

Evaluating the Vendors of Remote Deposit: Differentiate, or Step Aside

April 2008

WAUSAU FINANCIAL SYSTEMS PROFILE

The following vendor profile is an excerpt from an independent research report published by Aite Group, LLC. For more information regarding the report please contact Aite Group at:

Phone: +1.617.338.6050
email: sales@aitegroup.com

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Christine Barry
cbarry@aitegroup.com
917.546.9180

10 High Street
Suite 905
Boston, MA 02110
Tel: 617.338.6050
Fax: 617.338.6078
info@aitegroup.com

IMPACT POINTS

- More than two years since the inception of Check 21 and the subsequent introduction of remote deposit technology, U.S. financial institutions continue to exhibit signs of excitement and enthusiasm for this technology.
- Remote deposit is heading toward mainstream. All of the top 20 and most of the top 100 U.S. banks have already deployed the technology.
- Approximately 45% of small banks have deployed remote deposit. Aite Group forecasts that at least 65% of small banks will have deployed it by year-end 2009.
- Credit unions have been the slowest adopters of the technology.
- Aite Group estimates that the top three vendors (based on total deployments) are responsible for approximately 73% of bank and credit union deployments to date.
- A competitive market has led to greater need for vendors to differentiate themselves. Vendors are achieving this by offering enhanced remittance capabilities and tighter integration with accounts receivable solutions, more sophisticated reporting capabilities, and by providing customers with greater online marketing and training tools.
- In addition to first-time deployments, a new replacement market is beginning to emerge. Aite Group estimates that between 5% and 7% of 2008 remote deposit deployments will be replacements.
- Remote deposit is moving downmarket. Of U.S. small businesses, 16% are already using the service. Several banks are even considering offering it to consumers.

VENDOR PROFILES

WAUSAU FINANCIAL SYSTEMS

WAUSAU Financial Systems ("WAUSAU") was founded in 1974, and is headquartered in Mosinee, Wisconsin. It is independently owned by Chicago-based Frontenac Company, a blue-chip private equity company with more than US\$1 billion under management. WAUSAU is a leading payments and remittance processor, and offers products within four major areas: image capture (including corporate, branch, teller, ATM and correspondent), image and item processing, remittance, and enterprise content management. WAUSAU strengthened its position in the payments arena in April 2007 by acquiring the assets of Data Management Products (DMP). Together, WAUSAU and DMP Solutions process almost one-half of the financial industry's retail and wholesale payments. WAUSAU also processes over one-third of the financial industry's Accounts Receivable Conversion (ARC) transactions to ACH.

WAUSAU offers the marketplace two corporate remote deposit solutions. The first, Web DigitalDeposit/Digital Lockbox (WebDDL[®]), is the company's Web-based/thin-client solution, deployed in May 2006. Additionally, the company offers a Windows-based solution called DigitalDeposit, which has been in live production since October 2004. While both solutions have essentially the same functionality, and have proven scalability to meet the needs of any size of institution, all new implementations since the middle of 2006 have been of WebDDL. This profile will, therefore, focus primarily on that solution. Many of WAUSAU's Digital Deposit customers have plans to migrate over to the WebDDL. However, such action is not required by the vendor, and a sunset date for the Windows-based solution has not been set.

WAUSAU's remote deposit solutions are targeted at all sizes of financial institutions, from top 10 banks down to small community banks. More than 20,000 seats have been sold to date. Its largest single-scanner, Web corporate client location that they are aware of processes over 5,000 checks per day. Because of its support for payments, WAUSAU also markets its solutions to lockbox providers, brokerage firms and utilities companies. WebDDL is currently installed at more than 150 banks and four credit unions, including eight of the top 50 banks. DigitalDeposit is installed at 20 banks and one credit union. Forty-seven financial institutions deployed the solutions in 2006, and an additional 60 did so in 2007. In addition to signing on first-time users, WAUSAU has also seen success in the remote deposit replacement market. In 2007, the company replaced previously deployed solutions at five of the top 50 banks with WAUSAU's thin-client WebDDL solution. Those five banks collectively purchased more than 10,000 seats. The vendor has made several efforts to further grow its client base. It already has

strong partnership agreements with Harland Financial Solutions, Kodak, First Data and Solutran. They have integrated into Harland Financial Solution's Cavion solution and Digital Insight's electronic banking solutions, and recently announced strategic partnerships with Fundtech and Financial Fusion, two leading cash management and payments providers. As banks increasingly look to limit their number of vendor relationships and demand tighter integration among their products, such relationships will prove especially important. The company plans to continue pursuing such relationships. WAUSAU is also now offering banks a free 30-day trial period during which they can test the ASP version of WebDDL prior to making the investment in it.

WAUSAU's remote deposit solutions can be deployed in either an ASP/hosted or licensed environment. Approximately 25% of the deployments to date have been in an ASP environment, while 21.5% of its customers are using the Windows-based solution and 53.5% have selected the licensed environment. Over the last year, however, new deployments were split almost evenly between licensed and ASP. WAUSAU began offering its ASP deployment option in Q4 2006.

WebDDL was designed to go beyond deposit automation, and performs as a complete accounts receivable solution with the ability to capture both deposits and remittance payments. It has remittance processing capabilities for both retail and wholesale markets, and integrates directly with the company's central remittance systems. Its remittance functionality can be used in conjunction with a back-end remittance system or in a standalone mode, in which the payments are processed completely within the Web client. The solution also has the ability to read scan lines using software OCR, and parse the scan line into individual fields. The solution supports multiple OCR fonts as well as the ability to customize fonts, and can define up to two scan lines per document. The scan line and fields can be broken out into any of its 20 custom data entry fields — all of which are available for export, research and validation. It is also one of the only solutions currently offering full-page scanning for coupons and invoices — a capability especially important in the healthcare industry. These features, coupled with the solution's advanced remittance capabilities, serve as a real differentiator for WAUSAU, and have positioned the solution a step ahead of some competitors, many of whom are just starting to add basic remittance capabilities. WAUSAU's strength in the remittance space is especially attractive to banks with high receivable processing volumes, and has been an important consideration in the vendor selection process for many of its customers. Offering a complete receivables solution also offers additional opportunities for bank users to deepen relationships with their corporate customers.

Another example of WAUSAU's use of innovation as a way to place itself ahead of many of its competitors is in the area of online training. While all vendors have been focusing a great deal of attention on providing their bank customers and end users with proper training and sales tools, WAUSAU's solution is in a league of its own when it comes to online training capabilities. While other vendors claim to

offer online training, WAUSAU is the only vendor to offer a high level of training from within its application: Users of the online training module have the option of choosing between a simulation mode, which focuses on specific areas of training, or a demonstration mode, which walks users through the entire process. For example, users can watch a short video on how to change a scanner cartridge or how to set security setting and product configurations. Client references participating in this study raved about this feature, and labeled it as a huge cost saver eliminating the hours of time once spent answering basic customer questions. Customers can now help themselves. The system also has a learning capability whereby it will remember the type of scanner being used and will only provide pertinent help information to that scanner. Banks can also incorporate these training videos into their corporate sales process. In addition to online training, the Market Success Kit provided to bank customers also includes tips for successful deployment marketing videos and ROI tools. Workshops and Webcasts are also held throughout the year.

In addition to the key differentiators already described, WAUSAU's WebDDL solution has other strengths, including its tight integration with its other image capture offerings, such as branch, teller and ATM. All of these products share a single platform with a similar user interface and customer setup. This is especially attractive to small and midsize banks that look for a single vendor to address multiple needs from a single platform. It also strengthens the duplicate detection capabilities of its solutions. If remote deposit and branch capture are integrated, for example, they can prevent someone from trying to deposit the same check into both channels. Existing customers seem to especially value the integration of remote deposit, lockbox and branch capture.

WebDDL is also very easy to use. Users have described it as "intuitive on both the administrative and customer sides" and said that "user training has been a painless process." Users especially appreciate the recent workflow enhancements, which provide clear directions to the user throughout the process without requiring prior knowledge of image scanning. The system even identifies illogical steps and asks the user to confirm if that is indeed what they want to do. Once checks have been scanned, the list of items appears at the bottom of the screen. Each check is assigned a green check or a red "x" depending on whether or not checks are ready to be transmitted or need correction. While the user does not have the ability to only view those items that have to be corrected, the system does allow the user to automatically move from one item needing correction to the next by simply hitting enter. WAUSAU has also written directly to the QuickBooks API, which enables the end user to create their deposits and update their QuickBooks through the WebDDL application. Any posting exceptions to Quickbooks are handled within the WebDDL application, using exception functions and the data returned from the API.

The central administration portal is also an important tool offered to banks to perform such functions as setting up corporate users and locations, setting up fraud thresholds and image quality requirements, and monitoring image read

rates, etc. It enables the financial institution to configure the client software workflow to match the exact needs of each corporate location without custom programming. Its table format makes it easy to use and requires bank users to simply check off boxes to create consistency across customers, as well as create custom capabilities per merchant. A unique feature of this portal is the ability to set up fraud profile templates so new customers with similar risk ratings to other customers can easily be assigned a profile rather than starting each new customer's profile from scratch. This central administration portal is also the same across WAUSAU's various touch-point solutions, so a bank can define whether a merchant has access to remote deposit, branch capture, teller capture, etc. through a single screen. WAUSAU's central administration portal provides banks with a high level of flexibility and control in an easy-to-use format.

The solution also has some "nice-to-have features" that further enhance the user experience, including an automatic system validation utility during the installation process which not only ensures that the system can perform to expectations, but which also provides information on how to correct any detected problems. All of the scanner drivers are also conveniently packaged within the application site, so users don't have to search for drivers or download them from a CD or scanner developer site. Users also have the option of forced balancing rather than adding up check values prior to check scanning.

WebDDL also offers robust reporting capabilities. Although it does not yet offer merchants the ability to create their own customized reports, there are about 10 standard reports to choose from. The user has the ability to select a single location or multiple ones to run the report against. One report which is especially worth mentioning is the workflow audit report. This report gives the merchant the ability to monitor users, as well as to easily provide the necessary information for an audit. The report can be set up to show who made changes to items (and what changes were), who deleted items, who created items, etc. While customized reports cannot be created, the system can create a CSV file that can be exported into Excel to create a customized report in that application. The system's research functionality also gives users the ability to query for deposits, payments records, etc.

WAUSAU's clients seem pleased with the WebDDL solution, and most feel it has all of the capabilities they want and need. They feel the vendor's road map is in sync with their own. Most recent requests for enhancements have been minor, including the ability to print eight check images on a page instead of one. Another customer is working with the vendor to add suspense pooling functionality, while another with more sophisticated users has requested tighter integration between data captured from the check and the general ledger. WAUSAU is currently working with customers on each of these requests. In all cases, its customers have found that no matter how small the requests have been, WAUSAU has been extremely responsive. All requests are either added to a list for the next release, or if a request cannot be addressed, the company is very open and explains what the

problem/difficulty would be. Customers stated that they have very frequent dialogues with the vendor and that the vendor is a good communicator and has a clear vision of how they see the market and the product evolving. Most enhancements come from customers. WAUSAU has a steering committee of 16 banks with whom they discuss trends, and the company also surveys customers and requests input to prioritize planned features and functionalities. The vendor has delivered on its promises and has met all deadlines within an acceptable time frame. The only negative feedback provided on WAUSAU has been that the company, similar to some other vendors in the space, is struggling a little bit with growth and the explosion of the product, and, at times, doesn't seem to have enough individuals on staff to handle the demand. Also, the vendor had some growing pains with its original Windows 2.0 release in early 2005, but customers feel the vendor did everything right and made all necessary adjustments to ensure a satisfied customer base. Overall, its customers are extremely satisfied with the vendor and with its most recently released solution.

WAUSAU plans to make several enhancements to its solution over the next 24 months, including: integrating to other third-party accounts receivable accounting packages, delivering a new user interface for small -business and retail customers, continuing to enhance its remittance capabilities and integration tools, creating a single dashboard for all WAUSAU applications to track and access transaction information, and to continue to certify the latest scanners from its partners and continue to evaluate potential new partners.

Analysis of WAUSAU

Offering corporate remote deposit fits well with WAUSAU's overall company strategy to be a leading provider of end-to-end payments. It also serves as a new stream of revenue for the vendor as the lockbox market starts to shrink. The scalability of its thin-client remote deposit solution has been proven through its deployment by several large institutions, and its ability to differentiate itself is evidenced by its success in the replacement market. WebDDL users can get the necessary level of scalability from a thin-client application rather than having to deploy a Windows-based solution as recommended by some of the other vendors in this report. In addition, users get a single client application for deposits, C2B retail payments and B2B wholesale payments, thereby eliminating multiple support channels and improving efficiency. Banks often select WAUSAU for its point solution integration, its lockbox integration, its deep knowledge and expertise in the industry, its proven track record at all sized institutions and for the usability of the solution. WAUSAU has had a solid pipeline of new deployments over the last couple of years, and is likely to grow its marketshare even further as a result of partnerships with other vendors. Recent efforts to examine new verticals are likely to also lead to positive results. Its momentum, however, will be tarnished if this vendor has difficulty keeping up with a surge in new business. Additional resources may be necessary to ensure proper staffing. Overall, WAUSAU

offers a solid solution to the marketplace, which is strengthened by the company's deep knowledge of the lockbox, remittance and imaging space.

ABOUT AITE GROUP, LLC

Aite Group is a leading independent research and advisory firm focused on business, technology and regulatory issues and their impact on the financial services industry. It was founded by leading industry experts in Banking and Securities & Investments. Aite Group brings together a team of business strategy, technology and regulatory experts to deliver comprehensive, timely, and actionable advice to financial institutions and technology vendors. It seeks to become a true partner, advisor, and catalyst by exchanging ideas and challenging basic assumptions to ensure that our clients always stay one step ahead of the competition.

RELATED AITE GROUP RESEARCH

Small-Business Adoption of Remote Deposit, March 2008.

Trends in U.S. Cash Management: A Survey of the Largest Banks, February 2008.

Core Processors: Will Integration Pay?, December 2007.

The Magical Disappearing Check or the "Prestige," October 2007.

Top Trends in U.S. Corporate Cash Management: Strategies for a New Environment, July 2007.

An Evaluation of the Leading Providers of Cash Management Technologies: New Strategies and a Changing Competitive Landscape, April 2007.

Remote Deposit: All Talk, Little Action, With a Lot of Potential, March 2006.