CENTRAL BANK OF TRINIDAD & TOBAGO

safe-tt

safe-tt is a newsletter on developments in the Payments System in Trinidad and Tobago Volume 3. Issue 3 **September 2006**

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Money! Money! Money!…

Everyone uses money and wants more of it! We all need it, dream about it and never seem to have enough of it. If you don't know what money is, you are most likely not human! Money generally refers to coins and paper notes (currency or cash) which are issued by the Central Bank and circulated within the economy. Until a few decades ago, currency was used as the basic medium of exchange for goods and services. These days money comes in several forms apart from bank notes and coins – mainly cheques and electronic transactions.

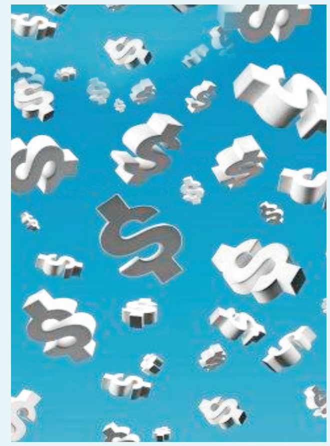
The introduction of new technologies has brought these alternative options for making payments. In Trinidad and Tobago, the latest technologies accommodate debit and credit cards, tele-banking and internet banking, wire transfers. The more recently introduced Real Time Gross Settlement system and the Automated Clearinghouse system are examples of technologies facilitating electronic money transfers for domestic payments. Despite this, cash remains the common means of payment for some industries and segments of the population (e.g. the un-banked, the elderly, taxi drivers, market vendors and small retail shop owners).

Cash is one of the oldest media of exchange. Prior to its development, people would barter or use other objects in the place of paper and metal money (shells, beads etc.) to obtain the goods and services they needed. Money as a medium of exchange was introduced soon after to address some of the transferability issues associated with bartering.

Central Bank's role in Currency Matters

According to the Central Bank Act Section 21, "the Bank has the sole right to issue notes and coins in Trinidad and Tobago and such notes and coins are legal tender in Trinidad and Tobago." Legal tender refers to money recognized by law as acceptable payment for debts owed to creditors. This means that money offered as payment has the backing of government and must be accepted by a creditor, unless a contract calls for another method of payment.

Additionally, under the Act the Central Bank must:-



i. arrange the printing of notes and the minting of coins for circulation in Trinidad and Tobago;
ii. issue, re-issue and exchange notes and coins at the Bank's office;
iii. arrange for the safe custody of unused stocks of currency.

It is also worth noting that it is against the law to willfully mutilate a banknote and this includes cuts, tears or perforations. It is also against the law to deface a note whether by writing, printing, drawing or stamping on banknotes or by attaching or affixing anything in the nature of an advertisement.

Characteristics of Banknotes

Banknotes, otherwise referred to as cash, represent more than an economic tool, a unit of account and store of value. They are also distinctive to one's nation. National currency is one of the first encounters a visitor will have with a country. Banknotes are

continued...Money! Money! Money!...

symbolic of a nation's pride and value. Significant consideration is given to the design features of a country's banknotes. Apart from the obvious features introduced for security and durability, many countries also use their currency notes to showcase various aspects of their culture, native heritage, flora and fauna. These give banknotes their numismatic[1] value – the value ascribed by collectors of currency notes and coins. From time to time, hobbyists request the purchase of un-circulated (new) notes and coins for collection (numismatic) purposes.

Printing banknotes is a complex and costly process. At present, there are two main banknote series in active circulation in Trinidad and Tobago, namely 1985 and 2002 series. The face of each of the notes displays one of the popular birds on the islands. The reverse shows different elements of life in Trinidad and Tobago. The later version of our banknotes, i.e. 2002 series, contains upgraded sophisticated security features such as the foil hibiscus on the $20 note and the hologram shield on the $100 notes. A new security thread was also introduced in this series.

2002 Series

1985 Series

Managing Currency

It is the Central Bank's responsibility to maintain the public's confidence in the nation's currency. The management of cash is also quite a complex process. It involves the supervision of cash, security and safe-custody management, and negating money laundering issues.

Central banks incur sizeable costs associated with the manufacturing, delivery, processing and destruction of banknotes. Manufacturing costs include the raw materials for the production of notes and coins as well as research and development for new and sophisticated security features.

There are other indirect costs associated with managing cash. These costs include the installation and maintenance of ATM machines by commercial banks, providing tellers' service to receive cash deposits and facilitate withdrawals, purchasing and maintaining machinery and equipment for counting, sorting and destroying banknotes. As at the end of 2005, there were 307 ABM machines[2] located in Trinidad and Tobago. Most commercial banks have introduced state-of-the-art equipment to assist with cash handling.

Many central banks around the world charge a fee to the commercial banks for cash handling. In some jurisdictions penalty charges are imposed on the commercial banks for breach of rules and regulations associated with currency transactions.

Banknote Processing

Up until the mid-eighties, cash processing at the Central Bank of Trinidad and Tobago was a labour-intensive activity where counters were required to manually process banknotes received from the commercial banks. During this process, several employees were required to manually count, verify, authenticate and sort the banknotes into fit and unfit categories. They also prepared the fit notes for reissue to the commercial banks.

The cash cycle of the Central Bank has since undergone a radical transformation. In 1985, the Central Bank introduced its first currency counting processors to automate the counting, sorting and authentication of redeemed notes. Since the introduction of these machines, the Bank has continued to modernise its equipment.

Some of the most recent upgrades in the technology include the installation of a new note processing machine in 2005 with higher throughput speeds, automated processes for bundling and shrink wrapping. This has reduced costs and the number of manual processing stages thereby tightening the security and improving the overall performance of the process. The Bank also installed a sophisticated and environmentally friendly banknote destruction machine which shreds and compresses unfit notes for disposal.

Lifecycle of Notes

Banknotes are assigned a unique serial number by which they can be identified. Notes are only considered to be "live notes" when they are put into circulation. This process starts with a request for currency by a commercial bank to satisfy public demand for cash. A single banknote may return to the Central Bank several times via the commercial banks' redemption process as it is reissued into circulation once it is deemed fit for circulation. A banknote can remain in circulation between six months and two years. The end of the banknote's life comes when the note becomes unfit for circulation (for example if the note is worn or torn). It is then destroyed by the Central Bank. ■

[1] Numismatics is defined as the study of coins, paper money, tokens and medals. Numismatic items are collected and studied for various reasons including their historical significance and artistic merits.

[2] Source: Infolink Services Limited.

The "value" of electronic payments… realising Profit, not Revenue![3]

The differentiation between revenue and profit value is often obscured by the perspective that revenue represents a major goal of achievement. This can lead to a misdirection of energy toward one when, in fact, the other is what actually provides the greater impact. Successful organisations have a clear focus on ensuring profitability – regardless of the gross revenue opportunities. To do otherwise is negligent to the shareholders best interests.

In many banks in T&T, corporate customers receive their chequing facility as a "no charge" service – often offset by compensating charges. Alternatively, these customers may be paying a unit cost for the cheque, but this cost is set at a negotiated or arbitrarily low rate, usually below the real cost of that paper item to their operation. Throughout this situation, account managers are not given the incentive to deal with this scenario because it does not reflect a "profitable" or revenue generating activity that is obvious or easily measured. This can lead to a significant missed opportunity.

Research in the US and Canada has determined that the fully loaded costs (meaning all factors and processes are included) for a paper cheque can cost banks 10 to 20 times the cost of an electronic payment. In other words, if a cheque costs a bank $1.00 (not what their customer pays but pure bank cost), then an electronic transaction would cost $0.10 (or less). At the same time, if that bank charges its customer a fee (if at all) – perhaps $0.75 – they are losing $0.25 per transaction. So, no matter what amount of "revenue" can be attributed to this client, it loses money for that bank. Ironically, the more business that client does, the more money the bank loses!

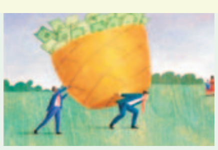
If, however, that same client is offered (and aggressively marketed) an electronic payment service, and is offered a discount of $0.10 per transaction (if they pay a fee), the bank stands to generate a positive (profitable) revenue by exploiting the gap between the cost and the revenue. The bank is also seen by its client as giving a "break" on fees. Even if the client doesn't pay an obvious fee (by giving the bank a return through compensating charges), the net value of the cost reduction is a substantial impact on the client's profitability to the bank. Whatever the cost gap is ($1.00 for the paper versus $0.10 means a net gain of $0.90 per transaction); this represents a value equation to that bank by losing less money per transaction.

This is a major opportunity for client relationship managers of banks to provide a new channel for client discussion and negotiations. By simply analysing the top 10 cheque issuers in that bank and offering an incentive to these clients to move to electronic payments, these banks can realize substantial value (and profitability) to their own bottom line – and also solidify the client relationship by appearing to provide an unsolicited fee discount.

For clients who do not pay an actual fee, the bank can even provide a "bonus" of $0.05 per electronic payment – yes, they pay their client to send electronic payments versus issuing cheques – because it will, in turn, reduce their costs by a factor of 10 (or more). This provides a value, that is returned in net profitability to that bank, that increases with volume.

This is a critical business opportunity for the T&T banks to consider in these early days of electronic payment processing via the Trinidad and Tobago Interbank Payment System (TTIPS). ■

[3] Article provided by the Trinidad and Tobago Interbank Payments System.



…continuing the series: Deterring Fraudulent Activities

Tips Against Making Fraudulent Investments[4]

Whilst there are many fraud schemes, their common characteristics tend to be that they promise a large amount of future wealth and depend for their success on your trust of the fraudster. It is this abuse of your trust that allows frauds to occur.

1. Never make a major financial decision or sign anything immediately. Always take your time to consider what you are doing.
2. Beware of schemes which offer unusually high rates of return when compared to average interest rates available on the market for similar investment
3. Investment advisors are required to be registered with the Trinidad and Tobago Securities and Exchange Commission (TTSEC). As a general rule, don't get involved with an unregistered organisation. The TTSEC maintains a register of authorised businesses which can be easily checked.
4. Be wary of individuals who insist on dealing in cash. The use of cash may indicate that proper accounts are not being kept. Be particularly careful about paying cash in advance.
5. Do not "put all your eggs in one basket". For example, never commit all your life savings to a single investment scheme.
6. Be cautious about investing in an organisation based outside jurisdiction of local courts. In the event of difficulty it may be practically impossible to seek a legal remedy. ■

[4] Adapted from: http://www.uk-fraud.info/index.html

ABC.. Glossary on the ACH

Here are 10 new terms applicable to the New Electronic Payments System:

Direct Debit A method of collection used in the ACH for certain claims, generally those that are repeated over a period of time, under which the debtor gives his or her financial institution authorization to debit his or her account upon the receipt of an entry issued by a creditor.

Direct Deposit A credit application that transfers funds into a consumer's account at the Receiving Depository Financial Institution. These funds being deposited can represent a variety of products, such as payroll, interest, pension, dividends, etc.

Direct Payment A method of collection used in the ACH Network for which the debtor gives the Originator an authorization to debit his or her account

Effective Entry Date The date on which the Originator requests ACH transactions be posted to the Originator's and Receiver's accounts. The ACH Operator overrides this date if the effective entry date is not a banking day.

Electronic The term that refers to technology having electrical, digital, magnetic, wireless, optical, electromagnetic, or similar capabilities.

Electronic Authorization An alternative means of authorization for ACH transactions. Electronic authorizations must be displayed in such a manner that the consumer can read the authorization, create a record or hard copy of the authorization so the consumer can refer back to it and must be authenticated in a similar manner to that in which a signature authenticates a written authorizations (that is by digital signature, PIN, or other code which uniquely identifies that consumer).

Electronic Benefit Transfer The electronic delivery of government benefits to beneficiaries through automated teller machines and point-of-sale terminals.

Electronic Check A payment transaction that originally started out as a paper check, but which has been completely converted to an ACH.

Electronic Payment A term that refers to any non paper-based type of payment

Electronic Signature An electronic sound, symbol or process attached to or logically associated with an agreement, authorization, written statement under penalty of perjury, or other record and executed or adopted by a person with the intent to sign the record.

The *safe-tt,* GSS and ACH Volume Meter

Date	*safe-tt*	GSS	ACH
January 2006	1889	372	2753
February 2006	1819	683	4116
March 2006	2321	578	8071
April 2006	1959	401	8201
May 2006	2313	438	11581
June 2006	2137	466	11787
July 2006	2237	599	12817
August 2006	2184	377	16505
September 2006	2302	658	17596

Special thanks to the Trinidad and Tobago Interbank Payments System (TTIPS) for their contribution to this edition of the *safe-tt* newsletter.