

# **THE PAYMENT SYSTEM AND THE ROLE OF CHEQUES**

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# Overview

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- Objective of Presentation
- General Features of the Payment System
- The ECCB's Cheque Clearing System
  - What is a cheque?
  - Who Participates in the Cheque Clearance System.
  - How it Works.
- Contact Information:



# Objectives

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- To highlight the general characteristics of the payment system, and
- To illustrate the features, use and processing of cheques in the Eastern Caribbean Currency Union (ECCU).



# The Payment System

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- May be defined as:
  - a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money.



# Payment Instruments (Examples)

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- Cash
- Cheques (Bills of Exchange)
- Electronic Transfers
  - Online – PayPal; Bank Systems
  - Cards – Debit, Credit Cards, Stored Value
  - Mobile phones



# Payment Rules

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- Banking Procedures and Rules for the ECCU System are defined in:
  - Banking Act
  - Payments System Act
  - Money Services Act
  - Regulations and Guidelines in support of the above Acts
  - Rules for the Cheque Clearing House
  - Rules for the Large Value Funds Transfer System



# Current Funds Transfer and Clearing Systems

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- ECCB Cheque Clearing House
- Eastern Caribbean Central Bank (ECCB) Large Value Funds Transfer System (LVFSTS)
- Securities Clearance and Settlement System
- Visa/MasterCard Private Settlement System



# **THE CHEQUE CLEARING PROCESS**



# What is a Cheque?

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- "Cheque is an instrument in writing containing an unconditional order, addressed to a banker, sign by the person who has deposited money with the banker, requiring him to pay on demand a certain sum of money only to or to the order of certain person or to the bearer of instrument."



# What is a Cheque?

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- A type of bill of exchange
- Originally developed to make payments without the need to carry around large amounts of gold and silver.
- Now – Cheques are used to avoid carrying around large amounts of cash.

# What is a Cheque?

Drawer

Payee

Amount

Date

MR. JOHN JONES  
1645 DUNDAS ST. W, APT. 27  
TORONTO, ON M6K 1V2

DATE 20061201  
Y Y Y Y M M D D

PAY TO THE ORDER OF Wikimedia Foundation

One Hundred Dollars and 55/100 DOLLARS

\$ 100.55

Security features included - Details on back

FIRST BANK OF WIKI  
Victoria Main Branch  
1425 James St., P.O. Box 4001  
Victoria (B.C.) V8X 3X4

MEMO Donation

John Jones MP

⑈ 243 ⑈ ⑆ 00005 ⑆ 23 ⑆ 23 ⑆ 456 ⑆ 7 ⑈

Drawer  
Bank

Drawer's Signature



# What Makes Cheques Special?

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- Easy to understand and use
- Uniform in appearance
- Requires no special equipment to accept and process.
- Widely accepted



## Limitations of Cheques

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- Takes a while to settle
- Funds may not be available when the payee presents the cheque to the bank.
- Customer would have received goods before the funds are in the account of the Business.



# **CLEARING AND SETTLEMENT**



# Current Cheque Clearing Process

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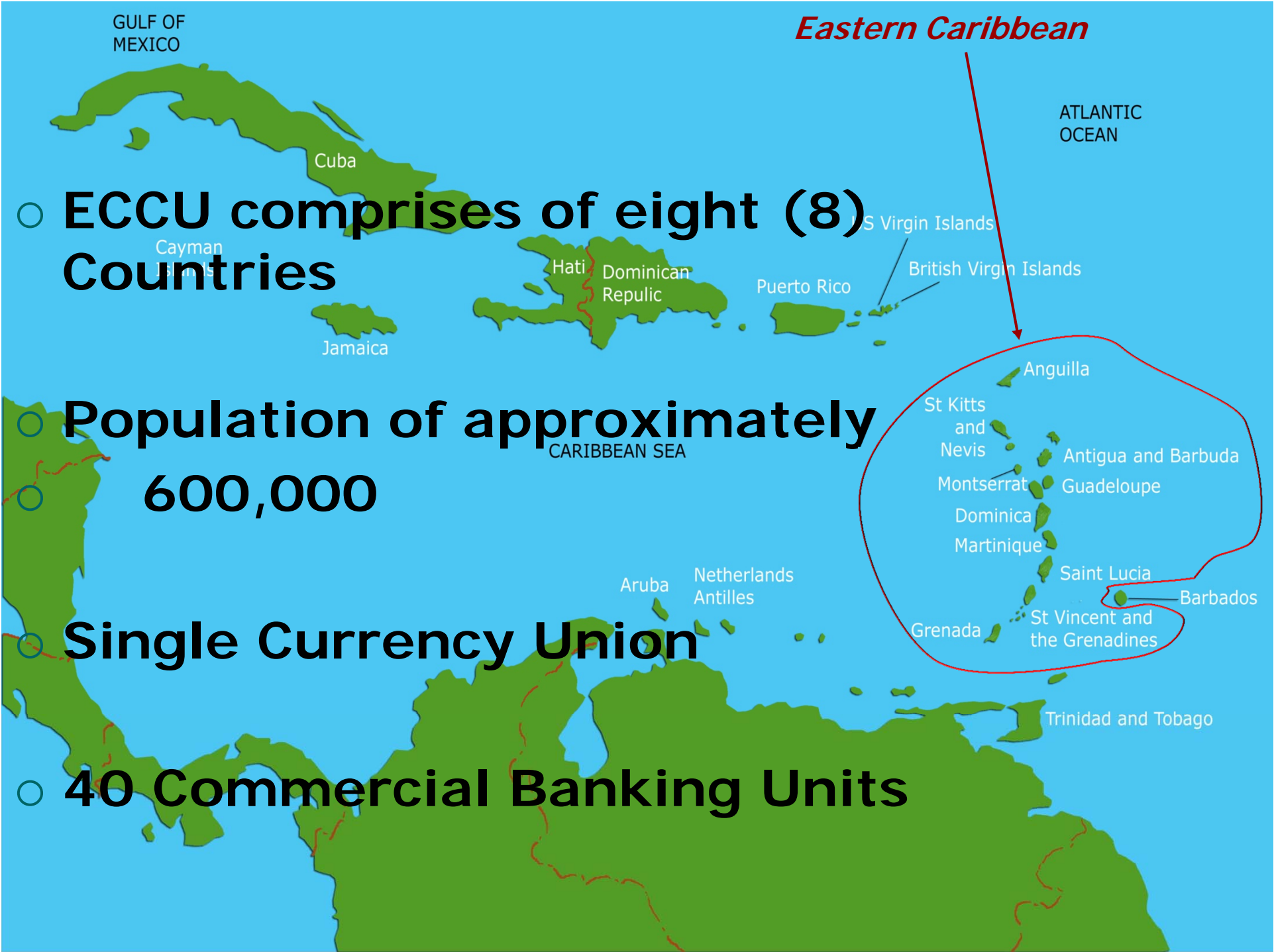
- ECCB Operates a Cheque Clearing House on a net settlement basis
- Once Daily Clearance and Settlement conducted in each jurisdiction
- Requires physical exchange of cheques
- Net positions are settled using accounts held at the Central Bank
- Approx. 25,000 cheques are exchanged daily



## Who Participates?

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- All “duly” Licensed Commercial Banks are required to participate in the Cheques Clearing House.



GULF OF MEXICO

*Eastern Caribbean*

ATLANTIC OCEAN

○ **ECCU comprises of eight (8) Countries**

Cayman Islands

Cuba

Jamaica

Haiti

Dominican Republic

Puerto Rico

US Virgin Islands

British Virgin Islands

CARIBBEAN SEA

○ **Population of approximately 600,000**

Anguilla

St Kitts and Nevis

Montserrat

Dominica

Martinique

Antigua and Barbuda

Guadeloupe

Saint Lucia

Barbados

St Vincent and the Grenadines

Aruba

Netherlands Antilles

Grenada

Trinidad and Tobago

○ **Single Currency Union**

○ **40 Commercial Banking Units**



# Structure of Clearing System

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	Clearing Banks
<b>MEMBER TERRITORIES</b> i v	-
ANGUILLA	4
ANTIGUA AND BARBUDA	8
DOMINICA	4
GRENADA	5
MONTserrat	2
ST. KITTS AND NEVIS	7
ST. LUCIA	6
ST. VINCENT AND THE GRENADINES	4
<b>TOTAL</b>	<b>40</b>



# Current Cheque Clearing Process

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- Currently the Bills of Exchange Act in most territories require that the cheque be physically presented to the drawing bank for clearing
- Given physical fragmentation of the ECCU two clearing mechanisms are utilised.
  - Intra Territory clearing
  - Cross Territory clearing

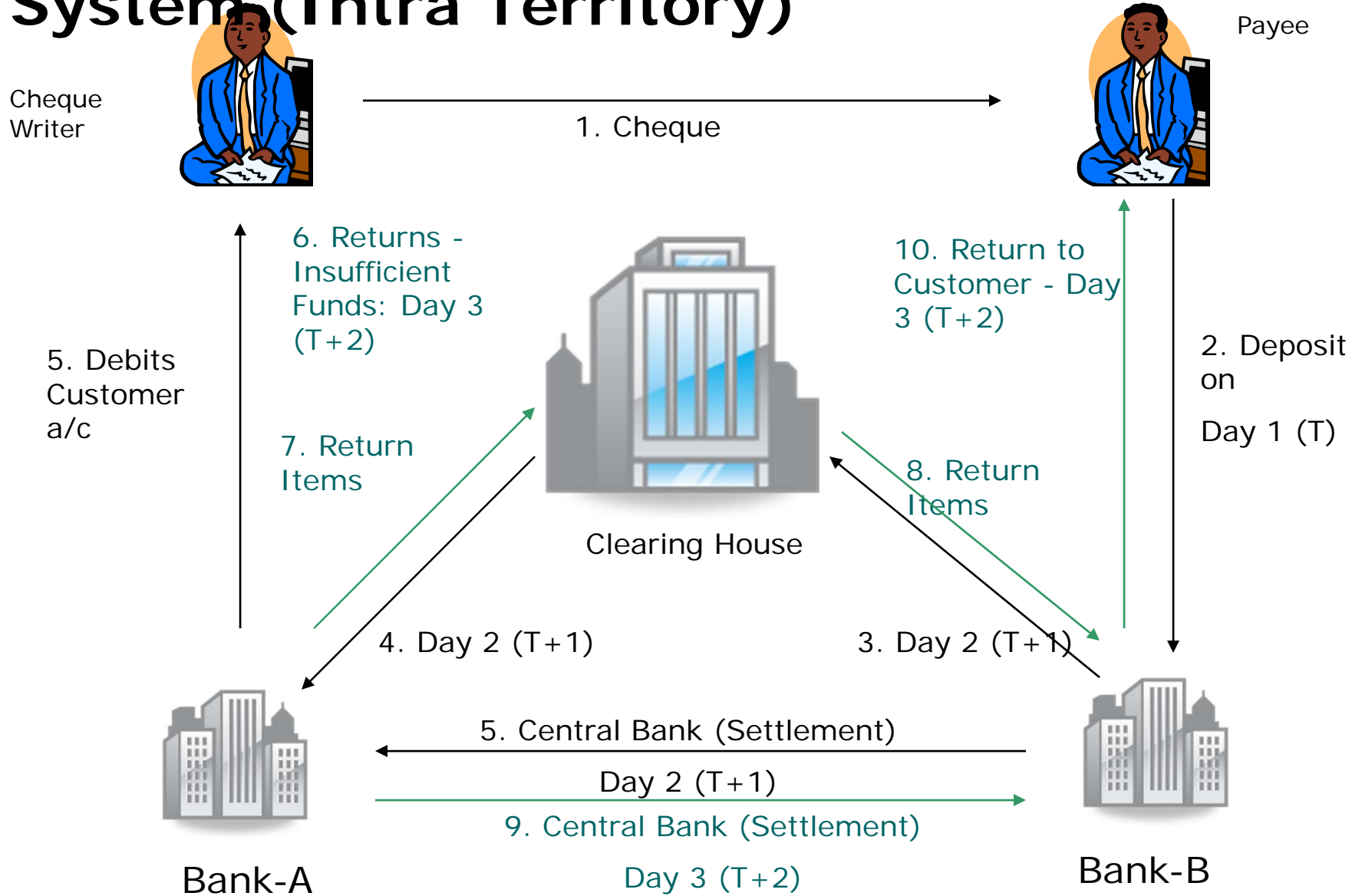


# Current Cheque Clearing Process

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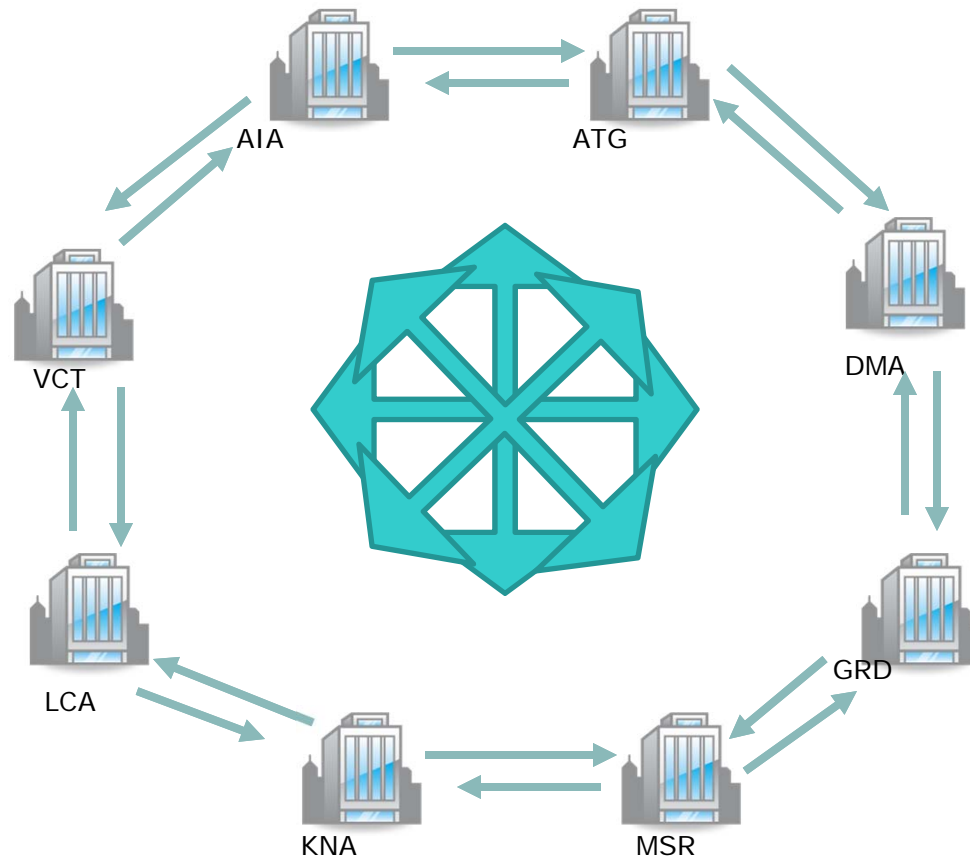
- 99% of cheques are cleared within each territory
- Clearing process may take a up to 4 days within territory or up to 28 days across territories
- For intra territory clearing, cheques are sent on collection to the other territory after which it is cleared through the local system.

# Current Paper-based Cheque Clearance System (Intra Territory)



# Cross Territory Clearing

T+10 to 27 days





## For More Information, Contact:

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