CHEQUE TRUNCATION SYSTEM IN INDIA (CTS)

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ABSTRACT

Very recently Reserve Bank of India has instructed all banks to implement the cheque truncation system across the country. In this context, we made an attempt to study how CTS benefits to customers. With the introduction of imaging and truncation, the physical movement of instruments is stopped. The electronic movement of images of cheques speeds up the process of settlement and can facilitate reduction in the clearing cycles as well. Moreover, there is no fear of loss of instruments in transit.

CHEQUE TRUNCATION SYSTEM

Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point with the presenting bank en-route to the drawee bank branch. In its place an electronic image of the cheque is transmitted to the drawee branch by the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across branches, other than in exceptional circumstances for clearing purposes. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection and brings elegance to the entire activity of cheque processing.

Under the CTS system, the physical movement of cheques between banks will be eliminated. Normally, when you issue a cheque to someone, he presents the cheque in his bank to get the credit. The cheque then moves physically from his bank to your bank which involves a lot of time and risk. RBI recognized the disadvantages of this old system and brought about CTS, where instead of the physical movement of the cheque, an electronic image of the cheque is transmitted to the drawee branch. The presenting bank retains the
physical cheque. Along with the electronic image, certain key relevant information is also transmitted, such as date of presentation, presenting bank details, data on the MICR band.

All types of cheques can be presented for clearing through CTS. It is no different from the use of traditional clearing infrastructure for clearing paper cheques. Cheques presented as part of Speed Clearing are handled in CTS as well (for more details on Speed Clearing, the related FAQs may be referred to). Incidentally, given the fact that images of cheques (and not the physical cheques) alone need to move in CTS, it is possible for the removal of the restriction of geographical jurisdiction normally associated with the paper cheque clearing. For reaping this benefit, the concept of Grid-CTS clearing is being envisaged as part of roll-out of CTS at Chennai. Under the grid clearing, cheques drawn on centres included in the grid will be cleared as part of local clearing

Under CTS the physical cheques are retained at the presenting bank level and do not move to the paying banks. In case a customer desires, banks can provide images of cheques duly authenticated. In case, however, a customer desires to see / get the physical cheque, it would need to be sourced from the presenting bank, for which a request should be made to his/her bank. An element of cost / charge may also be involved for the purpose. To meet legal requirements, the presenting banks which truncate the cheques need to preserve the physical instruments for a period of 10 years.

The Cheque Truncation System has legal sanction with amendments in the Sections 6 and 1(4), coupled with the introduction of 81A to the Negotiable Instruments Act, 1881, truncation of cheques is now legalized.

Banks / Customers should use "CTS 2010" cheques which are not only image friendly but also have more security features. Customers may request/insist their banks for cheque forms that are compliant with the "CTS 2010" standard. They should preferably use dark colored ink while writing cheques and avoid any alterations / corrections thereon. Preferably, a new cheque leaf may be used in the event of any alterations / corrections as the cheque may be cleared through image based clearing system as enumerated in 15 above. Banks should exercise care while stamping the cheque forms, so that it does not interfere with the material
portions such as date, payee’s name, amount and signature. The use of rubber stamps, etc, should not overshadow the clear appearance of these basic features in image. It is necessary to ensure that all essential elements of a cheque are captured in an image during the scanning process and banks / customers have to exercise appropriate care in this regard.

FEATURES

A CTS compliant cheque leaf is different from a normal cheque leaf you currently use, and has certain distinct features.

1. **Cheque printer details**: this is printed on the extreme left hand side of the cheque. The printer details along with the words ‘CTS-2010’ is mentioned along the area where we tear off the leaf from the cheque book.

2. **Rupee symbol**: the new symbol of the Indian rupee is printed beside the area where the amount in figures needs to be written.

3. **Details of the bank and its logo**: the bank details and its logo are printed on the face of the cheque. However, it is printed in invisible ink.

4. **Signature space indicator**: the words ‘please sign above’ are mentioned, indicating the space where we will need to sign the cheque.

5. **VOID pantograph**: this is a wavelike design, which is visible to the naked eye and seen below the area where the account number is printed.

CHEQUE TRUNCATION IN INDIA

Cheque Truncation speeds up the process of collection of cheques resulting in better service to customers reduces the scope for clearing-related frauds or loss of instruments in transit, lowers the cost of collection of cheques, and removes reconciliation-related and logistics-related problems, thus benefitting the system as a whole. With the other major products being offered in the form of RTGS and NEFT, the Reserve Bank has created the capability to enable inter-bank and customer payments online and in near-real time. However, as cheques are still the prominent mode of payments in the country and Reserve Bank of India has decided to focus on improving the efficiency of the cheque clearing cycle, offering Cheque Truncation System (CTS) as an alternative. As highlighted earlier, CTS is a more secure system vis-a-vis the exchange of physical documents.

In addition to operational efficiency, CTS offers several benefits to banks and customers, including human resource rationalization, cost effectiveness, business process re-engineering, better service, adoption of latest technology, etc. CTS, thus, has emerged as an important efficiency enhancement initiative undertaken by Reserve Bank in the Payments Systems area.

STATUS OF CTS IMPLEMENTATION IN THE COUNTRY

The Reserve Bank has implemented CTS in the National Capital Region (NCR), New Delhi and Chennai with effect from February 1, 2008 and September 24, 2011. After migration of the entire cheque volume from MICR system to CTS, the traditional MICR-based cheque processing has been discontinued in these two locations. Based on the advantages realized by the stakeholders and the experienced gained from the roll-out in these centres, it has been decided to operationalise CTS across the country. Accordingly, Grid
based CTS clearing have since been started in Chennai by including a few banks from Coimbatore and Bangalore with effect from March 2012. It has also been envisaged to bring all the bank branches in the states of Tamilnadu, Kerala, Karnataka, Andhra Pradesh and the Union Territory of Pondicherry under Chennai Grid in a phased manner.

**PROCESS FLOW IN CTS**

In CTS, the presenting bank (or its branch) captures the data (on the MICR band) and the images of a cheque using their Capture System (comprising of a scanner, core banking or other application) which is internal to them, and have to meet the specifications and standards prescribed for data and images.

To ensure security, safety and non-repudiation of data / images, end-to-end Public Key Infrastructure (PKI) has been implemented in CTS. As part of the requirement, the collecting bank (presenting bank) sends the data and captured images duly signed and encrypted to the central processing location (Clearing House) for onward transmission to the paying bank (destination or drawee bank). For the purpose of participation the presenting and drawee banks are provided with an interface / gateway called the Clearing House Interface (CHI) that enables them to connect and transmit data and images in a secure and safe manner to the Clearing House (CH). The Clearing House processes the data, arrives at the settlement figure and routes the images and requisite data to the drawee banks. This is called the presentation clearing. The drawee banks through their CHIs receive the images and data from the Clearing House for payment processing. The drawee CHIs also generates the return file for unpaid instruments, if any. The return file / data sent by the drawee banks are processed by the Clearing House in the return clearing session in the same way as presentation clearing and return data is provided to the presenting banks for processing. The clearing cycle is treated as complete once the presentation clearing and the associated return clearing sessions are successfully processed. The entire essence of CTS technology lies in the use of images of cheques (instead of the physical cheques) for payment processing.

The security, integrity, non-repudiation and authenticity of the data and image transmitted from the paying bank to the payee bank are ensured using the Public Key Infrastructure (PKI). CTS are compliant to the requirements of the IT Act, 2000. It has been made mandatory for the presenting bank to sign the images and data from the point of origin itself. PKI is used throughout the entire cycle covering capture system, the presenting bank, the clearing house and the drawee bank. The PKI standards used are in accordance with the appropriate Indian acts and notifications of Controller of Certifying Authority (CCA)

**CHEQUE STANDARDIZATION AND CTS 2010 STANDARD**

Standardisation of cheque forms (leaves) in terms of size, MICR band, quality of paper, etc., was one of the key factors that enabled mechanization of cheque processing. Over a period of time, banks have added a variety of patterns and design of cheque forms to aid segmentation, branding, identification, etc., as also incorporated therein a number of security features to reduce the incidence of cheque misuse, tampering, alterations, etc. Growing use of multi-city and payable-at-par cheques for handling of cheques at any branches of a bank, introduction of Cheque Truncation System (CTS), increasing popularity of Speed Clearing, etc., were a few aspects that led to prescription of certain minimum security features in cheques printed, issued and handled by banks and customers uniformly across the banking
industry. A Working Group was set-up by RBI for examining further standardization of cheque forms and enhancement of security features therein. Accordingly, certain benchmarks towards achieving standardization of cheques issued by banks across the country have been prescribed like – quality of paper, watermark, bank’s logo in invisible ink, void pantograph, etc., and standardization of field placements on cheques. In addition, certain desirable features have also been suggested to be implemented by banks based on their need and risk perception.

The set of minimum security features would not only ensure uniformity across all cheque forms issued by banks in the country but also help presenting banks while scrutinizing / recognizing cheques of drawee banks in an image-based processing scenario. The homogeneity in security features is expected to act as a deterrent against cheque frauds, while the standardization of field placements on cheque forms would enable straight-through-processing by use of optical / image character recognition technology. The benchmark prescriptions are collectively known as "CTS-2010 standard". Indian Banks Association (IBA) and National Payments Corporation of India (NPCI) are co-coordinating with the banks on implementation of the new standard. Accordingly, the cheques issued are tested and certified by NPCI and only after such certification the cheques would be issued to the customers.

All banks providing cheque facility to their customers have been advised to issue only ‘CTS-2010’ standard cheques not later than April 1, 2012 on priority basis in northern and southern region which will be part of the northern and southern CTS grids respectively and across the country by September 30, 2012 through a time bound action plan. The infrastructure required at the banks’ end for participating in CTS are dedicated connectivity from the bank’s gateway to the Clearing House, prescribed hardware and software for the CTS application.

RBI provides member banks with the CHI (software). Banks need to procure hardware and other software such as operating system; database and a bouquet of third party software for the CHI. They also need to procure the application software for their capture systems.

The hardware requirement / sizing are based on the volume of cheques processed by banks. Based on the volume the CHI is categorized into four types and the hardware requirement is different for each category.

The bandwidth requirement for each bank is calculated based a number of factors like the peak inward and outward volume of the bank, average size of an image, efficiency factor of the network, etc. In addition, future requirements have been taken into consideration while calculating the bandwidth requirement.

**BENEFITS OF CTS TO CUSTOMERS OF BANKS**

The benefits are many. With the introduction of imaging and truncation, the physical movement of instruments is stopped. The electronic movement of images of cheques speeds up the process of settlement and can facilitate reduction in the clearing cycles as well. Moreover, there is no fear of loss of instruments in transit. Further, limitations of the existing clearing system in terms of geography or jurisdiction can be removed, thus enabling consolidation and integration of multiple clearing locations managed by different banks with varying service levels into a nation-wide standard clearing system with uniform processes and practices.
CTS also benefits issuers of cheques. Use of images obviates the need to handle and move physical cheques at different points. The scope for frauds inherent in paper instruments is, thus, greatly reduced. The Corporate if needed can be provided with images of cheques by their bankers for internal requirements, if any. As only the images move, the time taken for receipt of paid cheques is reduced which also gives an early opportunity to the issuers of cheques to detect frauds or alterations, if any, in terms of what (and to whom it) was issued and what (by whom it) was realized.

CTS bring elegance to the entire activity of cheque processing and clearing. Cheque frauds can be greatly reduced with introduction of minimum security features prescribed under CTS Standards 2010, such as embedded verifiable features such as bar-codes, encrypted codes, logos, watermarks, holograms, etc., for early interception of altered / forged instruments. Obviating the need to move the physical cheques is extremely beneficial in terms of cost and time savings.

The benefits from CTS could be summarized as follows:

1. Speedy clearance of cheques
2. Superior verification and reconciliation process
3. No geographical restrictions as to jurisdiction
4. Operational efficiency for banks and customers alike
5. Reduction in operational risk and risks associated with paper clearing.
6. The scope for committing frauds is greatly reduced
7. Saves time

CONCLUSION

Reserve Bank of India made a good attempt by introducing Cheque Truncation system (CTS) in banking sector. It not only useful for speedy clearance of cheques but also great helps to reduce frauds. At last the decisions taken by RBI in introduction of CTS in our banking sector is commendable or praiseworthy.

REFERENCES

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