

# Life After Check 21: Gauging The Changes for Payments

BY ED BACHELDER  
and MELISSA FOX

Financial institutions are reviewing their plans for the implementation of Check 21; initial signs suggest many will be ready to handle a limited number of image replacement documents when the implementation gets under way in earnest Oct. 28.

Although not required to do so by law, financial institutions are gearing up for more than just the processing of substitute checks. They are taking this opportunity to assess the potential for capturing check images at the point of deposit to improve the speed and efficiency of their deposit and payment systems.

The justifications for these investments include potential savings, reduced risk, and enhanced customer service. It is estimated that the financial industry's annual savings from check truncation will exceed \$2 billion, most of that from check transportation, handling, encoding, and float.

Recent conversations with key technology providers indicate that financial institutions are now reviewing options and making arrangements for check imaging, transportation, and archiving systems and software; sales of remote branch capturing

systems are picking up steam. The key infrastructure providers — SVPCo, Endpoint Exchange, EDS/NetDeposit, and the Fed — will be ready to support image clearing and settlement by the time Check 21 goes into effect. Some of their members are already pushing IRDs and clearing images.

As has been previously observed, community banks and credit unions may be in the best position to reap the benefits of Check 21 from a technological perspective.

In general, smaller institutions have simpler infrastructures and/or can rely on third-party processors to implement check imaging and image exchange systems.

Although the largest institutions (which collectively handle more than half of our nation's check volume) have the most to gain from imaging, they may face the greatest short-term challenges in adopting the Check 21-driven image technology. They are at least partially image-enabled, but they will have to make significant investments and concentrated efforts to integrate their imaging, clearing, and settlement systems.

It may take several years to fully integrate and image-enable

their large-scale check processing infrastructures.

## POTENTIAL TIME LINE

Recent industry developments suggest that there may be three phases of the Check 21-driven transformation, culminating in a system based primarily on image exchange by 2010.

Between now and the end of 2005, Check 21 implementation will accelerate the deployment of low-cost image scanners for electronic check presentment, with paper following. The use of substitute checks will likely start with returns and move to higher-dollar-value items.

By 2007, larger financial institutions will have fine-tuned their imaging systems to resolve Day 2 issues. Correspondent banks will be image-enabled and will begin to discourage the presentment of paper checks. Local branch deposits will be less important for national commercial accounts.

By 2010, financial institutions will have reworked their commercial account offerings, images will be archived and accessed for value-added reporting, and paper checks will be priced at a premium. With a reduced float, business check volume will decline markedly.

As financial institutions begin to invest in systems that convert checks to images, many are mindful that the overall volume of paper checks is declining — and that many of the changes driven by Check 21 may accelerate that decline.

Other trends driving this epic change may include the steady growth of check conversion to ACH (ARC and POP) by national retailers and billers. As they continue to implement local scanning, they will decrease the number of checks deposited at local branches.

And as more checks are truncated at the point of sale, consumers

strategies and educate their customers about electronic check presentment, the use of substitute checks, and e-check conversion.

Among the many questions to be addressed:

- What will be the most cost-effective approach to check processing: in-house, outsourcing, or a combination of the two?

- What strategy for Check 21-enabled imaging will be best: a minimal response, a partially imaged strategy (based on geography or individual customer relationships), or a full transition to check truncation with image exchange and IRDs?

- How should financial institutions prepare their archiving systems and streamline their back-office and branch workflows to handle paper checks, substitute checks, and/or image exchange?

- How should financial institutions handle returns, fraud, double postings, and recredit situations?

- Which vendors will be best prepared for check truncation and image exchange, and which will be the best partners for the future?

In 10 years the vast majority of noncash payments will be processed as electronic transactions. As the industry moves into this period of transition, a thoughtful and well-aligned payments strategy is going to be more important than ever.

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## By 2010 the check payment system will be based primarily on the exchange of images.

may increasingly use debit and credit cards rather than write checks. Recent research indicates that electronic payments account for 51% of consumers' in-store payments and continue to erode check usage.

These intersecting trends in volume and cost suggest that financial institutions will need to weigh the benefits and challenges of the post-Check 21 environment. At a minimum, they will need to review their deposit

# Don't Let Lawyers Kill Your PR Efforts

BY A EDWARD MAJOR JR.

Banks spend a fortune on marketing: advertising, promotions, public service.

Recognizing that the mortgage market is a brand-switching one driven by price and service quality, they seek to improve service and client relations. Some hire high-powered ad agencies to create big-splash print or television campaigns. Others build relationships with clients by stressing the role of customer relations departments.

The preparation for and completion of the mortgage closing is a prime opportunity for the lender to put its best foot forward and build good will. It is here that customers actually receive the product.

The lender's counsel, whether in-house or outside, is a service provider just like a mortgage officer. Customers perceive him or her as an extension of the bank. Yet banks view the counsel as

external to their marketing efforts, often because the attorney ignores the role or the bank fails to see professionals as a part of the marketing package.

Lenders' counsel are pitifully poor at providing service commensurate with the trauma experienced by borrowers, especially first-time homebuyers. Because the

## Courtesy at the closing can help you retain customers.

allowable fees (paid by borrowers) are often low and the work repetitive, attorneys often treat mortgage transactions as bulk-rate, low-priority matters. The growing use of paraprofessionals (who are cheaper) encourages an impersonal, cut-and-dried approach.

When they do get involved, too

many closing attorneys see their function as intimidating the borrower and overawing the borrower's attorney. Building good will is the last thing on the closing attorney's mind.

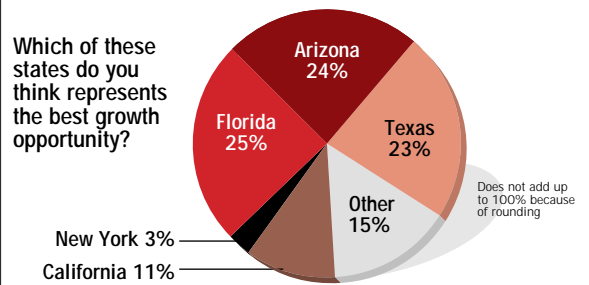
But the bank's attorney can sell the bank while still fulfilling the primary mission of protecting the bank's interest. The more courteous and careful the bank's attorney is, the more the customer perceives that the bank cares about its client. And the single most convincing proof that the bank cares is that it puts a caring professional in charge of the deal.

A good closing experience leads to future business: the refinancing, the home equity line of credit, the home improvement loan, the college tuition loans, and the IRA. A nightmarish experience will undo all the publicity money can buy.

*Mr. Major is a New York lawyer who represents mortgage-lending banks.*

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