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## Financial UPDATE

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## Check 21 Growth Shows No Sign of Slowing

In 2006, the Atlanta Fed processed 10 times as many Check 21 transactions as it did in 2005: more than 166 million items compared with more than 16 million previously, according to the Bank's statistics. In December 2006, the most recent month for which figures are available, volume grew to more than 24 million transactions, up from more than 4 million in December 2005.



### Law eliminated need to ship physical checks

The Check Clearing for the 21st Century Act—Check 21 for short—facilitates the electronic exchange of checks by allowing banks to send digital images into the processing system instead of the original paper checks.

The electronic processing that Check 21, which took effect in 2004, allows means financial institutions don't need to physically ship paper checks around the country, saving substantial money and considerable time getting deposits into institutions and ultimately into business and consumer accounts. The business case for Check 21 has become more compelling as evidence mounts of its benefits, said Fred Herr, senior vice president in the Fed's Atlanta-based Retail Payments Office and a member of the Federal Reserve's Check 21 Steering Group.

### Growth of electronic processing eclipses checks

Several forces are converging to propel Check 21 growth. Most high dollar-value transactions are now primarily handled electronically, so the cost of processing mostly small-value paper checks rises, Herr said. "So all these dynamics are coming together, and we think we'll see significant growth continue in 2007 and carry on through the first half of '08," Herr said.

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### Process still evolving

To date, far more banks are depositing, rather than receiving, checks electronically. Receiving Check 21 transactions is a more complicated undertaking requiring more extensive technological upgrades, Herr explained. Thus, it takes longer to realize the benefits of electronically receiving checks versus depositing them.



Nonetheless, at the Atlanta Fed, Check 21 transactions received by institutions are growing as fast as deposit volume in percentage terms although from a lower starting point, Herr said.

*Fred Herr discusses issues related to Check 21.*

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