Rundheersing Bheenick: Clearing cheques – clearing the arteries of business and finance

Welcoming remarks by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, on the occasion of the Launching Ceremony of the Cheque Truncation System, Bank of Mauritius, Port Louis, 6 September 2011.

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What a fine spectacle this is! To find the Bank of Mauritius and all the commercial banks in our jurisdiction – we have twenty of them gathered together on the same platform, looking in the same direction, with – in their midst − the top political and economic leadership of the country – the Prime Minister and his Minister of Finance, who, I cannot help observing, look perfectly at ease in our company.

What a special symbol this is of the public/private partnership we enjoy as part of Mauritius Inc! I said “fine spectacle” because, these days, around the world, it is more usual to find bank regulators and their regulatees at each other’s throats, engaged in mutual recrimination. Over the waters, we see legislators and other policy-makers hauling bankers, labeled as greedy and irresponsible, if not downright criminal, over hot coals, breathing fire and brimstone and threatening to make up for past legislative and regulatory laxity by swinging the axe of overregulation. Judging from the language and the tone of the outrage and condemnation of bankers, it is a wonder that no bankers have yet been attacked by lynch mobs.

In comparison, our own occasional grumbles are more in the nature of gentle parental raps on the knuckles of occasionally wayward children although one could be readily excused for thinking otherwise as our inventive press corps has made an art form of blowing up tiny molehills into towering Everests.

But broadly speaking, this evening, we can feel proud that we have together navigated rather well, by judicious piloting, and perhaps a slice of good fortune, the turbulent waters of the economic and financial mayhem of the past few years, that has so troubled the western world and so many of its principal trading partners.

Thus, in this general atmosphere of trust, respect and support, it is again an honour, and indeed a personal pleasure for me to be your guide to welcome you all to this launch event, which the Bank is happy to host on behalf of the entire banking community. Thank you for all being here with us.

But there is more than mere symbolism here. The Bank has always viewed its statutory obligations relating to the clearing house and the payments system as a shared responsibility, to be discharged in conjunction with commercial banks. The Cheque Truncation System (or CTS) that we are launching today exemplifies that approach very well. A change in the way we process cheques was long overdue. And we would have rolled out the CTS long before, had we not unfortunately got ourselves embroiled in internal turf battles which almost paralysed decision-making at the Bank and led to serious operational and procurement difficulties. The Bank has a mandate to promote greater efficiency in the banking sector. The system of payments and settlements is the backbone of any economy; it forms the arteries for conducting trade, commerce and indeed all economic activities in a country; creating the momentum for economic growth, prosperity and welfare. It is an essential feature of the modern state.

First, may I be allowed to offer a little dose of the history of the decision to modernize the way we process cheques. The Port Louis Clearing House (PLCH) has been functioning since 1968, meeting twice a day, at the premises of the Bank, every working day including once on Saturdays, that is when our high street banks used to work on Saturdays, (Ah! those were the days). At that time cheques of different banks varied in size and format, which did not pose any problem when cheques were handled manually. But a challenge was presented to all the banks when in the early 1990's, the then Managing Director, Ranapartab Tacouri, tasked Anil Gujadhur, who was later to succeed him, to automate the handling of cheques by moving to electronic capture of essential fields.

The first stage in the modernisation process, somewhat delayed for reasons we need not go into here, was the introduction of the Mauritius Automated Clearing and Settlement System (MACSS) in 2000. This provided the springboard for a quantum leap in the transformation of the payment system. A strategic decision was taken to focus on this electronic platform for real-time high-speed settlement of large-value transactions. The automation of cheque clearing was put on the back burner. I understand that they toyed with the idea of calling it MACH with obvious reference to the MACH number, which measures the speed of sound. This would have been quite ironical, given the leisurely speed at which matters progressed!

After this, the next logical step was the extension of this electronic clearing to ***all*** cheques. At first, there was some resistance, especially from the smaller banks who were worried about the added cost. The resistance was overcome and, by 2003, all cheques were standardized and made machine-readable, which enabled the PLCH to transform itself into PLACH, adding the critical A for "Automated". The process of standardization continued with the introduction of MICR-technology – Magnetic Ink Character Recognition − which is an electronic code line, in all cheques in 2002. But there were also some legal obstacles in the way and these were only resolved with changes brought to the Bills of Exchange Act in 2004.

As part of our due diligence, we fielded a joint Bank of Mauritius and Mauritius Bankers' Association mission, led by my First Deputy Governor and the Chief Executive of MBA, to Southeast Asia where the members could see for themselves how cheque truncation has modernized cheque settlement in Hong Kong and Singapore. They came back convinced that this was the way of the future. In the meantime, modernisation continued with the introduction, in 2009, of the RTSX, a system based on the then best international practice and supporting multi-currency transactions, with extended settlement windows.

Now many of you will know that missions to Asia are the easy part; it is putting the lessons we have learned there into practice that taxes our resolve, our skills and our stamina. Since then, senior officials from commercial banks, at different levels and with different backgrounds, have worked diligently and hand-in-hand with Bank of Mauritius staff to take the project through to completion and now to the formal launch of the CTS. We might regret that we took so long to get us here and we owe an apology to all cheque users for the delays, but as the system unfolds it will be of immense benefit to all. We hope to move to the next stages, may be not quite at the speed which you measure in mach numbers, but somewhat faster than it took us to get here.

This is a potted history of the process leading us to CTS. All this required close participation not only of the banking industry but of business in general and of representatives of that widening community of cheque-users, as so many more Mauritians have moved, in the past generation from keeping their cash and savings in little brown envelopes under the mattress, to the regular use of high street banks.

Let me pause here to put to rest a canard about the cost of the CTS which is doing the rounds and seems to be gaining some traction. No, it is not costing Rs100 million. And no, it is not costing more than the cost proposed by a party which is styling itself as the "preferred bidder". The initial costs work out at 35% of the costs of the self-appointed "preferred bidder". After taking into account the costs of the software license and maintenance costs over five years, the project comes in at about 60% of the other offer. The cost over five years amounts to a grand total of less than Rs19 million – a far cry from the Rs100 million being bandied about!

It is a simple thing to write a cheque and put it in the post. But most of us are blissfully unaware of the complex journey these ubiquitous cheques now make before the values they represent are transferred to the account of the payee. So long as it works, there's no reason why the normal cheque-users should concern themselves with what is essentially a matter of the internal plumbing of our financial system and payments infrastructure. I'm sure you will be glad that only time inhibits me from revealing everything you always wanted to know about the plumbing arrangements for cheques, but were probably afraid to ask. But let me just give you a glimpse of the complexity of that everyday process which will throw some light on the full extent of the change that the, shortly-to-be-unveiled, CTS will bring us.

In Mauritius, as elsewhere, plastic and electronic payments have made substantial inroads over the years. But cheques still constitute a full 20 percent of all non-cash payments in the country. We have half a million cheques passing through the Clearing House each month, that is 25,000 cheques each working day. Add to this the intra-bank cheques, that is cheques paid out from and paid into the same bank; and we are talking about 50,000 cheques each working day.

Whilst this volume of cheques has been continually rising by about 3% since I have been at the Bank, the value transacted has been rising even faster, increasing by nearly 30 percent over the same period of four years. The total average value of cheques cleared at the Clearing House exceeds Rs 1 billion a day. If we add to that the value of intra-bank cheques, we are now clearing over Rs2.5 billion in cheques each working day. 50,000 cheques cleared everyday; Rs2.5 billion settled everyday – these are serious numbers.

Now, just imagine those 21,000 cheques, or the 50,000 if you look at all cheques and not only those coming to the PLACH, beginning their journey at one of the 215 or so banks and bank branches dotting the length and breath of the country, laboriously finding their way to the main branch where they are processed, sorted and bundled, then being taken twice a day to the PLACH by the fourteen clearing banks, then beginning their journey back, and starting all over again if they bounce for any reason. Each of those cheques went through many hands, often travelling many miles. Everyday, some 300 officers – or 5% of banking sector employees − put in an estimated 325 person-hours to operate the system. No wonder it took three to five days before value was received for cheques cleared.

This process, to which we say goodbye this evening, has served us well and I would not wish to run it down. It was quite efficient and reliable in its own way – few cheques went astray. But, in these modern high-tech times, it was clearly wasteful, inefficient, and antiquated. It had clearly done its time and was ripe for overhaul. As we proceed to bury it, spare a thought for all those wonderful people who kept it running so well for so long.

Happily this evening our Prime Minister will officially launch its successor and present the very first cheque for clearance under the CTS. I'm pretty sure we don't need to hold our breath in case it bounces, as I know this Bank's financial credit is sure and has not been downgraded, unlike that of some who have been making the news.

So what does the CTS do for us? To begin with, it does away with the need for the physical movement of cheques to the Clearing House. Instead, their images are captured electronically and used for transmission and processing. All this happens in the back-office and may not be visible to cheque users. The CTS is more efficient, has lower attendant risk, it is less time-consuming and less costly into the bargain. It has many benefits for both users and for banks. Cheque imaging makes it easier to detect fraudulent transactions as electronic processing facilitates signature authentication, curtailing forgery and other cheque alterations. It also clears the arteries of business and finance. Funds become available faster as the clearing cycle is shorter. The significant reduction of the float-time enables a better management of cash flows and working capital for economic operators. The CTS will add to the convenience of cheques and may even stimulate their greater use as there are, at present, many merchants who are reluctant to accept cheques for reasons of security and liquidity.

Over and above its benefits, the CTS also has an emblematic value. It illustrates our unrelenting quest for change, for innovation and for new technology to achieve greater efficiency in the banking industry, to enhance our banking experience and to increase our competitiveness, especially on those vital pillars of the GEF rating for efficiency enhancement and technical innovation. It is not surprising therefore that the news of the new Mauritian system is already exciting the curiosity of other countries and we have had over the past two years delegations from central banks of Kenya, Nigeria, Papua New Guinea, Rwanda, Seychelles and Uganda, visiting us to learn more about our new system which we are putting in place.

The CTS is here. But our quest for efficiency enhancement and innovation continues. So let me give you a very brief overview of what you may expect from the Bank of Mauritius in the months ahead.

– First, we shall extend the CTS to the Accountant General's Office so that Treasury officers will be spared their daily trudge to the bank's counters, carrying a sackful of paper cheques. They will be able to scan and digitize their cheques and transmit them for clearance just like the clearing banks.

– Second, we shall examine with the Mauritius Revenue Authority whether it may also benefit from similar arrangements. We greatly value our collaboration with MRA and it was in response to their requirement that we introduced a multi-currency payment facility which assisted us to obtain the mandate to run the COMESA REPSS (Regional Payments and Settlement System).

– Third we are also implementing a Bulk Clearing System for deferred net settlements, compliant with the World Bank and BIS recommendations, This will allow low-value high-volume regular transactions such as payrolls, standing orders, direct debit cards and point-of-sale transactions to be incorporated in the electronic system.

– Fourth, we begin work soon on a major project to introduce a National Switch, provided for under our Act, − a technological platform which will become a key element of our national payments infrastructure. It will serve as a sound, low-cost, platform for future e-payments. This ATM/POS switch will enable us to handle domestic ATM and POS transactions without incurring the extra charges which apply when the handling is done via the card networks.

Once we provide e-clearing on a locally-provided network like the National Switch, we are confident that our payment system infrastructure can stand comparison with the best in the world.

A word about the banking landscape and the global economy may be in order. We can crow as much as we want that our banks and our economy have been spared the worst effects of the prolonged crisis which has ravaged the banks and the economies of the developed world. The fact of the matter is that we live in an interdependent world and, whether we like it or not, we are an open and export-dependent country. Our large import and export elasticities mean that we are exposed in multiple ways.

There are dark clouds hanging over the global economy and the recovery, which never quite got going, is now clearly faltering and growth is stalling. Plans to save the Eurozone succeed one another like one of those interminable soap operas, but they do not succeed. The doomsayers are out in full throttle and another recession is on the cards. The crisis, far from abating, may actually be mutating into an even more intractable form. For global economic recovery, we may well be in for the long haul. We shall have to take preemptive measures wherever we can to ensure that we minimise any negative fallout.

Large universal banks are facing increasing balance-sheet pressure, under the double impact of past bad debts, including sovereigns, and the prospect of higher capital-adequacy and liquidity rules coming under Basel III. Several, like UBS, ABN/AMRO, Credit Suisse, Barclays, HSBC, and others have started laying off large numbers of staff. Others, like Citigroup and Santander, are disposing of overseas branches where they can unlock value to raise much-needed capital. This has at least three lessons for us:

First, the worsening economic outlook underlines the need for cost-cutting measures and for increasing efficiency in the banking sector – which is exactly what we aim to achieve with the CTS which we are rolling out this evening. Despite our skilled navigation, we remain exposed to the financial distress and the sovereign debt crisis of the western world. Any step we can take to increase efficiency and complete financial transactions more rapidly to reduce the need for working capital, will help us to elude the general slowing of the world economy and the adverse impact of the faltering recovery elsewhere.

Second, we should not be surprised if some of the international bank branches and subsidiaries which are operating in our country are affected by the policies being pursued by their overseas parent. We can seek to insulate our jurisdiction a little by insisting that any future international bank, that sets up operations in Mauritius, does so via a subsidiary.

Third, it is vital that we address issues going under the seemingly-innocuous triple acronyms of LCFI, SIFI, and TBTF. Telling ourselves "It won't happen here!" won't do. We must come to grips with LCFI's, large complex financial institutions, especially those that are SIFI's, systemically important financial institutions, and may qualify as TBTF, or too big to fail.

This last point is particularly troublesome for a small economy. We have a high degree of concentration in the banking sector, with the Hirshman-Herfindahl Index standing at 2024 in June this year, which is unusually high and well above 1800, the entry point for high concentration. The top two banks, both local, have total domestic assets which exceed by more than 30 per cent the ***combined*** assets of all the other 15 banks which have domestic operations. We have associated problems arising from the concentration of asset ownership in the country − which makes it very problematic to apply such notions as "independent directors", "related party transactions", or to have recourse to such prudential principles as the regular rotation of auditors and so forth. These may become a source of vulnerability and undermine financial stability as contagion can spread rapidly through the domestic banking and financial system.

More pointedly, some of the banking groups have just become too large and too diversified for the central bank to supervise as effectively as we would wish with the resources at our disposal. We intend to work with the banking industry, and in particular with the banks directly concerned, to ring-fence domestic banking operations which will be subject to full supervision including risk-based and macroprudential supervision. To achieve that, we shall move away from the current bank-holding model to the bank-subsidiary model. This will require some re-structuring and re-engineering. That, and more innovation is for the future.

Before I leave the changing face of the banking scene let me offer a final word on how the central bank is playing its role beyond our borders. We have been providing technical advice to many of our central banking colleagues from abroad who have come to assess our innovations in the payment system, credit information, the conduct of monetary policy, foreign exchange management, and even how we run the Governor's Office. We now host the REPSS to meet the cross-border payment settlement needs of COMESA countries. We are now engaged in consultations to make REPSS the settlement platform for countries beyond COMESA. Our voice is increasingly heard in regional fora.

And the hot news: we have just been invited, along with ten other countries to join the Financial Stability Board's regional consultative group for Sub-Saharan Africa. The FSB, which functions under the aegis of the BIS in Basel, develops and promotes effective regulatory, supervisory and other financial sector policies to further financial stability. It comprises 24 countries and jurisdictions of systemic importance. The regional consultative groups will feed into FSB deliberations to support the work of promoting international financial stability. For so small a country, in so large a region, − this is a signal honour with a GDP of US$10 billion, or less than 0.6% African Continental GDP.

So the process of banking and financial sector reform continues. Rest assured that your central bank remains both vigilant and innovative, seeking always to ensure that we have a safe, dependable, and efficient banking industry, which fulfils our role of clearing the way for local modern business and for all those who use our continually improving high’tech banking system.

And so this evening as we focus on the new Cheque Truncation System, at a stroke the Prime Minister will now ensure that old process of manually clearing cheques passes into history!

Thank you.