

Banking on Check 21

It's official. Check images = paper checks. The law colloquially known as Check 21 became effective on October 28, 2004, allowing financial institutions to legally exchange check images instead of hauling checks across the country, delivering significant cost savings and risk avoidance for the bank.

As a result, people who handle checks, including banks and businesses that accept checks, have become a market for solutions that transform paper checks into transmittable and storable electronic files.

System integrators have the chance to provide such solutions by working with banks to provide internal infrastructure to digitize, store and transfer check images. They can also represent banks in their IT relationships with depositors, currently a sparsely populated channel occupied by branch automation integrators.

Open Season

With little specification in the bill, banks are free to set up imaging and transfer solutions to their liking, but many need outside expertise. "There are a fair amount of infrastructure, roles and standards not in place," notes Fred Redick, business manager for Epson America.

The nation's largest banks have already started down this path, seeing imaging as a way to grab commercial customers since check images remove the need for physical proximity. Now regional and community banks are battling back by seeking their own solutions. Some are currently in pilot mode, using their internal sales forces and a technology partner. However, "banks don't want to be in this business forever," says Epson's Redick. "They want system integrators and resellers to put systems out there, but they don't have a tremendous knowledge of the VAR population."

Banks were expected to first deploy check-imaging solutions centrally, then to branches, and finally to commercial customers. "But it's been the opposite," says Jack Malinkowski, chief technology officer and chief operating officer for Benchmark Technology Corporation, a provider of end-to-end bank branch technology solutions. "Banks will take a while to deploy internally. They get immediate benefit if they extend it to the customer first, because they can

control when to cut that customer over to check imaging. They learn from those experiences and build on them until they can handle images confidently."

Candidates for merchant solutions include a bank's high volume check customers, such as retailers (particularly grocers), service companies and property management companies. Merchants will need to send images to banks since they're ineligible to send them directly into image exchanges or the Federal Reserve Bank.

This nascent market will evolve as others have, with initial solutions proprietary to the bank. But eventually standards are expected to offer the merchant more flexibility to find the least-cost path for a given check.

For now, here's what Check 21 means to the merchant:

- ▶ Avoiding physical transportation and some handling of paper checks (depending on the processes they deploy)
- ▶ Faster availability of funds
- ▶ A possible increase in check costs, despite banks' savings (few expect a discount for electronic transfer)
- ▶ Installation of check imaging and storage systems at POS or in the back office (some feel images should be made at the earliest possible point; others say a back office implementation is more efficient)
- ▶ Liability for the quality of the check images

Interestingly, Epson's Redick sees Check 21 as a booster to an existing check technology, Electronic Check Conversion. "Now that we're in the Check 21 era, all of the obstacles to getting to Check 21 means the pricing disparity is becoming more apparent. The fact is, for several years ECC is going to be the lowest-cost per check way of processing a check." He also believes ECC at POS is a great starting point for a system that could be expanded to a Check 21 imaging system later. VARs need to educate themselves in order to help customers determine the best path.

In the meantime, VARs should explore their options in becoming the delivery channel for Check 21 solutions. "The challenge is to develop products that allow the bank to extend value and provide efficiencies to the merchant," says Benchmark's Malinkowski. **V**

Tip Sheet

1. Seek education on Check 21
2. Explore options in becoming delivery channel
3. Make yourself available to banks
4. Develop solutions that help banks extend value to customers

WRITTEN BY LISA TERRY

