regulation has continued over the past decade as major events and modern perils such as the credit crisis and international money laundering have brought increased scrutiny.

In addition to the laws and regulations imposed to protect depositor assets (Reg E, Reg CC and the requirements of the FDIC), as well as those protecting shareholder interests, (Sarbanes-Oxley, and the requirements of the SEC) financial institutions must now also concern themselves with the following governing bodies and statutes:

- OFAC: Office of Foreign Asset Control (U.S. Treasury)
 - Fin Cen : Financial Crimes Enforcement Network
 - The Bank Secrecy Act
 - The U.S. Patriot Act
 - The Privacy Act
 - AML Anti Money Laundering
 - CRD Capital Requirements Directive
- ... to name but a few.

Fortunately, document capture makes regulatory compliance and records management much more practical. Access to documents, the ability to spot suspicious or irregular transactions, and the control of personal information, is managed much more consistently with electronic data.

Enhancing Document Capture to Improve Accuracy, Lower Costs

Flagstar Bank, one of the nation's leading originators of residential mortgage loans, has likewise integrated Kofax's automatic document transformation technology coupled with Kofax Capture. Flagstar's corporate office is the primary loan processing hub for its enterprise network of home loan centers and wholesale lending customers in all 50 states. As part of its weekly operations, Flagstar efficiently categorizes and indexes more than 360,000 multipage loan documents into its information capture and storage systems, while continually ensuring the accuracy of all mortgage data that is processed.

Given the assortment of disparate loan document types that Flagstar processes, Flagstar employees previously spent copious amounts of time reviewing loan documents and correcting errors that were entered into the system during data entry.

Adding the Kofax technologies to its back office operations has increased efficiency and reduced costs associated with processing the hundreds of thousands of mortgage and loan documents Flagstar Bank receives on a weekly basis from a national network of home loan offices.

"With the immense volume of paper mortgage documents we process each week, we needed the most advanced information capture solution available to meet our continued business goal of leadership in paperless mortgage processing," said Steve Brooks, chief operating officer with Flagstar Bank. "Flagstar has full control over the loan processing workflow — and the added benefit of reducing human error and lowering administrative costs through the automated document separation and completion feature. This advancement is just one more step in Flagstar's progression to real-time mortgage processing."

In addition to eliminating the need to insert separator sheets, automatic document separation has substantially reduced the costs of consumables such as paper, ink and toner. The automated system is also more accurate than manual document separation; such errors lead to high quality control and validation costs to correct.

Getting More from Your Existing Investments

Financial institutions face unprecedented challenges. The electronic age has brought remarkable process improvements, but also a number of new perils: electronic fraud, changing payment methods, and intense global competition. In response to the credit crisis, the already heavily regulated industry faces even further oversight.

The recent economic pressures making the news have been felt perhaps most acutely by financial institutions. With much of the blame (and most of the pain) felt by many of the country's largest banks and investment houses, there is now, more than ever, the need for this industry to do more with less. In this environment, financial institutions are faced with the conflicting goals of reducing costs while simultaneously increasing customer service. Whenever possible, they must get more value out of their existing resources.

Expanding document capture technologies offers the opportunity for these very benefits. By integrating the branch level capture systems with back office processing technologies—likely existing investments—the sum becomes greater than the individual parts.

Kofax solutions for financial institutions offer the tangible benefits of increased productivity, reduced processing costs, better service levels and improved regulatory compliance. Built around a flexible architecture that is easy to deploy at the branch level, these solutions integrate

readily with existing technology and remove much of the complexity usually associated with document capture. Best of all, financial service institutions can extend the value of their existing investments.

About Kofax

Kofax plc (LSE: KFX) is the leading provider of document driven business process automation solutions. For more than 20 years, Kofax has provided award winning solutions that streamline the flow of information throughout an organization by managing the capture, transformation and exchange of business critical information arising in paper, fax and electronic formats in a more accurate, timely and cost effective manner. These solutions provide a rapid return on investment to thousands of customers in financial services, government, business process outsourcing, healthcare, supply chain and other markets.

Kofax offers scalability from departmental to enterprise systems, from local to global deployments, from front office to back office applications. Our market leading technology provides a strong enterprise-wide platform on which to standardize all of an organization's document and forms capture processes.

Kofax delivers these solutions through its own sales and service organizations, and a global network of more than 1000 authorized partners in more than 60 countries throughout the Americas, EMEA and Asia Pacific.

For more information, visit www.kofax.com.