



IMAGE INDUSTRY BEST PRACTICES DOCUMENT

Image Processing White Paper – Opportunities for
Accelerating Amount Difference Handling

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i3G: Image Industry Best Practices Document

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EXECUTIVE SUMMARY

Introduction

The Check Clearing Act for the 21st Century (Check 21) has resulted in improved efficiencies, process quality, and timeliness within the check clearing environment of U.S. financial institutions. The migration from paper to image is an industry “game-changer”, but like any changing environment, issues remain plentiful, and in some cases, new issues have arisen. This standard supports efforts continuing to perfect the process.

As financial institutions move toward identification of errors during the capture of items, a solution for handling amount differences (Encoding /Keying Errors, Mis-Reads, Code Line Mis-Match) in a more timely and efficient manner needs review. Although technology has expedited check processing, the industry continues to suffer from the most basic of process errors – the encoding or amount error. Image exchange creates opportunities to resolve these errors in a more expeditious manner, potentially minimizing customer impact and reducing failure costs.

History

Prior to the exchange of images becoming standard practice, checks were exchanged via paper where the amount of the check was manually processed through proof and was MICR encoded on the check. Encoding/amount difference errors were an advent of this process where the MICR amount on the check was not for the amount written on the check. Errors were detected through back-office balancing functions to some extent, but also were identified by customers.

With the exchange of images, fewer checks are being encoded. These types of errors are still occurring, but instead of the MICR amount encoded being different than the check written amount, it is the record amount in the image file with the check written amount that can be different.

Furthermore, items continue to be proofed and captured with mis-reads occurring, mis-stating the amount of the item in the 25 record which is the information used to post the item. Financial Institutions need to work toward developing “day 1” solutions for handling misreads.

WHAT DO MISTAKES MEAN?

Customers are negatively impacted with the posting of checks processed for the incorrect amount. The mis-posting of check amounts is exacerbated within the industry due to the expeditious check processing with image exchange. Customers are receiving encoding errors faster in an image-based processing platform! There is no current industry wide standard of ensuring checks are processed for the written amount by the customer prior to posting of the items to the customers’ accounts. This causes customer dissatisfaction with their financial institution. These problems can affect both collecting and paying financial institutions (transit and on-us items).

Currently, identification of these errors is determined by the customer, be it the drawee or the depositing customer. Financial institutions that are able to identify and correct amount errors prior to posting to their customers’ accounts, have a competitive advantage with improved customer service. However, it goes beyond insuring that a financial institution’s customer is debited correctly; the resulting adjustment from the correction must be passed to the presenting institution timely in order to insure the original depositor’s account is also corrected should they have been credited incorrectly.

It is computationally expensive to interrogate check images in an efficient and timely manner. Additionally, this technology is not perfect and can become a hindrance to image check processing throughput. Nonetheless, in the interest of pursuing the highest quality product delivery to customers, financial institutions should agree that a standard incorporating a universally acceptable level of integrity assurance be adopted.

Proposal for Accelerating Resolution of Amount Difference Errors between Financial Institutions

Currently, financial institutions will respond to amount difference errors by using methods dependent on whether a clearinghouse or depository relationship exists. An amount difference received via a clearinghouse relationship is typically handled by sending the difference to a “day 2” support function, who will adjust the source via clearinghouse channels, effectively delaying notification of the error to the depositing institution. If the amount difference is received via a depository relationship, some banks’ “day” 1 functions will adjust the image cash letter or pass the amount difference to a “day 2” function who will adjust the customer.

This paper recommends that financial institutions move to a “day 1” correction process, by creating cash letter correction advices when amount differences are identified during initial capture/processing for items exchanged for payment through clearinghouses, direct presentment or the Federal Reserve mirroring processes in place for depository relationships .

This may be accomplished in various ways.

Utilize the current Administrative Reason NCI settlement and information sharing process to include all three types of amount errors that could occur, by using either an ECPD file exchange or a spreadsheet notification when record amount does not equal the amount on the actual image. For example, an item is listed in an image cash letter for \$200.00, but is actually a \$20.00 item. The receiving financial institution would send a \$180.00 administrative reason back to the sending financial institution, rather than the adjustment going to a “day 2” function for research and chargeback

Create cash letter correction advices which lists the details of the amount error. Items with incorrect amounts charged to a receiving financial institution should be listed along with the charged amount, and corrected amount information. Cash letter settlement between the institutions will be adjusted for the amount difference errors.

In addition, it is inappropriate to utilize the current NCI error code for amount difference errors. By definition, NCI is a Non-Conforming Image and amount differences are not bad images. New Admin Return codes for Code Line Mismatch-Amount Difference (AD), mis-read (MR), and encoding error (EE) are recommended.

CONCLUSION

The Federal Reserve and U.S. financial institutions continue to embrace migration to an image based payment system. The benefits are prevalent and indisputable.

The industry is still plagued with the most basic of processing errors – the amount difference or simple encoding error. Customers deserve better if not a bullet-proof solution for eliminating these errors.

Ultimately, placing this sort of assurance on both the incoming and outgoing functions of image exchange is ideal. Individually, financial institutions need to evaluate benefits for placing an amount difference verification on outgoing image cash letters, but at the minimum, an industry standard is needed to identify and settle amount differences between exchanging partners on an incoming basis with transparency to the customer.

In summary, i3G recommends the following best practices in handling amount difference processing errors between financial institutions:

1. Charge back the immediate source for the amount difference (greater than \$25.00) via a settlement process upon identification.
2. Charge back to the source within 1 business day of receipt of the ICL file containing the error.
3. Settlement occurs between institutions with limited customer impact

With all financial institutions using similar practices that foster the expeditious processing of amount difference errors, the industry can collectively mitigate payment risk and enhance customer satisfaction/loyalty.

ABOUT I3G

The Image Industry Interoperability Group, i3G, is a US financial services industry collaborative formed in 2008 by a small and diverse set of bank organizations with the mission to quickly solve for lingering exceptions and interoperability issues impeding check payment processing efficiencies. The group's goal is to eliminate a large percentage of industry processing exceptions with a few changes to industry operational practices and procedures. I3G members include Bank of America, The Federal Reserve Bank, Frost Bank, JP Morgan Chase & Co, Independent Community Bankers Association (represented by Midwest Independent Bank), Southwest Corporate Federal Credit Union, Sterling Savings, US Bank, and Wells Fargo. More information can be found about i3G and proposed industry solutions by visiting www.i3ggroup.com and [i3G's linkedin group page](#).

Other i3G best practices documents and industry efforts can be found on www.i3ggroup.com include:

- "Dealing with Duplicates" – An industry wide duplicate file notification system
- Bank of First Deposit Electronic Endorsements
- TIFF Tags
- MICR: Interrogating to populate X9.27 Record 25

CONTACT INFO

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