

ITWP 2600 - Written Exercise Chapter 11

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In one or two paragraphs, explain what the Check 21 law facilitates and explain what it was intended to accomplish.

Check 21 is related to how banks are allowed to handle processing checks used for payment. In the past banks were required to work with clearing houses to send a physical copy of a check. This was inefficient and would result in there being long delays to process the order and post the payment. In most cases banks would allow the funds to be utilized in the meantime, essentially loaning the money for the time period that is referred to as the "float". Sometimes they would have a digital copy of the check in the meantime to verify it was legit. You can imagine with millions of checks being in transit, this would result in a lot of money being tied up before it was actually cleared. The goal of Check 21 or Check Clearing for the 21st Century was to reduce or nearly eliminate this float. This law allows banks to process all checks digitally through scanned images which greatly reduces the float time and can allow most checks to clear almost instantly. The scanned image is processed through a clearing system and is then posted immediately to both banks. Ultimately, this law has greatly improved banking efficiency.

Source:

Electronic Commerce by Gary Schneider