

CHEQUE TRUNCATION SYSTEM – CUSTOMER FAQ

What is cheque truncation?

Cheque Truncation System (CTS) is a system of cheque clearing and settlement between banks based on images and associated electronic payment data, without the physical exchange of the cheques.

How does Cheque Truncation work?

On acceptance of a customer cheque deposit, the collecting bank takes an image of the cheque and reads in the Magnetic Ink Character recognition (MICR) code line information from the cheque. This information together with the cheque amount is sent to the Paying bank through the Automated Clearing House for settlement.

How different is CTS from the current clearing Process?

The current practice of transporting cheques from all bank branches countrywide to the Automated Clearing House using courier services will cease. Banks will instead use telecommunications links between their branches to send the cheque data for settlement.

What does the Cheque Truncation System mean for customers?

The time take to transmit cheque data between banks will be drastically reduced. This savings in time will reduce in a faster clearing process, more accurate reconciliation of accounts and the reduction in paperwork will reduce the avenues for fraud emanating from cheque substitution.

A faster Clearing process will eventually lead to a reduction in the clearing cycle, ensuring that customers get their cleared funds sooner, and a general improvement in the liquidity of the economy.

What do customers have to do in the new Environment?

As part of the new System, cheques design standards have been changed to enhance image qualities as well as security features. As part of the new standards, all cheques in the CTS environment will be in one standard size. All currently existing cheque books will be replaced with new CTS compliant books that will be requested/ordered for by the customers from their respective banks in the usual manner.

How are these cheque books different?

The new cheque design incorporates a security watermark. Extensive use of new Ultra Violet sensitive paper, tamper-evident paper stock as well as Micro Text features on the cheques further enhances the security of the cheques. As part of the new standard, the cheque book size is 7 inches by 4 inches, is currently known as the corporate size.

Why is this change in size important?

This size of cheque is most suitable to contain enhancement in security features, as well as allow for the new scanners to effectively capture all the cheque details that will be transmitted in the electronic clearing process.

Is there a deadline for replacing these cheque books?

Yes. The last date that has been set for the current design of cheque books is 31st May 2011. After that the old cheques will not be accepted by banks.

What are the precautions required to be taken by the bank customers to avoid frauds?

The new CTS compliant cheques have been redesigned with advanced security features to identify alterations and fraud attempts. Customers are advised to use dark colored ink (blue or black) while drawing the instruments. Care

should be exercised in the use of stamps, so that it does not interfere with the clear appearance of the cheque image

What will happen if an old cheque is received after cut-off date?

Banks will decline to process the cheque and will request the customer obtain a CTS compliant cheque from the drawer.

How can customers be assured of security now that an image will be used in the clearing house?

The security, integrity, non-repudiation and authenticity of the data and image transmitted from the paying bank to payee bank will be ensured using encryption and other security techniques to ensure integrity of the data from one bank to another.

Is it possible for another bank to alter a CTS cheque image?

No. Any alterations on the image will be detected and the paying bank will return the altered image.

If a cheque is unpaid, will Customers get their cheque back as is the current practice?

Since the purpose of Cheque truncation is to stop the physical movement of the cheque, any cheques returned unpaid will not be returned to the customers. Instead the collecting bank will issue an Image Return Document to the payee. This Document will contain the image of the cheque, the payment information as well as the reason for return. The IRD will be sufficient advice of the unpaid cheque.