

**Statement of Lee Schram,
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Corporation**

**Testimony Before the
House Sub-Committee on Financial Services**

On

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In

Rayburn House Office Building, Room 2129

At

10:00 A.M.

“H.R. 5414 (Check 21) ”

Chairman Bachus, Representative Waters, and members of the Sub-Committee, thank you for the invitation to testify.

My name is Lee Schram, I am Vice President of Payment & Imaging Solutions at NCR Corporation, a global provider of financial and retail technology solutions with over 100 years of experience in consumer transactions. NCR is the world's leading provider of ATMs and a global market leader in retail point-of-sale products. For over a decade, NCR has been providing imaging technology to banks and our solutions touch more than 70% of check transactions processed in the U.S.

Mr. Chairman, I represent NCR as well as a larger consortium of high tech companies including IBM, Unisys and others. In fact, I am submitting a letter from the Information Technology Industry Council in full support of House Resolution 5414. This legislation will make the check payment system more efficient, user-friendly, and provides clear direction and adequate protection for all parties involved.

Imaging technology is critical for successful bill implementation. Thus, it is important to understand the advanced state of this technology to demonstrate

its readiness and dispel concerns. Check imaging was introduced in the late 1980s. Most major and over 50% of community banks have been using it for over a decade. Internationally, many countries truncate checks. Imaging technology is readily available, secure, and reliable today. Image quality is superior to checks, better than microfilm, and each image can be uniquely identified and linked to the original check.

While the required technology is ready, concerns have been raised which I will address. First, while consumers may not be able to readily access the original check, image technology provides them with more options to access information including on-line banking and image statements while maintaining an audit trail to the original check transaction.

A second concern is the number of times a substitute document may be converted to a digital check. Ideally, truncation would occur at original point of presentment with no subsequent conversion. However, at least initially, substitutions will occur, but digital checks can be reliably created from substitute documents. Auditing processes exist to prevent duplicate entries prior to account posting thereby maintaining consumer protection.

A third concern, check readability, is eliminated as technology allows these images to be displayed in a wide range of sizes to meet consumer needs.

The benefits of the bill far outweigh these concerns. Changes in banking laws, written in an era when checks were cleared across town, not nationwide, have not kept up with technology advances, resulting in a costly, time consuming, and fraud-ridden check clearing process. Today, a check presented to a retailer or a bank is typically handled over 15 times.

Check 21 implementation would utilize technology advances to streamline the payment process and at the same time provide new, value added services to the consumer, like image enabling ATMs in more convenient locations.

With Check 21, retailers, where over one-third of all consumer checks are written, will know within seconds if a check is good and fraud free.

Consumers and retailers will gain quicker access to deposits as transactions clear electronically in minutes not days. Image-based transactions can be archived for years and quickly accessed by customers on-line via the bank's web site. For consumers not having on-line access, bank service centers will access images instantaneously upon request. The elimination of moving paper checks around the country will take significant cost out of the system -

- from couriers transporting checks to mail handling. One major bank spends \$25M annually on courier service while another spends \$20M opening envelopes. Market forces will ensure that consumers realize the savings that result from imaging. H.R. 5414 will also virtually eliminate payment system logistical interruptions such as the grounding of commercial air service for several days following 9/11.

NOW is the time to leverage advances in communications and information storage to facilitate more efficient payment clearing. The benefits of check imaging should not be withheld from consumers and financial institutions for another three years, as currently proposed.

NCR commends Director Roseman of the Federal Reserve and the Financial Services Committee staff who have worked in a cooperative manner to deliver a bill that is balanced, protects consumers, and recognizes the immediate and future needs in the payment system. Through existing proven technologies, consumers, financial institutions, and businesses can enjoy the benefits of checking accounts with a more effective payment system.

Mr. Chairman, I thank you and the Subcommittee for your time & attention.