



CENTRAL BANK OF
TRINIDAD & TOBAGO

safe-tt

safe-tt is a newsletter on developments in the Payments System in Trinidad and Tobago

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Update on the RTGS User Group



Since its formation in April 2005, the RTGS User Group has been a vibrant forum for the exchange of ideas and concerns, to raise queries and to make suggestions for improving the efficiency and effectiveness of RTGS. Topics discussed in 2005 included the operational cycle, the Hot Site, Back-up and Disaster Recovery Procedures and IT related issues. At group meetings, the Central Bank provides statistics to the members on the RTGS system; these include the volumes and values of transactions processed through the system.

Annual membership and transaction fees were introduced for participants in September 2005. Billing charges for each member are generated on the first working day of each month following the month to which the charges relate. At present, charges are generated automatically for specific SWIFT message types only and are applied to the members' accounts maintained on the RTGS system

In 2006, the group will focus on seeking innovative ways to increase the volume of payment transactions on the RTGS system.

Members have confirmed that a significant number of large value payments are still being made by cheque. One of the Central Bank's goals is to continue to work together with the Government to hasten its participation in the electronic payments system. The commercial banks, too, can more aggressively promote the use of *safe-tt* by their customers for large value payments. This would aid in reducing settlement risks and would provide benefits to both the businesses and providers of the service. ■

Safe-tt is published quarterly by the Central Bank of Trinidad and Tobago

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.

Please see our full contact details on the last page.

The safe-tt and GSS Volume Meter

Date	Safe-tt	GSS
December 2004	1751	275
January 2005	1681	563
February 2005	1345	329
March 2005	1784	541
April 2005	1671	437
May 2005	1639	376
June 2005	1734	330
July 2005	1877	710
August 2005	1731	229
September 2005	1832	403
October 2005	1875	365
November 2005	2002	461
December 2005	2054	269

TIPS FOR ATM USERS¹



Scenario: You attempt to make an ATM withdrawal or a deposit and your card is captured by the machine. Along comes a stranger who attempts to assist you by telling you that it happened to them and that you must punch in your PIN three times; or he/she calls the "Bank" using their own mobile phone and allows you to speak to the "Bank Staff" who then asks for your PIN. After all this you are still unable to retrieve the card and you leave the ATM

location. Sometime later your card is retrieved by the perpetrator and they now have access to your account, using your PIN.

This is a common type of ATM fraud which takes place locally.

ATM Safety Tips for Cardholders:

✓ If the card is captured or appears stuck at the ATM, notify your Bankers immediately. Do not use a phone offered by a stranger.

✓ If someone offers to help, cancel the transaction and leave. Report the incident immediately.

✓ Memorize your PIN.

✓ Ensure your right to privacy – when using the ATM, ensure that other customers in line maintain their distance. Be discreet when entering the PIN and withdrawing cash.

✓ If a strange person(s) is/are

loitering around the ATM, do not use it. Go to another ATM.

✓ If the room smells faintly of glue, do not use that ATM. Go to another ATM.

✓ Report any suspicious activity immediately. ■

¹Article on ATM Fraud was provided by the Bankers Association of Trinidad and Tobago.

Deterring Fraudulent Activities



Have you been a victim of fraud? Newspaper articles have alluded to the presence of fraudulent activities in Trinidad and Tobago within recent times-from credit card and ATM card fraud to fouled pyramid schemes. The list grows and so do the victims.

Fraud may be defined as the use of deception with the intention of obtaining an advantage, avoiding an obligation, or causing loss to another party. Fraud most often occurs in the context of a relationship with a customer, client, or colleague on an individual or organizational basis.

E-commerce and the use of credit cards have become synonymous. Globally, over one-half (59 percent) of all payments for online purchases are made using credit cards, according to research done by AC Nielsen, a market research company². In the United States alone, 64 percent of the respondents

surveyed used credit cards, 31 percent used debit cards and 26 percent paid using Pay Pal (a store value card).

The overall fraud loss rate in the United States was 1.6 percent of e-commerce revenue in 2005³. In the UK, according to figures released by APACS, the UK payments association, UK card fraud totaled £219.4m in for the period June 2004 to June 2005. Of this total, Internet, phone and mail order fraud was the one area that continued to grow⁴.

Safety and confidence in online shopping are therefore becoming crucial factors for consumers engaged in online shopping. The article "Restoring confidence online" published in the December 2005 edition of Electronic Payments International alludes to this fact and warns against waning consumer confidence in online financial services and rising fraud rates despite efforts by merchants to improve security.

It was purported via research done in eight countries around the world (US, UK, Mexico, Hong Kong, Germany, France, Brazil and Australia) by Unisys research company that 66% of the 8000 persons surveyed, worry about the fraudulent use of their bank and

credit card accounts and more than one-third are willing to pay additional bank fees for better security protection. Further, some 45% of customers were willing to switch financial institutions that offered more security protection.

Another study related to online confidence showed that concern over identity theft was substantial and is changing consumer behavior in major ways. Four out of five internet users are at least somewhat concerned someone should steal their identity from personal information on the internet.

While fraud as a result of e-commerce may not be as prolific in Trinidad and Tobago as it is elsewhere, other types of fraud are on the increase as part of a growing crime trend. Fraud in Trinidad and Tobago not only occurs with the large embezzlement of funds but can occur on a more regular basis by the encashment of stolen cheques, presentation of false identification cards or issuing a "bad" cheque which attempts to defraud the payee to whom it is written.

The local media has published various occurrences of fraud in Trinidad and Tobago, including:

² Electronic Payments International – December 2005.
³ Research done by Cybersource, a supplier of electronic commerce risk management solutions in the United States.
⁴ http://www.apacs.org.uk/media_centre/press/05_08_05.html.

continued...Deterring Fraudulent Activities

- the assets of an investment company were frozen for operating without a license, placing hundreds of persons at risk of losing their investments;
- Persons were found using fraudulent documents to qualify for a bank loan;
- Pension cheques were being stolen from mailboxes; and
- Stolen personal documents and bank cards were being used to withdraw money illegally.

There are four basic ingredients which are necessary for a fraud to occur:

1. People to carry out the fraud
2. Assets to acquire
3. Intent to commit the fraud
4. Opportunity

Fraud is real and while some people would never contemplate perpetrating a fraud, others might do so if they think they can get away with it. Fraudsters are usually alert, plausible and calculating. Consumers can deter a fraudster who might want to take advantage of their personal or business property by being alert to the possibilities. Alertness and effective controls will increase the chances of perpetrators being caught and will thus act as a deterrent.

Merchants can deter fraudulent transactions by adhering to basic fraud screening tools such as customer name and address verification and card verification by requesting ID for non cash transactions. Merchants can also request bank confirmation before processing large or seemingly irregular transactions.

Commercial banks, too, have a role in the process. In a world of faceless banking channels — from the Internet to ATM — the commercial bank continues to be the most important connection between an institution and its customers. Banks need to stay up to date with antifraud



techniques and train their staff on fraud prevention. Banks should also continue to educate their customers on ways to identify and avoid fraud.

Identity fraud, ATM and credit card fraud can erode trust, and with it, a bank's reputation. Bank branches today must reinforce their brand with every customer interaction and take every safeguard to ensure that this hard-won trust is not eroded by avoidable events.

This article is part of a series on avoiding fraud that will provide useful tips to consumers and merchants. ■

How Online Fraud is committed in the United States

Method	Percentage
Lost or stolen card	48%
Identity theft	15%
Skimming (or cloning)	14%
Counterfeit card	12%
Mail intercept fraud	6%
Other	5%

Source: Celent Communications, January 2003

Total Fraud On UK-Issued Credit Cards

Type	Losses June 2004 to 2005 (GBP)
Counterfeit	45.6 mn
Card-not-present	90.6 mn
Lost/stolen	44.3 mn
Mail non-receipt	22.8 mn
Identity theft	16.1 mn

Source: http://www.apacs.org.uk/media_centre/press/05_08_05.html

Economic Impact of the Reform of the National Payments System in Trinidad and Tobago⁵ - Part 2



(Continuation from part 1 in September 2005 edition of **Safe-tt**)

Safe-tt also provides for increased transactional efficiency. Since there is no delay in the transfer of funds to the payee, these funds are now available for use by the recipient. The use of electronic payments as a whole leads to several benefits:

i. A reduction in opportunity costs as the recipient now has the funds at his/her disposal to utilize either for investment or further transactions.

The clearing of current-period transactions can be channeled into savings and investment flows for future growth.

ii. The speed, efficiency and security of the transfer of funds facilitate increased economic activity over time. This refers to small-value as well as large-value payments.

iii. The widespread use of electronic payments and settlements should significantly expand the sales volume of goods and services, increase

business activity as well as ease cross border trade and exchange.

iv. In the United States, growth in electronic payments has added an additional US\$6.5 trillion to real consumer spending (adjusted for inflation) over the period 1980-2000. This would impact significantly on GDP growth as household consumption accounts for about two-thirds of the US economy.

v. In Trinidad and Tobago, economic activity should also receive a boost

continued...Economic Impact of the Reform of the National Payments System in Trinidad and Tobago⁵ - Part 2



from the use of electronic payments for and settlement of both business and retail transactions. This would occur through a multiplier effect as the velocity and safety of electronic payments should facilitate increased spending which in turn should enhance business activity through greater consumer and business demand. However the overall impact would be mitigated by the significant import content of private consumption expenditure which means that this benefit would redound to foreigners.

vi. The cost structure of an electronic payments system allows for benefits to be derived from economies of scale i.e. the larger the volume of transactions being processed, the lower the average cost per transaction. These cost savings should be passed onto the banking public as the economies of scale build. In contrast, the cash-based system is a physical one, driven by

variable costs. Transaction costs decline only marginally as volume increases.

- vii. A move from the present paper-based payment system of the central government to an electronic one should lead ultimately not only to cost savings for the government, but increased safety and speed for the recipients of these payments.
- viii. Productivity at the work place should increase as less man-hours would be lost in making and settling payments at a physical location. It is expected that the ACH would be configured to facilitate utility payments from individuals on a monthly basis.
- ix. The establishment of the Government Securities System (GSS) as well as the Trinidad and Tobago Central Depository (TTCD) would provide a fast, efficient, safe and secure mechanism for settlement of

transactions in securities. This would aid the development of a deeper and more liquid market in securities. Along with other institutional arrangements which are yet to be put in place, this would lead to the deepening of the domestic capital market and should further encourage business and investments from abroad.

- x. The availability of electronic payments system facilitates the development of varied products and services by the financial system for customers, both individuals and businesses, (for example, telebanking, the provision of smart cards, and banking and business transactions over the Internet).
- xi. An electronic payments system integrates the country more firmly into the global financial network and encourages activity as the settlement process is secure, swift and efficient. ■

⁵ Prepared by Anne Joseph and Garvin Gilbert, Economists in the Research Department, Central Bank of Trinidad and Tobago.

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HAPPY NEW YEAR
from the Staff at the
Payments System Department