



## Cheque Truncation System in Banking Industry

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### ABSTRACT

*Cheque Truncation is settlement of clearing transaction on the basis of images and electronic data without the physical movement of the instruments. The clearing cheque is truncated at the presenting bank itself. The Reserve Bank has implemented CTS in the National Capital Region (NCR), New Delhi, Chennai and Mumbai with effect from February 1, 2008, September 24, 2011 and April 27, 2013 respectively. CTS is an efficient way of clearing cheques. It is in fact, better than the existing method. This article attempts to explain CTS, its benefits and its role in present banking system in India.*

**KEYWORDS : CTS, Banking, Clearing, RBI, NEFT, RTGS**

### Introduction

Cheque Truncation System (CTS) is a cheque clearing system undertaken by the Reserve Bank of India (RBI) for faster clearing of cheques. As the name suggests, truncation is the process of stopping the flow of the physical cheque in its way of clearing. In its place an electronic image of the cheque is transmitted with key important data. Cheque truncation thus obviates the need to move physical instruments across branches. This effectively eliminates the associated cost of movement of physical cheques, reduces the time required for their collection and brings elegance to the entire activity of cheque processing. It is a system which is practised worldwide in the banking sector. Cheque Truncation System (CTS) was introduced and implemented in the National Capital Region (NCR) in February '08 on a pilot basis. The number 2010 in 'CTS-2010' is because the guidelines for Cheque Truncation System came up in the year 2010.

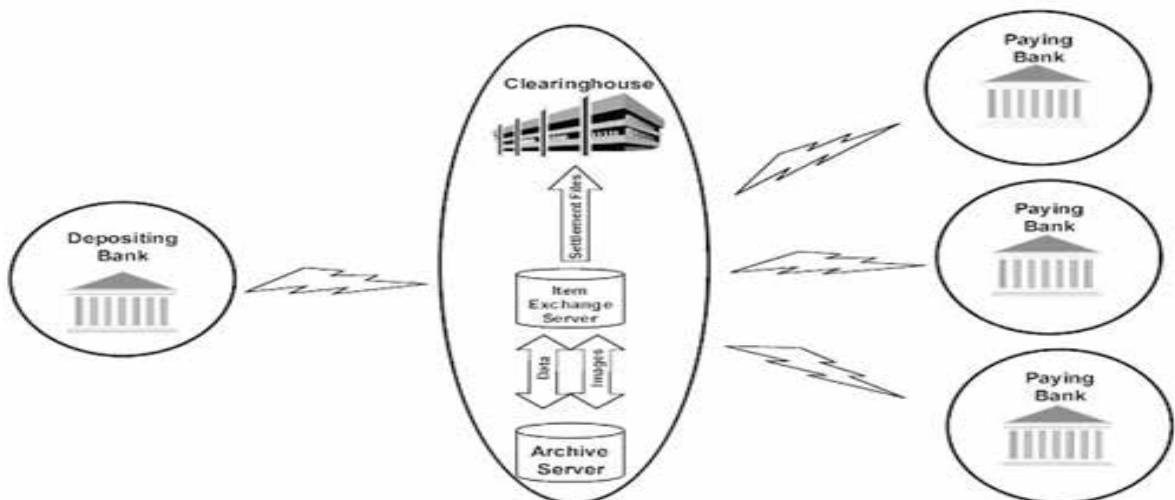
### Need of Cheque Truncation System

In India, the RBI has made available inter-bank and customer payments online in near-real time in the form of RTGS and NEFT. However,

cheques still remain a prominent mode of payment in the country. Physical cheques still account for 75% to 80% of all transactions. So, the RBI has decided to focus on improving efficiency of the cheque clearing cycle. Thus, offering CTS is an alternative. CTS also reduces operational risks in banking operations as clearing is a highly fraud-prone operation. This explains CTS from the regulators' perspective.

### Process of 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).



### (Cheque truncation system)

Source: IBA Bulletin 2012, Vol-1

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.

### Benefits to Account Holders

Since there is no physical movement of cheques, there is no fear of loss of cheque in transit. Usage of CTS cheques also means quicker clearance, shorter clearing cycle and speedier credit of the amount to your account. Depending on whether the cheque is local or outstation, the cheque can get cleared on the same day or within 24 hours. The biggest advantage is that CTS-compliant cheques are more secure than old cheques and, hence, less prone to frauds. Also, as the system matures, it is proposed to integrate multiple locations and reduce geographical restrictions in cheque clearing. Hence, there are chances of multi-city cheques getting cleared on the same day, going forward. 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 realised. CTS brings elegance to the entire activity of cheque processing and clearing. Cheque frauds can be greatly reduced with introduction of common minimum security features prescribed under CTS Standards 2010 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.

**Advantages to banks :** Shorter clearing cycle Superior verification and reconciliation process No geographical restrictions as to jurisdiction Operational efficiency for banks and customers alike Reduction in operational risk and risks associated with paper clearing Also, to reiterate, scope for frauds are minimum under the CTS regime, which is good for banks. In addition to this, obviating the need to move physical cheques is extremely beneficial in terms of saving cost and time for banks. Certain benchmarks 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. This will achieve standardization of cheques issued by banks.

### Image specifications in CTS

Imaging of cheques can be based on various technology options. The cheque images can be Black & White, Gray Scale or Colored. These have their associated advantages and disadvantages. Black & White images are light in terms of image-size, but do not reveal all the subtle features that are there in the cheques. Coloured images

are ideal but increase storage and network bandwidth requirements. Gray Scale images are mid-way. CTS in India use a combination of Gray Scale and Black & White images. There are three images of each cheques that need to be taken - front Gray Scale, front Black & White and back Black & White.

### Difference between traditional system and CTS

Under the CTS system, the physical movement of cheques between banks will be eliminated. At present, when you issue a cheque to someone, he has deposit the cheque in his bank to get credit. Then this cheque moves physically from his bank to your bank which involves a lot of time and risk. Now under CTS, instead of physical movement of the cheque, an electronic image of the cheque will be transmitted to the drawee branch / bank. The presenting bank will retain 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.

### Features of cheques issued under CTS

**(a) 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 you tear off the leaf from the cheque book.

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

**(c) 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.

**(d) Signature space indicator:** The words 'please sign above' are mentioned indicating the space where you will need to sign the cheque.

**(e) 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.

### Conclusion

It may be concluded that cheque truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point by 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 through 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.

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