

President's Message



"Any kinks can be worked out, just as they were with credit cards, debit cards, ACH and other forms of electronic payments. In the end, check imaging will lead to a more-efficient payments system, which is good for the economy overall."

William Poole

PRESIDENT AND CEO,
FEDERAL RESERVE BANK OF ST. LOUIS

Check 21 Will Lead to Savings of Time, Money

When the Check 21 law takes effect next October, hundreds of bankers might take a cue from Harry Truman and place a sign on their desk that says "The Check Stops Here." The sign will be right on the money because the new federal law allows financial institutions to stop shipping customers' checks back and forth to clear them. Instead, the institutions can send electronic images of the checks. Although Check 21 may displace many workers in the interim, eventually it will lead to cheaper, faster and safer processing. In the end, valuable resources will be freed up for more-productive uses.

Estimates of eventual savings are large. For starters, at least \$250 million a year is being spent now on moving checks across town and across the country. Such courier service could be virtually eliminated if everyone switched to exchanging images via the Internet or some other electronic link. But the real savings will come in the back office, where paper checks are read, sorted and otherwise processed. Cuts in such operations could conservatively save into the billions of dollars. And because far fewer people would be involved, the number of lost, damaged or stolen checks should be greatly reduced.

As important as saving money is saving time. Instead of having checks clear in days, they could clear in hours.

Deposit deadlines will be extended. Float will be slashed. Banks' cash management should markedly improve.

Criminals intent on fraud will have a smaller window of opportunity under Check 21. Banks will be able to find out much sooner if an account was closed right after a check was written on it. Terrorists may also find it harder to undermine the payment system; no more will planes full of checks be grounded for days, as there were after Sept. 11. Similarly, natural disasters like earthquakes and floods should pose less of a threat because the needed "courier" won't be a person.

Of course, the new system isn't perfect and isn't embraced by all. That's why banks aren't being required by Check 21 to accept electronic images. But if they don't, they must accept a substitute check. This will be a sort of two-sided photocopy, with the check slightly reduced in size to make room for a notice that says the substitute is a legal equivalent of the original. If the paying bank prefers not to accept an image, the depositing bank can arrange to send the image to a place near the paying bank where a substitute check can be printed and then forwarded to the paying bank. In these cases, at least the cost of transporting the check across the country can be saved.

The substitute check has drawn some opposition from consumer groups. They're afraid that with a

"real" check and a substitute check in existence, checking accounts might be debited twice. Such groups also worry that consumers will have difficulty obtaining their canceled substitute checks, and then have even more difficulty using them as proof to their creditors that the payment was made.

Consumer groups also want to know when they get to share in the savings. As with any new technology, that may take a while. Depository institutions must either buy imaging equipment or outsource such work. Then, they will have to keep two systems going—paper and electronics—for at least a while. True efficiencies will occur only when everyone embraces imaging.

Despite these concerns, there should be no question that the new system works. The Fed and a few others have been processing electronic images of checks for several years already. Any kinks can be worked out, just as they were with credit cards, debit cards, ACH and other forms of electronic payments. In the end, check imaging will lead to a more-efficient payments system, which is good for the economy overall.

William Poole