

An Image-Enabled Back Office Puts Your Bank in the Lead with Check 21

Check 21, formally known as The Check Truncation Act of 2003, will gradually reduce the processing of paper checks by enabling banks to truncate forward and return checks. The industry expects to reduce processing costs by as much as \$2 billion annually as a result

Banks planning to take advantage of Check 21 already know that one of their most pressing concerns is reengineering the back office. While many institutions are already capturing and archiving images, most still rely on paper for returns, adjustments, exceptions and research. And as early image exchange pilots have demonstrated, an image-enabled back office is essential for justifying the cost, and achieving the full benefits, of check truncation and image exchange. From a cost reduction standpoint, electronifying the exceptions, returns, and adjustment flow will be as important as electronifying the forward presentment flow, so planning for an image-enabled back office should begin now.

While each institution must determine its own business case and implementation pace for image exchange, the reality is that all banks, whether they intend to be a Check 21 player or not, must have systems and processes in place to begin accepting and processing Image Replacement Documents (IRDs) in lieu of checks in about a year. At the same time, they will need to ensure they are meeting the requirements set forth by Check 21 regarding the re-crediting of improperly charged transactions (Expedited Re-credit).

For proactive banks that embrace the spirit of the legislation, the rewards will be enormous. In addition to reducing paper handling, transportation costs, check processing and clearing expenses and fraud risk, Check 21 will enable better funds availability, speed the collection of NSF items and enhance customer service in the bargain.

Exception Processing

In a post Check 21 environment, exception processing will be more rapid, more cost effective and less error-prone. Banks will view images of exception items, make pay/no-pay decisions

based on those images, return them electronically via an image exchange file (R-note) or image replacement document (IRD), and never handle the original paper again. Because exceptions will be detected earlier, some of the exception processing workload will become a Day 1 operation.

Return Processing

The business case for image exchange in the returns area is easy to make, because the savings will be sizeable. Banks of first deposit will receive R-note files or files of return IRDs that can be printed or processed electronically. If an item needs to be charged back, the bank can send an image of the item for decisioning, or an IRD if the customer requires paper. The return letter can be generated and printed with the IRD eliminating the need to sort the items. When re-presenting an item, banks will be able to trigger re-clear IRDs to be automatically created on a certain date, like RCK processing today, to increase the chances that the item will clear successfully. In short, return items will clear sooner, risk will be notably reduced, and both banks and their customers will enjoy earlier notification.



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Adjustments and Research

In anticipation of Check 21, banks need to develop processes to handle Expedited Re-Credit and Photo in Lieu adjustments, as well as research using IRDs. The payoff, however, is as dramatic as in any other back office area where rapidly available images are used instead of paper and microfilm.

Fraud

With Check 21, the use of IRDs will dramatically shrink the check clearing timeline, allowing banks to reduce losses even further. Suspect items will be available for review much sooner, allowing investigators to discover fraud more quickly and make no pay decisions and identify closed accounts earlier in the process. Check kiting will be greatly reduced and other types of fraud, such as account takeover and identity theft, will be much harder to accomplish. Since suspect items will be returned more quickly using electronic methods, financial institutions may also see incremental gains in NSF fees.

Ensuring Image Quality

Financial institutions already depend on high quality images for a wide range of internal processes, but under Check 21, it will become a paramount concern. If the quality of an image or substitute check is in doubt, the institution that provided the IRD will be liable.

Going forward, capturing banks must ensure the quality of images in their archive in case a problem arises with an item. Banks will also need to monitor the images they receive, and put systems in place for doing reject repairs on poor quality images. And, in addition to creating legible IRDs, processes must be created to ensure that images on IRDs match the corresponding MICR information.

Check 21 Rewards Will Beat the Risks

Many of the back office enhancements needed to process IRDs and conduct image exchange in the future can be accomplished today, with proven technologies that are already achieving dramatic cost savings and productivity improvements for financial institutions. Now is the time to deploy image-enabled systems for returns, exceptions, adjustments, research and fraud detection. In the long run, banks have everything to gain from these investments. Check 21 is truly a race in which everyone can win.

