

Homework 11. Chapter 11, Exercise 11 Page 499.

11. Explain what the Check 21 law facilitates and explain what it was intended to accomplish.

First, I need to explain 2 things. After my father retired from 24 years in the US Air Force, he attended night school for a few months and became a computer operator. This was in the days when all computer work was 3rd shift work running batch jobs. We started work at the largest bank at the time in Springfield, Massachusetts. Of course, a vast majority of the work was clearing all the checks each day. My father worked at basically this type of work until his full retirement. He cleared paper checks for many years. He had the one story of never going home until everything balanced. The story also includes the time when he left work the 1 and only 1 night when he could not get the numbers to balance. He would immediately follow that up with being able to find the error first thing upon returning to work the following evening.

Next is my mother. My mother was a bookkeeper. She ultimately started work for one of the largest Life Insurance companies in the country, which is Massachusetts Mutual Life Insurance in Springfield, Massachusetts. Ultimately, she went to work in the float department. What is the float? It is the time between when the company receives the check in the mail from the policy holder until the Insurance Company is required to post the check as being received and booked. This “float” is one of the largest money-making operations of the Insurance Company. Typically, on an hour-by-hour basis, they could tell you exactly how much money was in the float. What were they doing with that money? From the stories my mother tells, it was mostly invested in the Stock Market on Wall Street and needed to buy and sell stocks quickly based on how much money was in the float. They had to be sold and posted the amount of money in stocks available each day. A very nerve-racking job. High stakes leadership at the insurance company knew the risk of the stock market falling in value and they made daily decisions on all of this.

So, what is Check 21? Both my mother and my father could tell you this was the worst idea ever created. Mostly, of course, this is because it would put them both out of a job.

Check 21 (modern checking for the 21st century) first and foremost is about taking a picture of the check and allowing that picture to be banking official record of the check. Primarily so that the paper checks did not need to move around any longer. Strike 1.

Next, check 21 was created to greatly reduce or eliminate the float. The time between when you had to say you had the money and the time you moved the official paper to say the money moved was shortened. The float was reduced to the speed at which one computer could communicate with another computer. Strike 2.

Why was check 21 created? Because of both of these issues primarily. The cost of moving paper checks was becoming overwhelming. The amount of money at any one time in the float of the money system overall was HUGE!

Sources:

“Electronic Commerce Twelfth Edition”. Gary P Schneider. Cengage. 2015. Chapter 11, Page 489.

<https://www.federalreserve.gov/paymentsystems/regcc-faq-check21.htm>