



CENTRAL BANK OF
TRINIDAD & TOBAGO

Payments Quarterly

Payments Quarterly is a newsletter on developments in the Payments System in Trinidad and Tobago

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In this edition of Payments Quarterly:

We continue to highlight the various Payments System Guidelines issued by the Central Bank of Trinidad and Tobago in 2012. In the June 2013 issue, Guideline Number Two on Registration and Operation of Non-Interbank Payment Systems was discussed. This issue focuses on key aspects of Guideline Number Three, the Operation of Payments Service Providers.

In keeping with the electronic payments theme in previous editions, the article on PSC Speaks offers some suggestions on advancing e-payments in Trinidad and Tobago from the perspective of the Payments System Council.

In the Operator's Spot, the operator of the local Debit Card Switch (LINX) System provides some facts on its system.

GUIDELINES FOR THE REGULATION OF PAYMENTS SYSTEM IN TRINIDAD AND TOBAGO

The Central Bank issued four Guidelines for the Licensing and Operation of Interbank Payment Systems in December 2012. In the March and June editions of the Payments Quarterly newsletter, Guidelines No. 1 and 2 were highlighted. In this issue we summarize Guideline No. 3 on the operation of bank and non-bank Payments Service Providers (PSPs) including Bill Payment Service Providers (BPSPs).

Payment services are those services that are necessary to support the issuance of payment instruments as well as the acceptance, clearance and settlement of the claims generated from the use of these instruments. Entities that provide these services are referred to as PSPs¹. PSPs include institutions licensed under the Financial Institutions Act, 2008 (FIA) to do the business of banking or business of a financial nature².

Bill Payment Service Providers (BPSPs) are third party agents that collect, process and remit bill payments to their clients or billers for an agreed fee. These agents provide a useful service by offering a viable alternative channel for making these routine payments, as they are geographically dispersed throughout Trinidad and Tobago, making them convenient collection points especially in rural areas where banking facilities may be less readily accessible. Some examples of Bill Payment Services offered in Trinidad and Tobago include **Surepay**, **VIA** and **Bill Express**.

Source:

¹ Payments System Guideline No. 3 – Operation of Payment Service Providers <http://www.central-bank.org.tt/content/payments-system>.

² Section 16 (2) of FIA defines "banking business" and "business of banking" as including payment card business and business of commercial banking. Section 17 (2) of the FIA defines "business of a financial nature" as including the issuance of e-money.

GUIDELINES FOR THE REGULATION OF THE PAYMENTS SYSTEM IN TRINIDAD AND TOBAGO (cont'd).

The following highlights the provisions of the guideline:

Registration

1. Commercial banks are subject to the licensing framework of the Central Bank. Therefore, they are not required to register as PSPs.
2. Entities not licensed under the FIA to do the business of banking or business of a financial nature, but are desirous of commencing or continuing payment services or bill payment services in Trinidad and Tobago are required to register with the Central Bank.
3. Registrants are expected to advise users of their systems about adherence to relevant laws and guidelines, including those pertaining to anti-money laundering and terrorist financing.

Disclosure Requirements

1. PSPs must inform users of its service indicating: (a) conditions for the use of the service; (b) charges associated with

the service; and (c) the responsibilities and liabilities of the user.

2. A PSP must notify users of changes to payment services at least 1 month prior to the effective date.
3. A PSP must facilitate clear identification of transactions to users in a manner that is understandable and accessible to the user.

Obligation and Liabilities

1. The responsibilities of the parties involved in the offering and use of the system should be clearly documented and agreed to by all parties.
2. A PSP is required to (a) ensure that users understand and expressly agree to the terms and conditions of the service; (b) ensure that the personalized security features of the payment instrument are not accessible to persons other than the payer to whom the instrument has been issued; (c) provide a means of treating with complaints (d) provide a mechanism for the payer to notify the institution in the event of theft, loss

or unauthorised usage of the service; and (e) prevent further use of the instrument or service upon receipt of such notification.

3. The PSP is liable for the value of transactions where (a) it has failed to make the appropriate information available to the payer concerning the payment transaction; or (b) a payment transaction was unauthorized.

Since the publication of the official notice in February 2013 there have been several expressions of interest and at least seven applications for registration which are currently being processed by the Central Bank. ■

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The PSC³ Speaks: Advancing E-payments in Trinidad and Tobago

Paper-based methods of payment are becoming less popular as electronic payment volumes continue to increase. In some countries cash usage is being actively discouraged by policy makers as in the case of Nigeria where the authorities have committed to becoming a cashless society. Also, cheques are no longer widely considered an efficient means of making payments. In fact, large value cheques add risk to the financial system as the final beneficiary settlement is uncertain due to the time lag required for the cheque to clear. Electronic payments thus present a safer and more efficient way of making payments.

Examples of electronic payments include:

1. Debit card payments
2. Credit card payments
3. ACH direct debits
4. ACH direct credits
5. Wire Transfers
6. Real Time Gross Settlement System (RTGS) credit transfers

7. Electronic bill payment
8. Online and mobile payments

Internationally, the use of cheques has gradually declined with credit and debit cards becoming the more popular modes of making purchases. Another reason for the decline is that paper-based cheques are costly for banks to process in comparison to electronic payments and banks have successfully discouraged the use of cheques, by making the alternatives more attractive to customers.

In Trinidad and Tobago, debit cards, cheques and credit cards are the more popular means for making payments as opposed to cash. The newer electronic payment options such as the Real Time Gross Settlement System (RTGS) and the Automated Clearing House (ACH) are still to catch on. The RTGS is used for making large value ($\geq \$500,000$) and time critical payments while the ACH is used for processing smaller value ($< \$500,000$), routine payments such as bill and salary payments.

In 2012, the RTGS processed approximately 53,000 transactions. On the retail side, there were around 3.4 million ACH transactions⁴, 8.8 million local debit card (LINX) point of sale transactions and over 9.5 million⁵ cheque transactions. Diagram 1 and 2 below shows that though there remains a large volume of cheques in the local system (2010-2012), the RTGS processed the higher valued items.

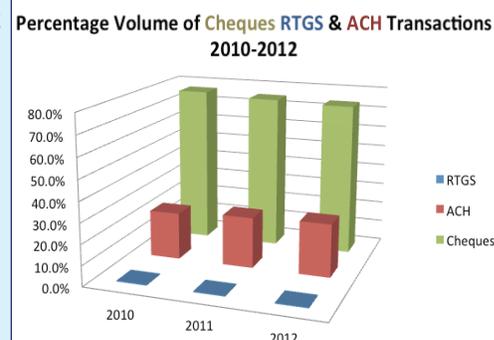


Diagram 1: Percentage Volume of Cheques RTGS & ACH Transactions 2010-2012.

³ The PSC comprises senior officials from the Central Bank, Securities and Exchange Commission (TTSEC), Government, Commercial Banks, Accountants, Payments System Operators, Chamber of Commerce, Telecommunications Authority of Trinidad and Tobago (TATT) and other recognized Technology Specialists.

⁴ Source - Payments System Operators in Trinidad and Tobago.

⁵ Source - Commercial banks & Central Bank of Trinidad and Tobago.

The PSC Speaks: Advancing E-payments in Trinidad and Tobago (cont'd).

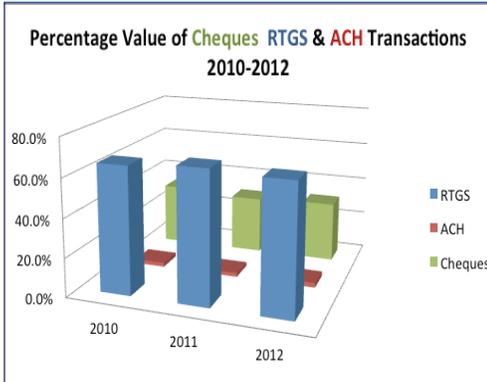


Diagram 2: Percentage Value of Cheques RTGS & ACH Transactions 2010-2012

That said, the Payment System Council (PSC)⁶ remains concerned over the number of cheques in the system despite the availability of the ACH and RTGS. Further, large value cheques currently represent approximately 60 per cent of the total value of cheques cleared and settled. These cheques pose the greatest risk to the system. Reasons for the continued use of cheques in Trinidad and Tobago include the following:

- a. Businesses seem to have a particular preference for cheques and their internal accounting, reconciliation and auditing processes are designed around cheque based payments.
- b. There is also a view that banks may not be charging appropriately for the use of cheques. The cost to issue and process cheques internationally are high. However, in the local environment the true cost of a cheque does not appear to be reflected in the current pricing structure. In other words, cheques remain a cheap option for making payments much to the disadvantage of consumers and businesses. This is unlike the United States where Federal Reserve fees for cheque collection are based on the Federal Reserve's general pricing principles of cost recovery.

The vision of the PSC for the local payments system is to see a movement away from the use of cheques and in particular large value cheques, towards the use of the efficient electronic alternatives. Though these systems have been growing in usage annually, there still remains significant capacity for growth.

The PSC has been promoting the use of e-payments through targeted education programmes. Over the past

years, presentations on e-payments have also been made to the Bankers Association of Trinidad and Tobago, the Telecommunications Authority of Trinidad and Tobago, Consumers Affairs Division of the Ministry of Legal Affairs, Association of Trinidad and Tobago Insurance Companies, The Co-operative Credit Union League of Trinidad & Tobago and The Institute of Chartered Accountants of Trinidad and Tobago.

Commercial banks are essential to advancing e-payments locally, as they are the entities generally responsible for making e-payment services available to consumers and businesses. The Council advocates a structured and comprehensive plan towards educating all parties on the use of e-payment options. Banks are also urged to develop innovative financial products for customers that make use of the ACH and RTGS.

- Exchequer and Audit amendments - Approval of the amendments to the Exchequer and Audit Act is important as it will enable government to make and receive electronic payments. The Bill is to be re-introduced to Parliament for final approval.
- Electronic Transactions Act (Act No. 6 of 2011), is an "Act to give legal effect to electronic documents, electronic records, electronic signatures and electronic transactions." The Electronic Transactions Act remains only partially proclaimed.
- The Data Protection Act (Act No. 13 of 2011), creates legal measures to protect the privacy of data and helps to establish the credibility of electronic transactions. The Data Protection Act is also only partially proclaimed.
- Several other pieces of legislation which are important for the development of electronic payments in Trinidad and Tobago may also need to be addressed. These include the Electronic Transfer of Funds Crime Act of 2000, The Computer Misuse Act of 2000 and the proposed Cyber Crime Bill developed in 2013.

Table 1: Country Experiences

COUNTRY	STATUS
United States	The United States (US) still relies heavily on cheques, due to the convenience it affords payers ⁷ . Some companies that receive cheques turn them into electronic transactions (cheque truncation) for payment via the Automated Clearing House (ACH). Commercial banks also save time processing cheques by clearing them electronically. The electronic cheque was formally adopted in the US in 2004 with the passing of the "Check Clearing for the 21st Century Act" (or Check 21 Act). This allowed the creation of electronic checks and translation (truncation) of paper checks into electronic replacements, reducing cost and processing time.
Canada	In Canada, cheque usage is much lower than in the US and volumes are declining rapidly. The Canadian Payments Association reported that in 2012, cheque use in Canada accounted for only 40 per cent of total financial transactions. ⁸
Europe	In most European countries, cheques are now rarely used. In these countries, it is standard practice for businesses to publish their bank details on invoices, to facilitate the receipt of payments by Giro. Giro transfer is a payment transfer from one bank account to another bank account and initiated by the payer.
Asia	In most Asian countries cheques were never widely used with cash being the main alternative for making payments.

In conclusion, the PSC would like to see the holistic development of the National Payments System. Such development requires increasing the public's awareness and knowledge of e-payment options, improving the level of security, efficiency and reliability of processing and back office operations and the strengthening of the legal framework to build confidence and improve the soundness of the Payments System. ■

It should be noted that the challenges being faced by Trinidad and Tobago in the movement from cheques to electronic payments are not unusual. Many countries have had similar experiences, but some have managed to significantly reduce cheque volumes (see table 1 above).

An issue which has to be addressed in order to advance e-payments in Trinidad and Tobago, remains the current legislative framework. Some relevant legislation includes:

Prepared by
Payments System Department.

⁶ Source - Financial Institutions Act, Chapter 79:09 (FIA, 2008) and the consequential amendments to the Central Bank Act, Chapter 79:02
⁷ Organisation for Economic Co-operation and Development, ed. (2002). The Future of Money. Paris: OECD. pp. 76-79. ISBN 978-92-64-19672-8.
⁸ "Examining Canadian Payment Methods and Trends". Canadian Payment Association. October 2012.

OPERATOR'S SPOT: KEY FACTS ON

1. The LINX Debit Card is a local PIN based debit card currently issued by four commercial banks and one credit union in Trinidad and Tobago. LINX debit cards are issued by First Citizens Bank, Republic Bank Limited, RBC Royal Bank Trinidad and Tobago Limited, Scotia Bank of Trinidad and Tobago Limited and Eastern Credit Union.
2. There are over 900,000 active LINX debit cards in circulation to date.
3. This debit card allows holders to obtain cash from approximately 381 ATMs throughout Trinidad and Tobago as well as pay for goods and services at 13,630 point of sale machines.
4. Two factor authentication⁹ makes the LINX debit card safer. It is important that the
5. In cases where a customer does not receive all the cash requested from an ATM or if the transaction has failed at a merchant's Point Of Sale (POS) terminal, it is advisable to keep the transaction slip to assist in getting the matter resolved quickly.
6. Presently over 3 million transactions are processed on a monthly basis via LINX. ■

cardholder keeps their PIN private. The cardholder is generally responsible for transactions on their debit card account.

⁹ Two-factor authentication is a security process in which the user provides two means of identification, something you have and something you know. A common example of two-factor authentication is a bank card: the card itself is the physical item and the personal identification number (PIN) is the data that goes with it. <http://searchsecurity.techtarget.com/definition/two-factor-authentication>.

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Payments Glossary

Here are 7 terms applicable to the Payments System:



1. Automated Clearing House (ACH)	An electronic clearing system in which payment orders are exchanged among financial institutions, primarily via magnetic media of telecommunication networks, and handled by a data-processing centre.
2. Cheque Truncation	Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point with the presenting bank en-route to the drawee bank branch. In its place an electronic image of the cheque is transmitted to the drawee branch by the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across branches, other than in exceptional circumstances for clearing purposes. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection and brings elegance to the entire activity of cheque processing.
3. Debit Card	A card enabling the holder to have his purchases directly charged to funds on his account at a deposit-taking institution (may sometimes be combined with another function e.g. that of a cash card or cheque guarantee card).
4. Giro Transfer	A method of transferring money by instructing a bank to directly transfer funds from one bank account to another without the use of checks. Bank giro transfers are predominantly used in European countries such as Germany, Austria, the Netherlands and Sweden, where they are seen as an effective way for companies to receive payments from foreign customers.
5. Payment	The payer's transfer of a monetary claim on a party acceptable to the payee. Typically, claims take the form of banknotes or deposit balances held at a financial institution or at a central bank.
6. Payment Instrument	Any instrument enabling the holder/user to transfer funds.
7. Real-Time Gross Settlement	The continuous (real-time) settlement of funds or securities transfers individually on an order by order basis (without netting).

Source: A Glossary of Terms used in Payments and Settlement Systems, BIS, March 2003.

Cheque Truncation – Reserve Bank of India <http://www.rbi.org.in/scripts/FAQView.aspx?id=63>

Giro Transfer - <http://www.investopedia.com/terms/b/bankgirotransfer.asp>

Safe-tt, ACH and Cheques Volume Meter

Safe-tt, ACH and Cheques statistics 2010-2013, Volumes in Millions

	2010	2011	2012	2012	2013
				Jul - Sept	Jul - Sept
RTGS¹⁰	0.05	0.05	0.05	0.01	0.01
ACH	2.89	3.13	3.41	0.84	0.92
Cheques	9.65	9.46	9.75	2.37	2.33
Total	12.59	12.64	13.21	3.22	3.26

Source: Central Bank of Trinidad and Tobago, Trinidad and Tobago Interbank Payments System Ltd.

¹⁰ The Real Time Gross Settlement (RTGS) system is also called *Settlement Assured for Financial Exchanges in Trinidad & Tobago (Safe-tt)*.

If you require any further details or would like to offer any suggestions, please contact the Payments System Department at the Central Bank of Trinidad and Tobago at Phone number: 1 (868) 625-4835 ext. 2719; or send an email to: rtgs@central-bank.org.tt