

Check 21 and Digital Check Imaging

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With the new Check 21 legislation underway, there are still many loose ends to tie up when it comes to digital check imaging requirements. Specifically, how effectively will a check scan electronically to include vital security features that aid in the prevention of check fraud?

Currently, banks across the nation are facing issues such as void pantographs and watermarks not being captured in the electronic version of checks. Additionally, certain check stock colors are also creating problems. So, what are the solutions being offered by the banking industry and what are the guidelines that businesses should follow in remaining compliant with Check 21?

Image-survivable security is a hot topic for the banking industry. It refers to the security measures used on an original check to ensure the accurate replication into an electronic image. The goal behind image-survivable technology is for it to be able to accurately differentiate between a fraudulent and original check item during the conversion process from paper to digital.¹ However, such technology is still evolving and continues to be a delicate process in the banking world.

Ed Herman, director of global payments for EDS Corp. says two technologies that are on the horizon are digital watermarking and bar codes. As checks are scanned, "digital watermarking will embed certain key information into the face of the check that can be decoded." Similarly, Herman says bar codes will be added as a check is imaged, which will contain information that allows companies to detect fraudulent checks.²

In the meantime, some companies have decided to take matters into their own hands. "Many corporations have taken the extra step of buying special check stock that has significant anti-fraud capabilities built into that stock," says Tim Sloane, Director of the Debit Advisory Service for Mercator Advisory Group. Many of the anti-fraud capabilities are lost when a check is converted into an image, he says. Microprinting is an example where "the very act of scanning eliminates the microprinting."³

Aldertech International Inc., the leading provider of Security Print Technologies in North America, believes "the VOID Pantograph is always the first line of defense against fraud." With Check 21's electronic checks, "the new check images must scan clean; the VOID Pantographs must drop out and not be seen in the scan." Aldertech International's VOID Pantographs meet ANSI X9.7 specifications, and they pride themselves on being the most effective anti-counterfeit print technology available in the world.⁴

So what are some industry leaders doing to ensure the security of these new digital checks? Experts say that most of the nation's top 50 banks have significantly invested in check imaging technology. "Bank of America has made investments in check-scanning devices and imaging and is evaluating whether to roll out that technology in its branches, automated teller machines and regional check-processing centers," says

John Feldman, an image transactions executive in the technology and operations group of Bank of America Corp. in Charlotte, NC.⁵

Although different banks are at different stages of the game in developing and adopting check imaging technology, the vast majority of institutions are working side-by-side to ensure that the crucial security measures in checks are intact, while also remaining compliant with the new Check 21 legislation.⁶

Positive Pay and Check 21

Along with Check 21 comes the subject of positive pay, a key tool in preventing check fraud. The positive pay process consists of a company issuing checks in their normal procedure, while also submitting an electronic file of the issued check data to the bank. When checks are received for clearing, the information is compared to the positive pay file and payment is only made when there is a match. If there is not an exact match, the bank alerts you to the discrepancy of a possible fraudulent check.

SecurePay, from AP Technology, is the industry's first stand-alone, universal, client-side positive pay solution. SecurePay is the easiest and most economical way for any size business to implement positive pay. It works across virtually all accounting applications and computer platforms to create and transmit positive pay issue files which meet bank requirements.

References

¹ *Check 21 and Image Security*. Dan Thaxton, The Standard Register Company, and Frank W. Abagnale. March 2004. http://www.abagnale.com/pdf/check21whitepaper_c.pdf

² *Treasury & Risk Management Express*. Volume 3 Issue 19. 26 October 2004. <http://www.treasuryandrisk.com/eletter/archives/treasuryandrisk/66.html>

³ *Treasury & Risk Management Express*. Volume 3 Issue 19. 26 October 2004. <http://www.treasuryandrisk.com/eletter/archives/treasuryandrisk/66.html>

⁴ *Check 21 Compliant Void Pantographs, License for Commercial Printers, Special Promotion Ending on September 8, 2004*. PR Web. 01 September 2004. <http://www.prweb.com/releases/2004/9/prwebxml153871.php>

⁵ *Checkpoint for Check 21*. Lucas Mearian. Computerworld. 25 October 2004. <http://www.computerworld.com/industrytopics/financial/story/0,10801,96843,00.html>

⁶ *Paper to Pixels*. Kenneth Cline. BAI Banking Strategies. Volume LXXX Number II. March / April 2004. <http://www.bai.org/bankingstrategies/2004-mar-apr/paper/>