



safe-tt

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

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What is it?

Check 21 is a Federal Law in the United States of America (USA) that became effective on October 29, 2004. The law allows banks to handle cheques electronically to make cheque processing faster and more efficient. The need to transport the physical cheques between banks makes the process more costly and time consuming. With Check 21, banks would capture a picture of the front and back of each cheque as well as the payment information associated with it and transmit this information electronically. The receiving bank, can use a picture (an image) of the paper cheque and the payment information to create a 'substitute check' in paper form if a paper cheque is required. The law prescribes specific standards for the creation of a substitute cheque.

What does it mean for users?

While customers may still be able to receive their original cheques with their account statements, Check 21 enables banks to provide either the original cheques or substitute cheques when they have agreed to provide paid cheques with statements. However, what a customer receives from his/her bank is still governed by the agreement

between the bank and its customer. Banks are required by the law to provide to their customers a disclosure describing substitute cheques and related consumer rights. The disclosure must also be provided if a consumer requests an original cheque or copy of a cheque and receives a substitute cheque. Additionally the bank must provide the disclosure if a customer's unpaid item is returned in the form of a substitute cheque. Under US law banks are not required to keep original cheques for any specific length of time.

A customer cannot prevent anyone from creating a substitute cheque from his original cheque (unless it is a cheque drawn outside of the US). The law treats substitute cheques the same as original cheques if the information from the original cheque is accurately represented and if the substitute cheque includes the following statement: "This is a legal copy of your check. You can use it the same way you would use the original check." The substitute must also have been handled by your correspondent bank. Therefore substitute cheques can be used

as proof of payment and would be accepted by institutions like the IRS in the USA.

It is expected that the amount of time taken to clear cheques between banks would be reduced. In order to protect consumers another law, the Expedited Funds Availability Act, specifies the maximum times by which funds should be available to an account holder. It also requires the Federal Reserve Board to reduce these times as the actual cheque processing times are reduced. It is therefore expected that over the long term maximum hold times for cheque funds will be reduced. Check 21 also contains a special refund procedure called "expedited credit" for consumers who have suffered a loss related to substitute cheques received. Once a valid claim is made within 40 days of delivery of the bank statement, the bank must refund the consumer the amount of the claim (inclusive of interest) within one business day of determining its validity. The bank could reverse the refund and interest if it subsequently determines that the claim was not valid.

The special refund procedure strictly applies to the actual

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

If you require any further details on any aspect of the reforms process, or would like to offer any suggestions, then please contact the Payments System Department at the Central Bank of Trinidad and Tobago.

Please see our full contact details on the last page.

Safe-tt

Safe-tt will provide a faster, safer and more efficient means of making large value payments in Trinidad and Tobago.



substitute cheque and not to an image statement with a picture of the substitute cheque. However, normal cheque law would protect consumers from improper cheque charges made to their accounts.

It is to be noted that where merchants use the information on paper cheques to convert them to electronic transactions Check 21 is not the governing law. These transactions come under the laws governing electronic fund transfers.

Impact on T&T

Customers may need to be informed that, based on US law, they may receive copies of cheques as returned items.

If a bank's correspondent bank wants to convert its cheques to electronic funds transfers, the bank should be informed because cheques and EFTs are governed by different laws and have different consumer rights.

United States dollar (US\$) cheques drawn on US\$ accounts in T&T will not be subject to the Check 21 legislation.

Consumers in T&T have experienced very long clearing times for cheques drawn on banks in the U.S.A. Banks could put some mechanism in place to monitor the system over time to see whether clearing times are in fact decreasing since the introduction of Check 21. ■

Update on GSS Member Trials

The Member Trials for our Government Securities System (GSS) started on the 8th November 2004. Commercial banks and non-bank financial institutions (NFI's) are participating in these trials that consist of five weeks of functionality tests, training and rollout.

The objectives of the trials are:

1. To allow the banks and NFIs the opportunity to experience all aspects of functionality;
2. To ensure that all participants became familiar with the operating rules and procedures and to test these in a working environment;
3. To give participants the opportunity to understand the impact of the system and so effectively modify their internal procedures;
4. To ensure that all aspects of the system are ready for go-live.

The member trials consist of three distinct phases:

Participant Certification Testing is the first phase in which the participants were asked to perform scripted tests on each of the major functions of the GSS. These tests run on the *Test System* and require members to interact with the system using their browsers. The NFI's completed this phase of their testing on Monday the 22nd but testing continues with the commercial banks.

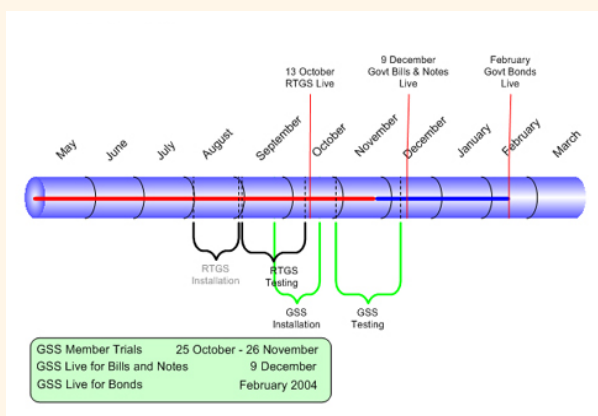
The **Live Environment Tests** are being run concurrently with the Participant Certification Testing. Live Environment Tests began on the 22nd November

and are being carried out on the live GSS system. These tests will ensure that the live system is properly configured and ready for rollout.

The third phase, also taking place in parallel, consists of **Live Rehearsals**. All banks participated in the live rehearsals which took place on Saturday the 27th November 2004. It was successful, with all participants carrying out their required tasks. These rehearsals are considered especially delicate since the live RTGS system is involved. Utmost care and correct procedure are being employed by the central Bank to ensure the continued integrity of the system.

All is on schedule for the GSS live date of the 9th December 2004. ■

Project Progress



The Payments Reform project continues to progress well. We have now completed the implementation of the RTGS system and this has been up

and running for over a month. We are monitoring the system continuously to make sure that the most efficient operations are implemented.

We have already made a minor change to the daily processing cycle, to provide a more definite time for squaring. The Government Securities System (GSS) has been accepted and is now in the process of member trials. From those trials we have determined that participants will need some more time to become fully familiar with the auction process so we have moved the go live for bills and notes to December 9. The introduction of automated bond auctions will take place early in the new year when the GSS will be fully operational. ■



TTIPS Automated Clearing House

Trinidad and Tobago is due to launch an Automated Clearing House in June 2005. The Automated Clearing House (ACH) called **TTIPS** or the Trinidad and Tobago Interbank Payments System is a product of the combined efforts of all the commercial banks and the Central Bank of Trinidad and Tobago.

An ACH is a payment system designed to allow corporations and consumers to reduce or eliminate the use of paper cheques when making routine high-volume, low value payments. ACH systems process large volumes of individual payments electronically. Typical ACH payments are:

- Direct deposit of payroll, social assistance and other government benefits, and tax refunds;
- Direct payment of consumer bills such as mortgages, loans, utility bills, credit union payments and insurance premiums;
- Consumer and corporate bill payments;
- Business-to-business payments;
- Interest and dividend payments;
- Pension Payments;
- Licensing fees, liquor license payments etc.

The formation of the ACH had its genesis in the early 1980's when commercial banks in Trinidad and Tobago began exploring the electronic exchange of cheque items on a bilateral basis. This effort expanded into the concept of a Media Exchange, the exchange of cheque information on electronic media. It was thought that the successful implementation of the Media Exchange would provide a foundation for the establishment of a fully automated ACH for all forms for interbank payments.

TTIPS will process all interbank debit and credit payments, starting with fully electronic end-to-end payments, later embracing cheque truncation into its operations. The automated clearing house will allow payments to be cleared electronically, singly or in batches.

TTIPS will be a highly reliable and efficient nationwide batch-oriented electronic funds transfer system governed by operational rules. All banks, will send and receive payments to/

from TTIPS on behalf of their customers. The electronic transmission of payments will reduce the time it takes for banks to make funds available to recipients when compared with cheque payments.

Transactions on TTIPS will follow the NACHA format. NACHA is the acronym for the National Automated Clearing House Association, a US based institution. This format stipulates the content of each payment according to international standards.

The Central Bank of Trinidad and Tobago sees the implementation of TTIPS as an important element in the reformed payments system. The ACH complements the RTGS/ *Safe-tt* system that was launched in October 2004. While the ACH will process high volume, low value transactions, the RTGS will be used for net funds settlement of these transactions at the end of the day. ■



NACHA is a leading organization in North America developing electronic solutions to improve the payments system. NACHA represents more than 12,000 financial institutions through direct memberships and a network of regional payments associations, and 650 organizations through its industry councils. NACHA develops operating rules and business practices for the Automated Clearing House (ACH) Network and for electronic payments in the areas of Internet commerce, electronic bill and invoice presentment and payment (EBPP, EIPP), e-cheques, financial electronic data interchange (EDI), international payments, and electronic benefits transfer (EBT). Visit NACHA on the Internet at www.nacha.org. ■

Source: www.directpayment.com

Handling Government Transactions Through the New Payments System

The Government is a very significant player in the payments environment in Trinidad & Tobago. Very large volumes of payments go both into and out of the Government accounts – in both large and small individual amounts. For example, the Government currently accounts for some 40% of all cheques issued in the country, while some of the largest individual payments are made either to the Government (for example VAT and Customs duty) or by Government (for example investment in capital projects). As banker to the Government, the Central Bank wants to ensure that the Government takes maximum advantage of the new payment systems as they are introduced, and is continuing consultation with key Government agencies with a view to developing plans as to how this will happen.

In the short term, it is expected that large-value payments both by and to Government Ministries will start to be made using the recently-introduced *safe-tt* Real Time Gross Settlement system. The government is being encouraged to prepare for the use of the TTIPS' Automated Clearing House which promises great benefits when it comes into operation in mid-2005. As the largest single writer of cheques in the country, the Government has a great deal to gain from using the new electronic payment instruments that are becoming available. The increased use of electronic transactions in general will reduce the use of cash and cheques and therefore can reduce costs significantly.

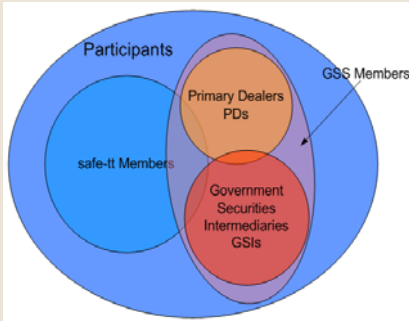
The government is also reforming some of its internal systems – tax, accounting, payroll, HR. The Central Bank will be working with the relevant departments to ensure compatibility between government's computerised systems and the electronic payment systems. There is a lot of work to be done and this will take time. The result will bring major benefits, not only to the Government, but also to all our citizens, companies and others who have financial dealings with the Government of Trinidad and Tobago. ■



Frequently Asked Questions

In the RTGS and GSS rules and procedures, reference is made to Participants, members, GSIs and Primary Dealers. Can you please explain how these are all related?

We have tried to create terminology that covers everyone involved in the Payments System, as well as being able to identify the various groups.



As illustrated in the above diagram, anyone with a legal involvement in the CBTT payment systems is known as a Participant. A Participant will have signed an agreement with the Central Bank to become a user in the **safe-tt** (RTGS) system or the Government Securities Settlement system. For example a Participant will also be a **safe-tt** Member if it holds a settlement account in **safe-tt** for the purposes of interbank clearing and settlement. Organisations that trade in securities fall into two categories: Primary Dealers (PDs) and Government Securities Intermediaries (GSIs).

A Primary Dealer is an organisation **engaged in the business of buying and selling securities**. All of the commercial banks are currently PDs. GSIs are those organisations that are certified under the GSS rules to participate in the issue of Government Securities and the subsequent trading thereof. While the settlement of trades in Government Securities by GSIs will take place on the RTGS (all GSIs have a Settlement Account for this purpose) they will not necessarily be Members of **safe-tt** as their use of the RTGS is restricted to settlement of security trades only. ■

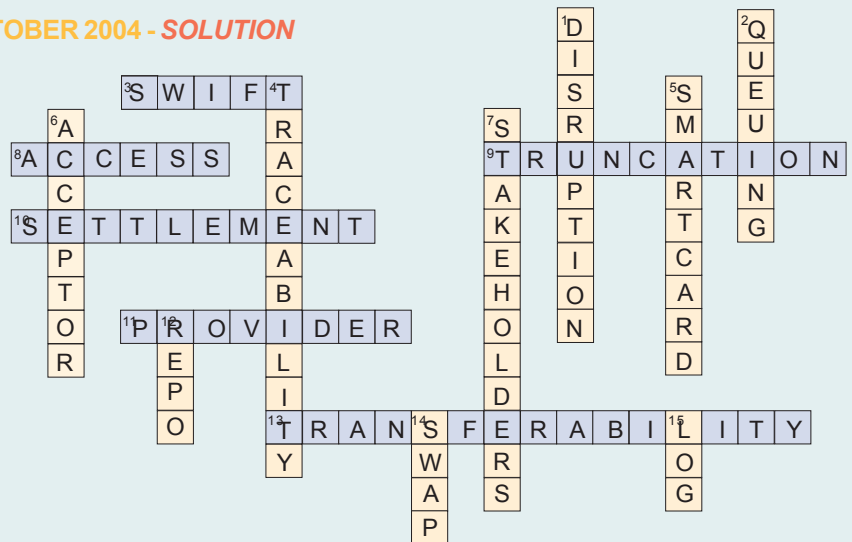
Safe-tt November 2004 Word Search

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 ELECTRONIC
 FINALITY
 FUNDS
 MATCHING
 NETTING
 OVERDRAFT
 PAYEE
 PAYMENT
 PAYOR
 PROCESSING
 TRANSFER
 VALIDATION
 VERIFICATION

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OCTOBER 2004 - SOLUTION



In Next Month's Issue:

- CBTT Turns 40 years: History of Payments System.
- RTGS and GSS Systems in other Jurisdictions.

If you would like to see any additional features in this publication, please send us an e-mail.

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