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## Probable Provisions of Check 21

By Allan C. Edmonds, president of [CheckWorks](#)

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There is no doubt that the events of Sept. 11, 2001, had a dramatic effect on the world. Our experiences traveling by airplanes, for one, will never be the same. And specific to the financial industry, the events of Sept. 11 gave rise to H.R. 1474, or "Check 21," as it is commonly known in the industry. If passed into law by Nov. 30 as now is anticipated, Check 21 would pave the way for more credit unions and banks to clear checks electronically. It also would dramatically decrease check clearing's reliance on ground and air transportation—both of which were interrupted on Sept. 12, 13 and 14, 2001.

During this time, some employees of financial institutions used their own vehicles to transport checks to other locations. Had financial institutions been using an electronic clearinghouse agreement that didn't require physical checks to follow within a short timeframe, the checks could have been posted, pending receipt of the physical item. The benefits of such an arrangement were not fully appreciated until the aftermath of Sept. 11.

One of the most cost-effective methods that a financial institution can use to take advantage of Check 21 is image exchange. By exchanging the "images" of checks, as allowed by Check 21, the physical item does not have to be returned to the paying financial institution—only the electronic image must be transported. As long as telecommunications resources are available, check information can flow. Earlier this year, in anticipation of the passage of Check 21, Wells Fargo announced it would adopt electronic imaging technology for front- and back-end systems to prepare for the passage of legislation that will give electronic check images the same validity as paper checks for clearance and settlement.

In addition to giving electronic checks the same validity as paper checks and providing banks and customers with faster access to the capital, Check 21 defines several important points as they relate to substitute checks—also known as image replacement documents. IRDs have all of the information from the original document needed for posting into the check processing system, including the original check's front and back image as well as all magnetic ink character recognition data.

Essentially an abstract of all check information, an IRD is processed from the data in the file that was created defining the check image. A group of IRDs could be sent to a requestor as multiple records in a file. The IRDs could then be printed at the point of need for physical distribution. Whether physical or electronic, an IRD can be requested by any bank after the point of check truncation for whatever reason. Since the process for getting IRDs, and physically distributing them is so much more cumbersome than the use of images, most financial institutions will minimize their use of IRDs.

Whether it's IRDs, cost savings as a result of a decrease in transportation costs or the many issues associated with image exchange, it is clear that Check 21 will have a dramatic effect on the financial industry. Clearly, financial institutions will need to have all of their "checks" and balances in place once Check 21 is signed into law.

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