

Rundheersing Bheenick: The new system for clearing cheques in Mauritius

Remarks by Mr Rundheersing Bheenick, Governor of the Bank of Mauritius, at the Pre-Launch Event of the Cheque Truncation System, Port-Louis, 22 July 2011.

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I am very pleased to welcome you to the Pre-Launch Event of the Cheque Truncation System (CTS). We are today launching an awareness campaign on the new modern system for clearing of cheques, the CTS, which will soon be implemented in our country.

The setting up of the CTS is a significant milestone in the Mauritian banking sector. It is the fruit of a very close collaboration between the Bank of Mauritius (BOM) and the Mauritius Bankers Association (MBA). I am very happy to have around me the Acting Chairman and the CEO of the MBA, as well as the CEOs of banks. As you may be aware, as per the provisions of the Bank of Mauritius Act 2004, the organization of the clearing house is done in conjunction with banks. So this is a BOM/MBA event.

The Port Louis Clearing House

Following the enactment of the Bank of Mauritius Act 1966, at the suggestion of the Bank of Mauritius, the Mauritius Bankers' Association established, on 19th August 1968, a Mauritius Clearing House for the five banks which constituted the banking industry of the country at the time. The meeting place was the Bank of Mauritius. Later it became the Port-Louis Clearing House. Over the years, the Port-Louis Clearing House went through a process of modernization. First the cheques were standardised with the introduction of the Magnetic Ink Character Recognition (MICR) technology. Concurrently, information regarding clearing and settlement of cheques started being exchanged through the Mauritius Automated Clearing and Settlement System (MACSS). Nonetheless, the Port-Louis Automated Clearing House (PLACH), as it was renamed, continues to function on a manual mode, with the exchange of physical cheques. The CTS will do away with this manual process which, as you will see, is quite tedious. Let me briefly explain the process.

The clearing process

Cheques deposited by clients are collected from all bank branches (215) and transported to the respective head office. There, the cheques are sorted according to the respective banks, bundled together and transported to the PLACH twice a day, at 10.00hrs and 15.00hrs. The PLACH, a room of around 20 square metres is situated on the premises of the Bank – at times there can be around 20 people in a room of this size. There, the cheques are exchanged among the banks and the representative of each bank transports back his bank's cheques to the head office where the verification of the cheques is carried out manually. The cheques that are in order are honoured, those that are not, are returned at the second clearing on the next day. The resources mobilized by the cheque clearing process total some 300 persons putting in some 325 person-hours on a daily basis, including the transport of cheques from the respective banks to the PLACH, and back.

This process has been going on for the last 44 years. In 1968, the Mauritius Clearing House was processing an average of 2,000 cheques daily; today the number has multiplied tenfold. It is high time to move to a more modern system. The CTS will reduce work time and manpower and bring efficiency in the entire banking system. It will benefit customers who will find the waiting time to get access to their funds (float time) cut down from an average of two to five days to one to two days.

With the CTS, we will align ourselves with countries like Singapore, India and Malaysia. In sub-Saharan Africa, we are among the pioneers of the system. The implementation of the CTS constitutes a key element of our Financial Sector Development Plan.

The CTS

In the CTS, the physical cheque which enters the banking system for clearing is processed from this point onwards by the digital image of the cheque – there will no longer be an exchange of physical cheques, as is currently the case.

The CTS project is part of the Bank's strategy of modernising the Payment and Settlement System. As you are aware, the management of the Payments and Settlement System is part of the functions of the Bank. The Bank with our commercial bank partners are endeavoring to make the system more efficient and reliable.

The process of modernization started in 2000 with the implementation of the MACSS based on Real Time Gross Settlement principles for large-value transactions. Then, came the automation of the Port-Louis Clearing House which I mentioned earlier. Other important milestones were the legal amendments to the Bank of Mauritius Act and the Bills of Exchange Act to pave the way for the introduction of an electronic clearing system.

Work on the CTS project itself started in 2005 under Mr B R Gujadhur, then First Deputy Governor of the Bank. The banking community has been closely associated with the project right from day one. In 2007, there was an exploratory mission to Hong Kong and Singapore, which was headed by the present First Deputy Governor of the Bank. The CEO of MBA also formed part of the delegation as did banking industry representatives. Unfortunately, we ran into some administrative hurdles on the way, and the project found itself delayed considerably.

The CTS, which we are preparing to launch, is only the initial phase. In fact, more advanced systems of cheque truncation cater for image capture directly at Points of Sale (POS) and ATM's – as is the case in India for example. As we implement other stages of the CTS, bank customers will not have to go to their banks; truncation will be done at the POS. We are also launching the Bulk Clearing System (BCS) which is a missing block in the Mauritian payment system. The BCS will cater for high-volume, low-value transactions such as salary payments, standing orders and direct debits. In the next phase, we envisage the implementation of a national switch to cater for card and POS transactions.

The need for the CTS

The cheque is currently the most visible and most widely-used instrument of payment in Mauritius. Currently it represents around 20 per cent of all non-cash transactions. In spite of several modes of electronic payment that banks have put at the disposal of their clients, an average of 21,000 cheques pass through the PLACH each day, for an amount of almost a billion rupees – representing 20 per cent of total MACSS transactions. If we take into account the number of intra-bank cheques, the daily volume of cheques approximate 50,000 for a value exceeding 2.6 billion rupees. These are serious numbers!

Over the past five years, the volume of cheques handled by the PLACH has remained in the range of 5.2 million to 5.4 million annually, with the aggregate value constantly on the rise. We had to find a way to cope with this avalanche of cheques.

Cheques, as debit instruments, come with an intrinsic settlement risk. A large proportion of unpaid cheques in the payment system may lead to systemic risk. It is our responsibility to ensure that such risks are well-contained in the interest of the stability of the financial system. To further this objective, the new system will identify high-value cheques for which

there will be a fast track settlement. A system whereby clearing is done electronically with the use of digital images and the MICR Code will contribute significantly to reduce those risks.

Awareness campaign

This Pre-Launch Event will kick start the Cheque Truncation Awareness Campaign. I set up a Committee, chaired by the Deputy Governors and comprising representatives of the Bank and commercial banks, to drive the awareness campaign. I thank all members of the Committee for their dedication and commitment. The campaign which starts today will span over the next four weeks.

Public awareness will be created through distribution of brochures (in French and in English); posters will be affixed in public places such as the Post Office, Mauritius Telecom, CWA, supermarkets etc. There will be press adverts and radio and TV spots in the following two weeks. We hope to have a dedicated programme on Cheque Truncation on MBC TV. We want to reach every household and sensitise every cheque user. There will be help desks both at the Bank and at individual banks, including branches of banks. Information will also be available on the Bank's website as well as on the website of individual banks. We will have on our website a list of *Frequently Asked Questions (FAQs)*. We count on you, ladies and gentlemen of the press, to help us in this campaign.

What will change with the new system?

The process of clearing will not change, except that the exchange of physical cheques will be eliminated and replaced by the digital images of the cheques. These digital images will be transmitted electronically by the presenting bank to the paying bank through the Clearing House.

There will be no change for the consumer. It is in the internal plumbing of the system, in the invisible parts, that the change will happen. Clearing will be done from an IT-enabled platform; powerful servers linking all the banks will take over the process.

The long and tedious manual handling of cheques will be replaced by a system that will not only reduce the float time before funds become available, but will contribute to combat fraud and forgery, and in the final analysis bring more efficiency to the entire banking system.

The costs of implementing this system will be borne by the Bank and the Mauritius Bankers Association. There will be no additional costs to the consumer.

Responsibilities of the drawer and user of cheques

The new system will require that the drawer pays more attention when he draws cheques. He or she will have to adhere to certain norms.

Some people still use the old format of cheques instead of the standardized cheques with the MICR code. We would strongly advise the public to ensure that they use the standardized cheques – after the 31st December 2011, the old format of cheques will no longer be accepted by the system but will have to be cleared manually.

The system will keep track of people who make it a habit of drawing cheques with insufficient funds (*chèques sans provision*). This will help banks in drawing out the profile of their clients from their payment pattern.

You will find more details on the differences between the present and the new systems in the brochures.

It was my singular privilege to have welcomed you this afternoon, not just on behalf of the Bank of Mauritius but on behalf of the whole banking sector. The Cheque Truncation Project

is one of a kind where both regulator and regulatees are united in a common resolve to modernize the Payment and Settlement system in Mauritius. The implementation of the CTS has only been possible with the active collaboration of the banking industry. I am therefore grateful to the MBA and all its members for the support they have given us throughout this process.

Thank you.