

Check 21 – The Basics

Today's Discussion

- Defining Check 21
 - *Key Components*
- Financial Institution Requirements
- Check 21 Myths and Reality
- Financial Perspective
 - *Costs vs. savings*
- Consumer Impact
- Questions



Key Dates

- Signed into law on October 28, 2003
- Final Regulations communicated July 26th, 2004.
- Effective October 28, 2004



What is Check 21?

Legislation that permits financial institutions to create and submit substitute checks from electronic images for processing.

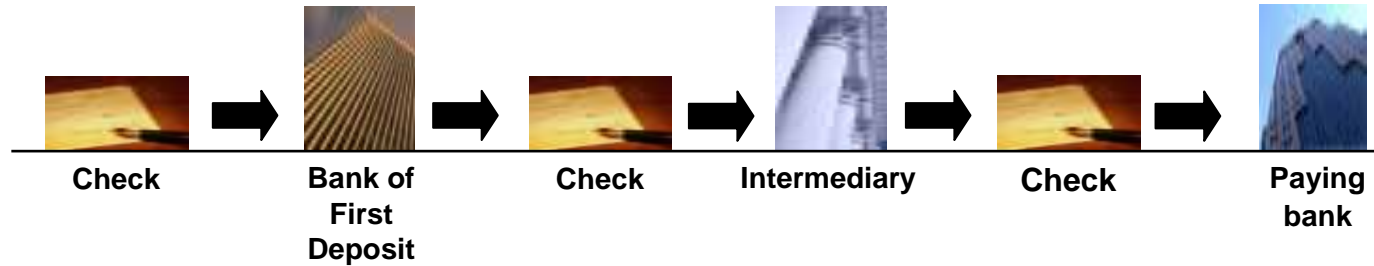
*Replacement of the original check can occur **anytime** during the payment system.*

Results...

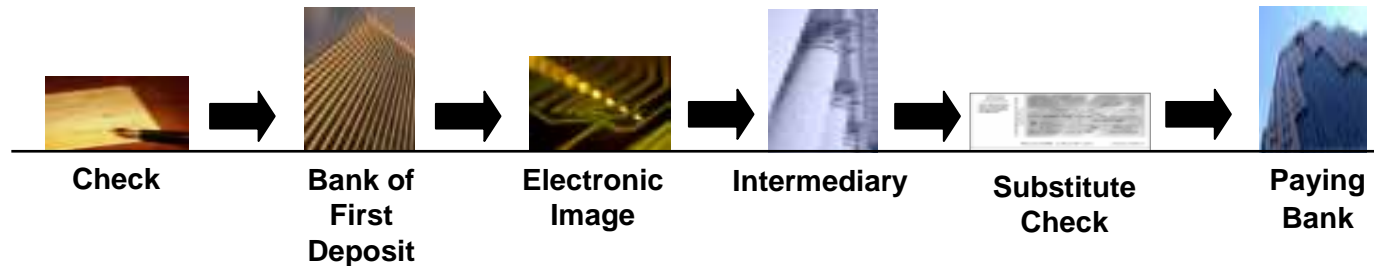
- A more efficient U.S. paper payment system
- Changes existing requirements by allowing for more automation
- Faster check clearing
- Expands the use of electronics in check collection and return

Check Processing Flow – Collection

Traditional Paper Collection

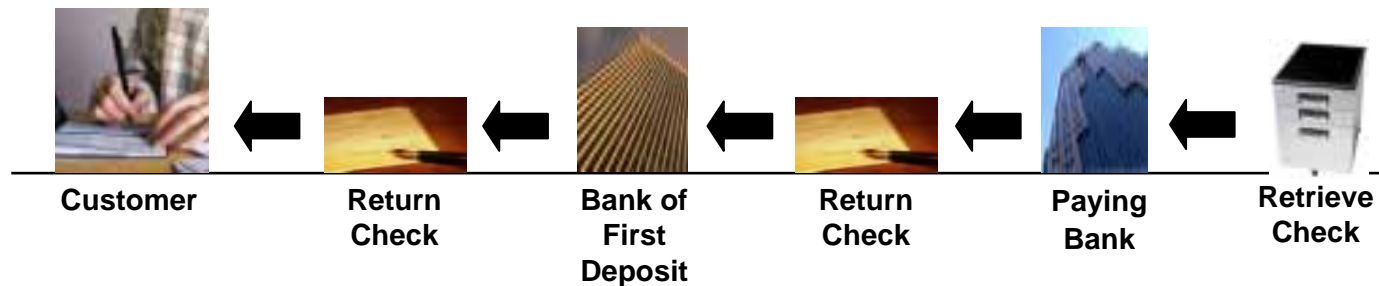


Substitute Check Collection

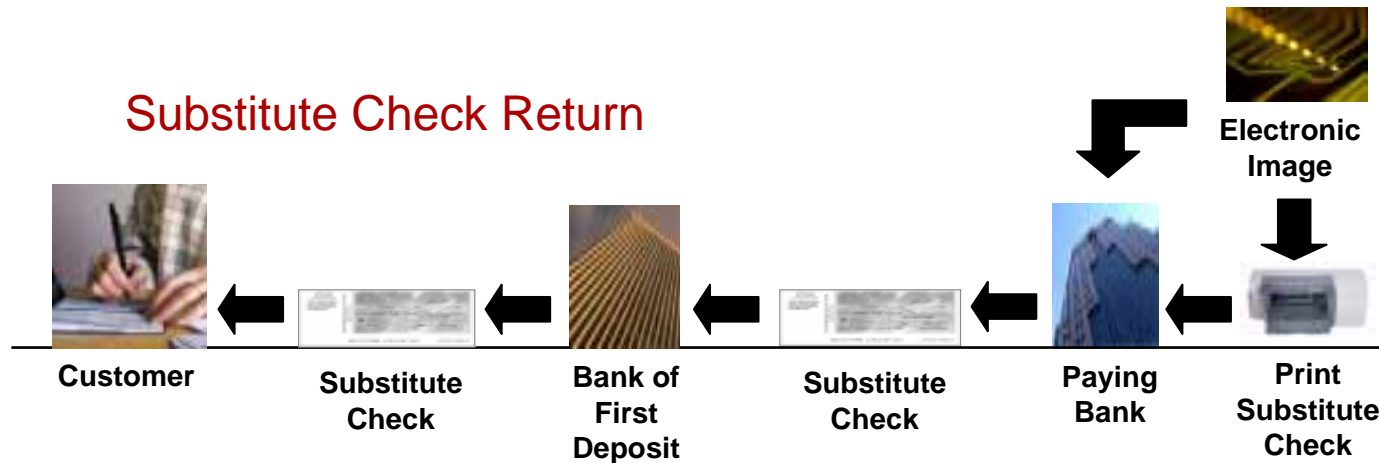


Check Processing Flow – Return

Traditional Paper Return



Substitute Check Return



Key Components

- A “substitute check” or Image Replacement Document (IRD)
- Authorizes creation & use of substitute checks
- Protects recipients of substitute checks



Key Components

Validation of endorsements on back side of the check

Image of check is now on a new document.



A “4” in position 44, means a substitute check or image were created during the check presentment process.
 A “5” indicates the substitute check was created in the return process.

Substitute Check is MICR encoded including dollar amount

Financial Institution Requirements

- Must be able to receive and process substitute checks
- Need to review existing policies regarding check returns
- Educate employees
- Notify and educate consumers of final regulation

Check 21 Myths

In fact, Check 21:

- Does not *mandate* the use of check imaging
- Does not *authorize* image exchange in lieu of an actual agreement
- Does not *require* check conversion at point of sale



Check 21 Reality

In fact, Check 21:

- Supports the use of checks
 - *40 billion checks processed in 2002*
 - *Industry estimates indicate 35 billion checks will be processed in 2010*
- Will improve the efficiency of the check payment system



Financial Perspective

Cost savings and revenue opportunities for financial institutions include:

- Courier services
- Check storage & security
- Manual operations (mail, tellers)
- Better float management
- NSF revenue with faster returns

Financial Perspective

Expenses for financial institutions might include:

- Image exchange services
- Consumer notification
- Policy development
- Process and infrastructure to receive substitute checks
- High speed lines
- Processing rejects of substitute checks



Consumer Impact

- Faster detection of fraud
- Less float – checks are processed faster
- Financial Institution is not required to store your original check
- Original check may not be returned
- Expedited re-credit

Consumer Impact

Where substitute checks may be found:

- With periodic bank statements
- When viewing check images via on-line banking or other electronic media
- If requesting a copy of a paid check from the financial institution
- As a deposited check that is returned unpaid

Review

Check 21 will encourage automation and provide a more streamlined approach to check processing.

Resources

- Web locations such as:
 - <http://www.bai.org/check21/>
 - <http://www.bankersonline.com/check21/>
 - <http://www.frbervices.org/Retail/Check21.html>
- Financial institution periodicals
- Federal Reserve
- Association meetings
- Deluxe Financial Services



Questions?
