

Making Check Processing More Efficient: Check 21

The Check Clearing for the 21st Century Act, also called Check 21, fosters innovation and efficiency in the payments system. On October 28, 2004, this important new legislation took effect.



Anthony Scafide, Assistant Vice President, and Tom Lombardo, Manager, both in Customer Relations

The essence of the law is that it allows a substitute check, created from an electronic image, to serve as the legal equivalent of the check itself. In doing so, it eliminates a significant legal barrier to check truncation and electronification of check processing. A collecting bank can create an electronic image of a check, transmit the image to the paying bank's location, and then present the paying bank with a paper reproduction or with the electronic image itself.

The Fed proposed Check 21 to enable the industry to make check processing more efficient and reliable. Now, banks must consider how to use the new options offered by Check 21 to create shareholder value and improve service quality. The new legislation provides an excellent opportunity for financial institu-

tions to increase their use of image processing in check collection and improve their business operations.

Preparation at the System Level

As preparations to implement Check 21 were underway across the financial services industry, the Federal Reserve System embarked on a year of training-intensive activities to educate Reserve Bank customers on making the most of the opportunities available through the new legislation. Importantly, the Fed also helped them clarify how best to pass those benefits along to their own customers.

In early 2004, experts from the Federal Reserve System made presentations at the Bank Administration Institute's Check 21 Implementation Planning Clinics,

which were held around the nation to review the legal aspects of Check 21, provide an overview of Federal Reserve initiatives, and share perspectives on developing and implementing Check 21 plans.

The Federal Reserve also sponsored online Check 21 seminars to support financial institutions' efforts to develop and implement Check 21 strategies. These online seminar topics included an overview of the new Check 21 product suite, information on how to best use the new product suite within financial institutions' business environments, and tools to help assess readiness for Check 21 implementation. Participants, numbering in the thousands, agreed that these online seminars were very informative and highly practical and allowed the Reserve Banks' busy customers to be informed without leaving their offices.

In addition, in Federal Reserve Bank Customer Service locations around the nation, account executives continue to talk to customers, answering questions about Check 21 and helping identify opportunities to leverage technology and evaluate banks' long-term payments processing strategies in light of Check 21.

Preparation in Our District

Education continued at the District level, as each of the 12 Reserve Banks held seminars around their respective regions to help bankers learn to maximize efficiencies under Check 21 and take advantage of Check 21-related opportunities.

In Philadelphia, our District's training began with the 2004 Field Meetings. Each year, Philadelphia Fed officials travel throughout the Third District educating financial institutions on the economic outlook, banking trends and developments, and financial services. Last year, the financial services portion of the meeting focused exclusively on the upcoming implementation of Check 21. These meetings set the stage

for further outreach to bankers around the region.

Following the field meetings, Anthony Scafide, assistant vice president, and Tom Lombardo, manager, both of the Philadelphia Fed's Customer Relations Department, presented six open seminars throughout the Third District to provide bankers the opportunity to learn more about Check 21. Upon customers' requests, or when more one-on-one training was needed, Scafide and Lombardo also conducted comprehensive presentations for individual bank customers interested in obtaining more information on Check 21.

The seminars emphasized how financial institutions can enhance their efficiencies and improve customer service. Another important component of the seminars was the introduction of a variety of new and improved products, services, and solutions offered by the Federal Reserve and designed to support banks' best use of the new options under Check 21.

Follow-Up

As a follow-up to the six seminars and to address any outstanding issues bankers were facing, Scafide and Lombardo developed "Keeping Our Promise," a Check 21 town hall meeting focusing on issues dealing with regulation, compliance, operations, and products and pricing. The session allowed an open dialogue between the bankers and relevant experts in each of the topical areas discussed.

It will take some time for the full effects of Check 21 to be realized. The infrastructure of check processing will evolve, generating new check products and services, and new ways to deliver them. The Federal Reserve is committed to working with the financial services industry in this dynamic environment to ensure a smooth transition and to achieve all the efficiencies this new legislation offers.

More information on Check 21 is available at www.frbservices.org or on the Federal Reserve Board of Governors' web site at www.federalreserve.gov. Or you may contact the Federal Reserve Bank of Philadelphia's Customer Service office at (877) 574-1776.