Check 21
The Basics
Presentation Overview

- 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
- 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**

1. **Check**
2. **Bank of First Deposit**
3. **Check**
4. **Intermediary**
5. **Check**
6. **Paying Bank**

**Substitute Check Collection**

1. **Check**
2. **Bank of First Deposit**
3. **Electronic Image**
4. **Intermediary**
5. **Substitute Check**
6. **Paying Bank**
Check Processing Flow – Return

Traditional Paper Return

Customer → Return Check → Bank of First Deposit → Return Check → Paying Bank → Retrieve Check

Substitute Check Return

Customer → Substitute Check → Bank of First Deposit → Substitute Check → Paying Bank → Print Substitute Check

Electronic Image
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
End Customer 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
End Customer 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.frbservices.org/Retail/Check21.html
- Federal Reserve