



The Role of Check Images in Internet Banking: An Introduction

By Madeleine Tausk

Email: MHTAUSK@AOL.COM

Madeleine Tausk is employed at Bank of America, NT&SA in San Francisco, California as Assistant Vice President / Project Manager. Her projects focus on check image technology implementations. Ms. Tausk is also a candidate for Doctorate of Business Administration at Golden Gate University in San Francisco, California. Her focus is in the area of alternative delivery mechanisms in Banking.

ABSTRACT:

In the JIBC, there is considerable discussion and articles that address Electronic Banking and Commerce in general, but very few that present information relative to specific products that may be available for consumers and businesses over the Internet. The purpose of this article is to address specifically one of those products, checks.

Statistics indicate that check volume is at a peak and continues to grow. This trend is attributed to many factors. The question is, given that we will have to continue to deal with paper checks, at least in the near future, how might we integrate them into the non-traditional forms of banking? This article suggests transforming the paper checks into electronic information, or digitize them. Digital technology will not only offer integration of this traditional payment form with alternative delivery systems, but it will also enable more efficient processing of checks.

The future of alternative forms of banking looks promising and checks appear to be in the equation for some time to come. Image technology provides the opportunity to integrate these two in a harmonious relationship for the banking customer.

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Why Discuss Paper Checks?

In the JIBC, there is considerable discussion and articles that address Electronic Banking and Commerce in general, but very few that present information relative to specific products that may be available for consumers and businesses over the Internet. The purpose of this article is to address specifically one of those products, checks.

The Future of Paper Checks

It has been widely accepted that along with the advent of Internet banking, bank by phone, stored-value cards, and other such alternative banking delivery methods that the traditional check is potentially on it's way to becoming extinct. In fact, statistics indicate that check volume is at a peak of 63 billion, and the number of checks is expected to

grow about 3% per year

There are several reasons for this increase. The number of payment transactions in this country is at an all-time high. Since checks are a form of payment, their volumes have increased as well, although check writing as a percent of overall payments has decreased. Some payments that originate electronically, (i.e. on-line bill payment), are ultimately completed by checks written by the providers of these services.

Introduction to Image Technology

Given that we will have to continue to deal with paper checks, at least in the near future, how might we integrate them into the non-traditional forms of banking? One option is not to integrate them. Simply stated, paper forms of payment remain paper and are accessed through traditional methods, (paper checks returned or via microfilm). Another option is to transform the paper checks into electronic information, or digitize them. Digital technology will not only offer integration of this traditional payment form with alternative delivery systems, but it will also enable more efficient processing of checks.

By definition, imaging is digitizing information, (transforming information into a series of ones and zero's) for storage and retrieval. Digital check images can be stored in the same way as digital data, (i.e.: written to magnetic disk, optical platters, or to tape). Check imaging is not new, but technological advances in microprocessor speed, storage, telecommunications, data compression algorithms, and artificial intelligence pattern recognition have assisted in making check imaging more practical and possibly profitable.

Operational Benefits to Digitized Check Information

Banks process millions of checks per day. Conventional processing of checks involves reading MICR (Magnetic Character Information Recognition) line information on items to determine issuing bank. If the issuing bank is one other than the bank of {first deposit}, that check must be physically delivered to the issuing institution to collect the associated funds. Banks in turn withdraw the appropriate funds from customers accounts. Banks spend a considerable amount of money delivering checks to the issuing financial institutions so that the institution that accepted them can collect the funds. The money that is in limbo while this is happening is money that the check issuing institution can invest. This is currently worth millions per day. If the check images were electronically presented in lieu of the physical paper, checks could be cleared instantly. Checks could be truncated at bank of first deposit and instead of flying checks, images could be electronically transmitted among financial institutions, the Federal Reserve Banks included.

Banks also spend a considerable amount of money storing paper checks and copies, (microfilm). By law, banks must retain this microfilm for a minimum of 5-8 years, (varies state by state). The cost is magnified considering the expense to perform research and inquiries based on this microfilm. Truncating checks and utilizing images can drastically reduce the research functions related to checks. Image technology alone does not bring about all of these benefits. Workflow plays a significant role. Check imaging offers the vehicle by which workflow can be implemented to achieve notable processing benefits.

Potential of Digitized Checks in Internet Banking

Finally, there are options to interface with alternative delivery mechanisms for banking. Because check images can be stored on a variety of media, this creates the potential for check archive systems where check images are stored in a repository. Any authorized user, internal or external to the bank could access a picture of a check in this archive. The Internet provides an extremely viable delivery mechanism for customers external to the bank. For those who still have

a requirement to see all their checks with a bank statement, actual checks can be eliminated by digitized pictures enclosed with statements.

The future of alternative forms of banking looks promising and checks appear to be in the equation for some time to come. Image technology provides the opportunity to integrate these two in a harmonious relationship for the banking customer.