



CENTRAL BANK OF
TRINIDAD & TOBAGO

safe-tt

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

Volume 4. Issue 3

September 2007

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

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Electronic Payments Development in Trinidad and Tobago

Introduction

It is generally recognized that electronic payment systems offer greater cost savings when compared to traditional paper based instruments.

Around the world, countries therefore continue to implement Real Time Gross Settlement (RTGS) systems as a critical requirement for the efficiency of the payments system. In fact countries in the European Union have made the development of RTGS systems a high priority. This view is no less evident in Trinidad and Tobago where a number of electronic payment systems have been introduced in recent years.

This article takes a look at the initial response to the implementation of these systems in Trinidad and Tobago, the benefits derived, the lessons learnt and the way forward.

The New Electronic Systems

Three new payment options were launched in Trinidad and Tobago in recent years, a large value¹ payment system, called **safe-tt** (the RTGS system), in December 2004, a Government Securities Settlement (GSS) system and an Automated Clearing House (ACH) in January 2006. An automated bond auction system was introduced as part of the GSS. The ACH project was led by the commercial banks; while the introduction of the RTGS and GSS systems was spearheaded by the Central Bank. (Previous to the introduction of these systems, the only automated system was the ATM and EFTPOS system in which only

four of the commercial banks participated).

Benefits

A major benefit of these new systems is risk reduction. The implementation of these systems has proved to be beneficial for the payments system as it has helped reduce systemic risk².



Unlike the traditional paper based cheque system, **safe-tt** provides intraday finality of payments. With real time finality, banks and their customers have been assured that payments received during the day are irrevocable and unconditional. Settlement risk has been eliminated.

The GSS system that is integrated with **safe-tt** has also provided substantial benefits. The linkage has facilitated an automated system for the provision of intraday liquidity which eliminates credit risk. Participants can borrow funds for settlement purposes from the Central Bank during the day (at no cost) using their holdings of approved securities as collateral.

Safe-tt has promoted delivery versus payment, or DVP, for securities settlement since the delivery of securities is now linked to the transfer of funds.

¹ The Large Value threshold is currently TT\$500,000.

² The possibility that the failure of one participant to meet its obligation would cause other participants to be unable to meet their obligations.

continued... Electronic Payments Developments



The establishment of an Automated Clearing House (ACH) called Transach provides for the electronic clearing and settlement of smaller value (<500K) transactions within 24 hours. Companies use this facility to generate batches of small value direct credits, such as salary payments to their bankers for payments to beneficiaries at any bank.

Lessons Learnt

A key observation from the development of **safe-tt** and Transach is that they yielded a cooperative spirit among participants. Most of the commercial banks were already participants in the EFTPOS network and this facilitated the use of the same communications network for ACH transactions which brought significant savings to the project.

Commercial banks now are highly motivated to invest in internal systems in order to maximise the use of this new payment infrastructure. In other words, banks recognise a tremendous opportunity to utilize their marketing capabilities to develop new products using the electronic payment options provided through **safe-tt** and Transach. Already, some banks have introduced innovative products which use these networks.

Notwithstanding the benefits mentioned, there has been relatively slow acceptance of these electronic payment options by the business community. This has challenged the commercial banks and the Central Bank to find ways to educate the general

public and increase participation in the payment system network. To this end the Central Bank and TTIPS (Trinidad and Tobago Interbank Payments System), the company established to run the ACH, have committed to investing a considerable amount of resources into training programs and marketing electronic payment systems.

Challenges for the Future

A major challenge is to develop an appropriate pricing structure for payments instruments. Operational costs for these systems are being recovered by the application of a transaction fee. Increasing the usage of the systems could reduce the transaction costs and make these services even more attractive to users.

However, making the change from paper to electronic means of payment is more difficult in an environment in which paper based transactions appear to incur little or no costs to the consumer. Appropriate pricing for all payment instruments which reflects the true cost of transactions is key to showing that electronic transactions are more cost efficient than traditional paper instruments. The business community must also be encouraged to examine the efficiency of its back office procedures in a paper based environment and take advantage of the cost savings that automation offers.

A second challenge is related to altering traditional behaviors. The direct debit facility whereby consumers authorize the

utility companies to automatically access funds for bill payments, which is popular elsewhere in the world, has been less so in Trinidad and Tobago. Engendering widespread acceptability of this facility would require a significant change in consumer behavior.

A third challenge is to generate more volumes in all the systems both as a means of reducing unit costs and for the soundness of the payments system.

Conclusion

Although volumes of transactions in these services remain smaller than desirable, there is significant evidence of a deep commitment among participants to make the operations of these systems a success. Generally citizens are cautious, but at the same time many are curious as to how these payment options can improve their well-being. This curiosity, particularly among the younger population, presents a bright light for the future. ■



Money Laundering and Prepaid Cards

In the June 2007 edition of *safe-tt* we wrote about the growth and popularity of pre-paid cards both locally and internationally. Locally, examples of prepaid cards include the TT-card for public assistance, phone cards, gift cards and travel cards. Internationally there are a wider variety of prepaid cards. In the USA for example there is the WWW card, payroll cards, health care cards and prepaid cards for mass transit systems, university campuses and coffee shops just to name a few. This article seeks to alert readers to some of the risks associated with prepaid cards.

Prepaid cards are attractive to a broad range of customers because of their accessibility, control, safety, lower debt risk and in some cases, their usability internationally. Unlike credit cards, prepaid cards are highly accessible even to non-banking customers and low income individuals because no credit check of history is required. They can also include built-in expenditure limits and are safer to carry than cash.

However, there are some risks to the use of prepaid cards. In countries such

as the USA prepaid cards and have become the focus of regulatory attention in part because of the number of money laundering incidents associated with "nameless prepaid cards".

Open-looped prepaid cards are network-branded (usually displaying the logo of a payment network, such as Visa or MasterCard) and can be reloaded either through a regular deposit arrangement or via the internet. The latter case is more vulnerable to exploitation by money launderers.

In Trinidad and Tobago the Visa Travel Card is an example of an open-looped prepaid card. The card is purchased at a bank branch and there can be more than one beneficiary on the same account. It can be used to make local and foreign purchases. They are therefore attractive to travelers and those with children studying abroad, as a means of making payments which at the same time provides a control on spending.

In response to the money laundering issue, network providers like Visa and MasterCard have themselves established



rules for issuing banks to implement in order to reduce this risk. They have also introduced limits to the dollar amount that can be loaded at the time of purchase. In Trinidad and Tobago the travel card can be loaded or reloaded electronically via the internet or at the bank branch. However there is a limit of US\$5000.00 per top-up. This limit curtails the potential for money laundering.

Regulators of the payments system aim to monitor money laundering and, where necessary, design rules that would trap criminals but at the same time not discourage genuine use of prepaid cards. In the European Union, there are two pieces of legislation that regulate prepaid cards (which fall under the broad category of e-money). They are the e-money directive and the 3rd money laundering directive. In Trinidad and Tobago, the Central Bank has issued guidelines on Combating Money Laundering. These guidelines can be found on the Bank's website. ■

New Fee on Large Value Cheques

The Real Time Gross Settlement (RTGS) System for the clearance and settlement of large value (\$500,000 and above) payments³ is an attractive alternative to making large value payments by cheque. The RTGS

- is simple to use
- provides payment in real time
- ensures instantaneous access to funds
- improves safety in making and receiving payments.

The RTGS System is currently the only method, other than cash, that provides same day access to funds. Access to and value for large value cheques have at least a one-day lag. These cheques are subject to the current 4-day clearing period within which cheques can be returned.

With effect from 17th September 2007, a charge of \$100.00 was applied to large value cheque deposits. This fee is collected upon encashment of cheques and is aimed at further discouraging the use of this

payment method for large values, given the risks it poses to the payments system.

The arrangement has been waived for the settlement of large value government cheques until such time as the necessary legislation and regulatory amendments are made to allow government's increased use of electronic payments.

Beneficiaries are encouraged to request payment through the RTGS system if they wish to avoid this charge. ■

³ The RTGS can be used for time-sensitive payments of any amount.

Q & A Money Laundering III

Last year we shared with you various forms of business fraud and how to avoid instances of fraud. This year we are bringing to you a four part series on money laundering⁴.

How can Financial Institutions Know Their Customers?

An important part of avoiding money laundering is knowing-your-customer in business. Here are a few guidelines that financial institutions should adopt:

1. **General Due Diligence** – document and implement comprehensive customer identification policies and procedures which seek to effectively combat money laundering incidents.
2. **Personal Customer Due Diligence** – on initiating a business relationship, obtain relevant identification records from the customer. For foreign customers a reference should be sought from the customer's bank.
3. **Business Due Diligence** – verify the identity of the directors, partners, sole traders, officers, account signatories and beneficial owners. Documentary evidence of the business e.g.

Certificate of Incorporation, should be provided by the customer or obtained from reliable sources;

4. **Evidence of Trust, Nominee and Fiduciary Customers** – financial institutions should obtain evidence of appointment of trustees, nature and purpose of the trust and verification of the identity of the trustee, settler, protector, person providing the funds, comptroller or similar person holding power to appoint or remove the trustee;
5. **Politically Exposed Persons** – institutions should implement appropriate procedures to determine whether a customer is a politically exposed person (i.e. persons entrusted with public functions). In such cases senior management approval for establishing business relationships should be obtained and reasonable measures be taken to establish sources of wealth and funds;

6. **Non-face-to-face Customers** – where customers do not present themselves personally when conducting transactions e.g. with services provided via the internet, telephone or similar technology, institutions should have ongoing monitoring procedures and standards;
7. **Introduced Business** – where financial institutions establish business relationships through introducers, the financial institution should ensure that the introducers are "fit and proper" and exercise the necessary due diligence procedures;
8. **Observe specific industry Know-Your-Customer issues** – it is critical that institutions remain informed on specific money laundering issues within their industry. ■



The safe-tt, GSS and ACH Volume Meter

The actual volumes of payment transactions to date are as follows:-

Date	safe-tt	GSS	ACH
January 2006	1889	372	2547
February 2006	1819	683	4119
March 2006	2321	578	8071
April 2006	1959	401	8201
May 2006	2313	438	11581
June 2006	2173	466	11787
July 2006	2237	599	12817
August 2006	2184	377	16404
September 2006	2302	658	17596
October 2006	2477	624	25931
November 2006	2869	1138	33102
December 2006	2381	636	38069
January 2007	2490	756	37285
February 2007	2546	1507	40601
March 2007	2578	717	50767
April 2007	2783	1342	54702
May 2007	2716	1224	67547
June 2007	2515	1066	70867
July 2007	2882	943	75451
August 2007	2843	577	85448

⁴ Source: Guidelines on Combating Money Laundering and Terrorist Financing, Central Bank of Trinidad and Tobago, September 2004.

