

Njuguna Ndung'u: New Cheque Clearing Cycle

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, during the announcement of the T+1 Cheque Clearing Cycle, Central Bank of Kenya, Nairobi, 31 July 2013.

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Mr. Jeremy Awori, Chairman, KBA

The Deputy Governor, Central Bank of Kenya

Ladies and Gentlemen;

It is my great pleasure to welcome you all to the Central bank of Kenya.

Ladies and Gentlemen,

Today marks another important milestone in the enhancement of the Cheque Clearing Process in the Automated Clearing House.

Since 1998, the Central Bank of Kenya has worked towards modernizing the National Payment Systems. This journey started with the automation of the Clearing House, through the introduction of the Magnetic Ink Character Recognition (MICR) technology and the Electronic Funds Transfer (EFT) payments. These initiatives resulted in the reduction of clearing time from fourteen (14) days to the current two (2) days. Other milestones in the modernization process include the successful launch of the Kenya National Payments System Framework and Strategy Document in September 2004, the Kenya Electronic Payments and Settlement System (**KEPSS**), in July 2005 and authorization of the mobile payments platforms to enhance financial inclusion, in 2007.

Ladies and Gentlemen,

KEPSS implementation helped phase out the previous paper-based inter-bank settlement system and completely transformed the management of liquidity in the banking industry. Currently, KEPSS processes, real time, a daily average of over 7000 transactions valued at KES 86 billion.

In 2008, the Central Bank of Kenya in conjunction with Kenya Bankers Association (KBA), initiated the modernization of the cheque clearing payments system, which was aimed at mitigating various risks as well as enhancing efficiency, with three key deliverables two of which are the Cheque Truncation system and the Reduction of Cheque clearing cycle to T +2.

The Cheque Truncation System and the T+2 Clearing Cycle were achieved within the agreed time, in 2011 and 2012 respectively. These measures have contributed tremendously to the significant reduction in cheque-related frauds as well as increasing the efficiency of cheque payments.

Ladies and Gentlemen,

The introduction of Cheque Truncation enabled the whole of Kenya to become a "One Clearing Zone". This meant that cheques drawn in Nairobi, upcountry and remote zones e.g. Moyale, would be processed within the T+2 clearing cycle, thus saving customers time and transport costs.

Thus, the implementation of cheque truncation system has delivered on improving the efficiency of the clearing process, reducing the cost associated with handling physical cheques and reducing the clearing period.

More recently, we have witnessed additional initiatives to enhance efficiency in the cheque clearing process. For example, with effect from 1st July, 2012, KBA waived commissions

charged on cheques cleared from upcountry and remote bank branches thus reducing the cost of clearing cheques. Prior to cheque truncation, bank branches in the country were divided into local, upcountry and remote zones.

On 16th January 2012, (KBA) issued a circular effectively reducing the clearing period to 2 clearing days (T+2). In so doing the Association passed on the benefits of cheque truncation to banking customers and the public in general. In June 2013, the automated clearing house processed 1.5 million cheques valued at Kes 175.1 billion. Due to the reduced clearing period, beneficiaries received their funds a day earlier to finance their economic activities.

Ladies and Gentlemen,

The final deliverable initiative of the cheque truncation project is to reduce the clearing period to 1 clearing day (T+1). Today, I am happy to announce that we have achieved this deliverable that is T+1 clearing cycle, which takes effect on 19th August, 2013. This means that banks will be moving to the one day cheque clearing cycle, which will shorten the time it takes for banks to process cheques.

By further reducing the clearing period, banking customers will benefit by accessing their funds at a much shorter time to conduct economic activities.

Ladies and Gentlemen,

The continued systematic modernization of the payments and settlements systems is aimed at enabling the country's payment system to attain international standards and ensure that Kenya becomes a financial hub in the region as well as the preferred investment destination.

Furthermore, a fundamental policy objective for payments modernization remains the achievement of safety, efficiency and effectiveness of the payment system as well as promoting access and inclusion to financial services. To achieve these objectives, the Bank works in close liaison with the Government, the Kenya Bankers Association (KBA), the financial sector in general and other stakeholders.

Ladies and Gentlemen,

As we make this important announcement, may I take this opportunity to sincerely thank the KBA, who has been an instrumental player and partner in the modernization of the National Payment System as a key stakeholder in Kenya's banking industry. We are thankful for their role in facilitating and supporting the success of the automation and improvement of the National Payment System. Indeed, the Central Bank remains committed to creating, nurturing and strengthening partnerships with all stakeholders in the banking industry.

Finally, I would like to assure you all that the Central Bank will continue to provide a supportive regulatory environment for banks and other financial institutions to do business and to improve the payment systems.

Thank you all for your attention