

# [Check processing before check 21 legislation](https://assignbuster.com/check-processing-before-check-21-legislation/)

[Supervisor Check Processing before Check 21 Legislation The Check 21 legislation is useful for s as they are able to clear their Checks electronically instead of paper. This Check processing system is remarkably quick as compared to previous clearing system and it is expected that previous clear clearing system will be over soon (Bauer and Gerdes). This legislation is implemented after 9/11, when air transportation was grounded and thousands of Checks could not be cleared. Clearing was dependent after Checks were arrived at the paying banks, and timely delivery was reliant on air carrying. Before Check 21 legislation, previous law was made in a way that banks were forced to accept “ Presentment” that was a unique check made of paper before transferring funds to other accounts. The old Check processing system was exceedingly slow comparing to the electronic system and customers had to wait for their Check clearance for two to three days (Bauer and Gerdes).
The check clearing process before legislation 21 was complicated as it requires Federal Reserve to receive Checks from banks where they have been deposited, sort them in an organized manner, adding the amount of payment for deposited banks and delivering Checks from where there were drawn. This was the main source of income for Federal processing as forward items used to generate profits. Before legislation 21, paper Check accounted for more than 60% of the noncash payment in the year 2000. The Federal Reserve System used to process large number of paper Checks physically, but even before the emergence of legislation 21, the paper Check processing was declining because of its complications. The customers used to face different types of problems before this legislation, and they were not properly secured against unauthorized payments of paper Checks (Wheelock and Wilson). This legislation brought new measures of safety that the previous system was unable to implement. There was a fraud case for Hauser Contracting Co. in which a thief obtained Check of stock that was used for paying employees. He made many Checks of payroll and withdrawal more than $24, 000. These types of fraud were particularly common when paper Checks was used by the banks (Abagnale). The banks previously were not used to give any canceled Checks back to the customer, and they were only able to see the documents of Checks that were paid. Another disadvantage of the previous system was that banks were not able to processed claims made for paper Checks and they used to take more time for investigation. The electronic Check system after legislation 21 made easy for customers to process their claims (Wheelock and Wilson).
The new negotiable instrument namely Substitute Checks have been used by the banks for faster processing of Checks (Bauer and Gerdes). The substitute Checks work in such a way that an image is captured from the front and back of the Check, and then it is transferred electronically to the desired bank. Before legislation 21, substitute Checks were not legalized, and they were not commonly used by the bank. This Check system allowed banks to make their processing more effective and efficient. The physical movement was very common before this legislation and banks had to rely on their transportation set up. The Check processing system will continue to become more innovative as time passes by, but legislation 21 is a landmark for overall processing systems for the banks, as it has changed overall scenario of banks (Bauer and Gerdes).
Works Cited
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Wheelock, David and Paul Wilson. " Trends in the Efficiency of Federal Reserve Check Processing Operations." Federal Reserve Bank of St. Louis 86. 5 (2004): 7-19.