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Preparing for “Check 21”

Recently passed federal legislation allowing electronic check clearing won't take effect until late October 2004. Nonetheless, the sweeping changes that it will bring to banking mean that tellers and their customers need to start preparing for a new way of doing business.

The bill, which is officially called The Check Clearing in the 21st Century Act but is more popularly referred to as “Check 21”, is intended to drastically pare the paperwork involved in clearing the tens of billions of checks that are processed in this country each year.

The banking industry has long advocated changes to streamline check clearing, in large part because it sees electronic processing as a way to cut costs and increase efficiency. Pressure to switch to a paperless system intensified in the wake of the September 11, 2001, terrorist attacks, when planes were grounded for days and banks were forced to use ground transportation to move checks, which slowed and disrupted processing for days. Check 21 is expected to drastically reduce banks' reliance on courier services.

Some major implications of Check 21 include:

- The sending banks and other financial institutions will be able to create a digitally created payment instrument known as a “substitute check” or an “image replacement document” and will not physically transport the paper versions to other banks. The substitute check becomes the legal equivalent of the original.

- The substitute check will include a reproduction of the front and back of the original check and the statement: “This is a legal copy of your check. You can use it

in the same way you would use the original check.”

- Truncation will be allowed at the bank of first deposit, well before the check gets to the paying bank, or at a centralized location. The paper check will no longer go through the clearing system.

- It will no longer be necessary for banks to have specific agreements with other institutions to electronically process checks.

- Customers will not necessarily get access to the funds that they deposit any sooner under the new system, because Check 21 does not shorten check hold times.

- If there is an error when the check is converted to an electronic transaction, the customer is entitled to a credit for any disputed funds for 10 days.

Check 21 will inevitably cause banks to rethink and reconfigure technology and staffing needs. Additionally, bank tellers will have a two-pronged task in that they must bring themselves up to speed on new procedures and help their customers adjust to the new way of banking. The transition will undoubtedly bring some rough patches, but it's important for tellers to accept changes in compliance as a part of the day-to-day life of anyone working in the bank, says Linda Eagle, president of the Edcomm Group, a NY- and Fort Washington, PA-based company that provides educational programs to banks and other businesses.

“Check 21 will bring a lot of good changes,” Eagle says. “I think it behooves the bank to present it and other changes in compliance in a very positive way—that any changes that happen in compliance happen to the benefit of the bank and for the benefit

of the customer,” Eagle says.

Formal training programs will help tellers understand and implement new procedures, but it's important that training materials and documentation are convenient to access and search so that bank workers can refer to them at any time.

Tellers should recognize that they will have to master some new technological skills and therefore be prepared for some temporary confusion or frustration. “There are always glitches, but hopefully, the glitches will be behind the scenes and not in front of the customer,” Eagle adds.

Furthermore, tellers should anticipate that many customers will have questions and concerns—and undoubtedly some anxiety—about the legitimacy and implications of electronic check clearing. For example, many customers who routinely practice the illegal yet common practice of check floating, writing a check before sufficient funds to cover it have been deposited in the account, may be in for a surprise when their checks start to bounce. Tellers who prepare their customers ahead of time for such changes in the system will undoubtedly prevent some unpleasant experiences.

Eagle gives the following advice to tellers looking to smooth their customers' transition to electronic check clearing:

- **Always take the perspective of the customer.** “Realize what it is that the customer is concerned about,” Eagle says. “You're dealing with their money, and the customer is afraid his or her money is going to the wrong place and won't be in his or her account, for example. You need to assure them that their money is fine.”

- **Outline the new procedure simply and clearly to them.** Demonstrate with tangible visual aides: “This is what the check was, this is what you're going to have now.”

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• **Emphasize the positive aspects of the new system.** Be prepared to mention some beneficial aspects to the customer, such as new efficiencies, fraud-protection abilities, cost-savings, or new services that your bank may offer. Customers in rural areas, for example, may be able to enjoy extended deposit hours because banks will be able to transmit the images of the check through the check clearing process rather than relying on couriers to pick up the deposited check at remote branches.

• **Keep “cheat sheets” on hand.** A small hand out, perhaps the size of an index card, with three or four points on it will help your

customers understand and accept the new system. According to Eagle, “It should be something that says: ‘You may be hearing about this. Here is what used to happen to your check; this is what will happen now. Your money is safe. Your check is as good as ever’, that kind of thing.” The customers can refer to the hand out when they’re calmer and back home.

• **Be ready to give extra reassurance to older customers.** Elderly people who have been used to receiving their cancelled checks in the mail all their lives may be particularly concerned about the changes that Check 21 brings. Take extra care to under-

stand their concerns and to try to assuage those worries.

“The number one thing that will make the customer comfortable,” says Eagle, “is a competent, confident teller who explains things clearly to them.”

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