

## **CHEQUE TRUNCATION FREQUENTLY ASKED QUESTIONS**

The Bank of Mauritius, in collaboration with The Mauritius Bankers Association Limited, is implementing a cheque truncation system in the Port Louis Automated Clearing House, located in the premises of the Bank of Mauritius, to make clearing of cheques faster, more efficient and more secure.

This document explains the key features of the cheque truncation system and highlights the benefits that would accrue to banks and their customers as well as a number of important issues relating to its implementation.

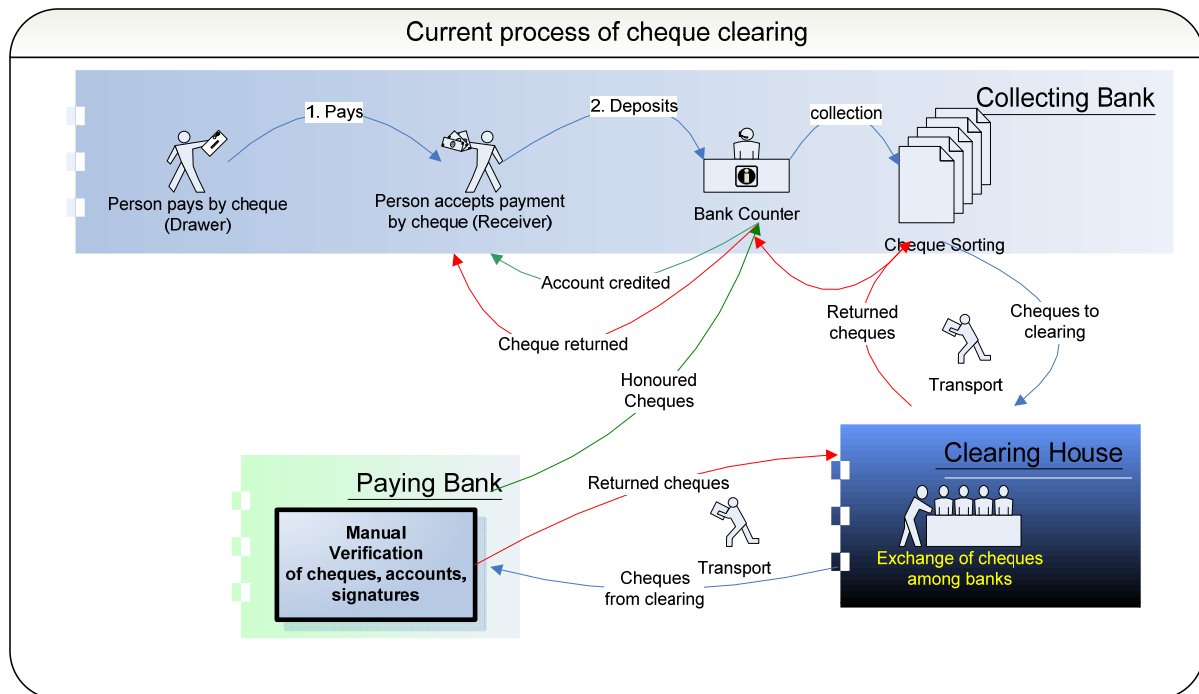
### **What is cheque truncation system?**

The cheque truncation system is an electronic system wherein clearing of cheques is carried out based on cheque images. Under this system, banks retain all cheques deposited by their clients and send only scanned images of the cheques to the clearing house and eventually to the paying banks.

### **How is cheque clearing carried out currently?**

The current cheque clearing procedures are manual and involve the following steps:

1. Cheques are deposited at the bank (collecting bank) of the person who receives a payment by cheque (the cheque holder).
2. All cheques deposited in a bank are sorted according to the paying bank (bank of the cheque drawer). Twice a day, cheques are physically brought to the clearing house where they are exchanged among banks.
3. Cheques are then brought to the paying banks. Each cheque is manually validated for authenticity and signature. The bank also verifies whether the drawer has enough fund on his/her account before payment is authorised.
4. Cheques, which are in order, are honoured and the account of the cheque holder is credited by the collecting bank.
5. Cheques, which are not in order, are returned to the collecting bank through the clearing house. The cheque holder is notified and the cheque is returned to him/her.

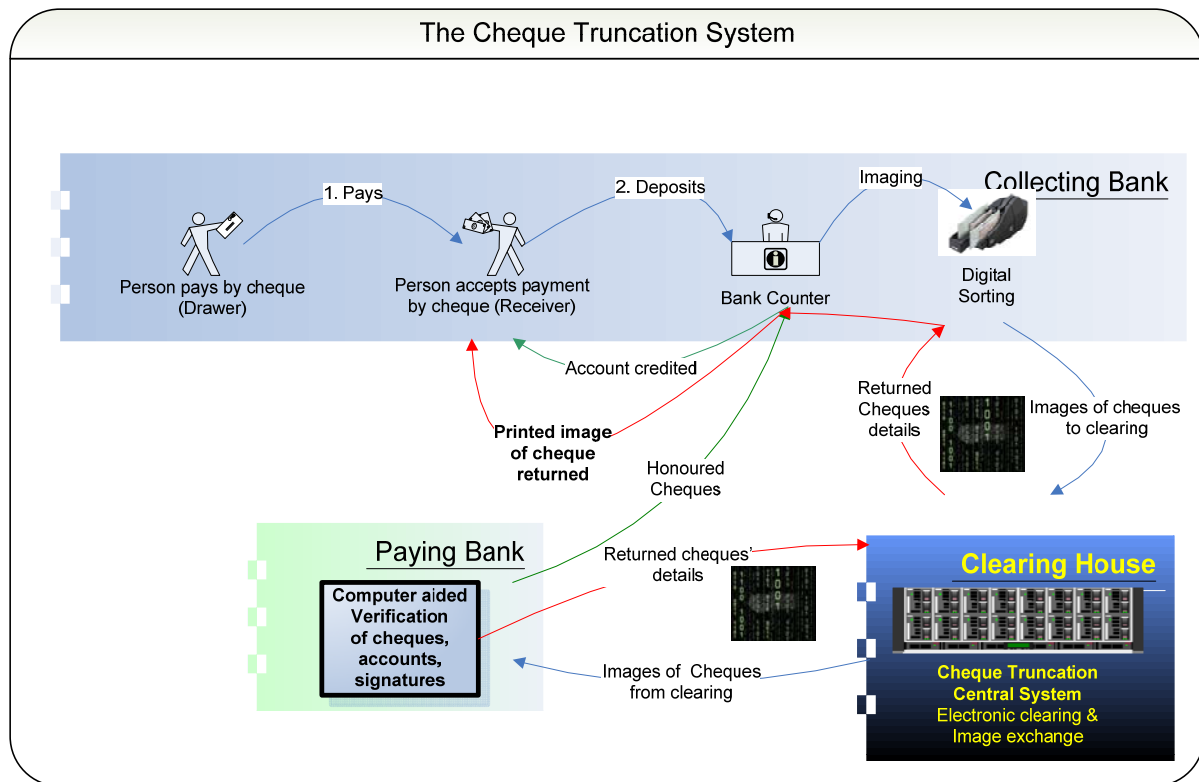


**What will change with the implementation of the cheque truncation system?**

**The clearing process will not change except that the physical movement of cheques will be eliminated and replaced by scanned images of cheques. The cheque images will be sent electronically from collecting banks to paying banks through the clearing house.**

The procedures of the image-based cheque clearing system are as follows:

1. Cheques are deposited at the collecting bank as per current practice.
2. Cheques are scanned and the images are sent to the clearing house where cheque images are exchanged electronically.
3. The paying bank makes the decision whether to honour the cheque or not based on the images received from the system.
4. Cheques, which are in order, are honoured and the account of the cheque holder is credited by the collecting bank.
5. Cheques, which are not in order, are not honoured. Details of the cheques are returned to the collecting bank which notifies the customer and gives him/her a Cheque Return Advice which contains the reason for the return and an image of the original cheque.



### What will be the benefits of the cheque truncation system?

- The clearing process will be faster.
- The system will identify **high-value cheques** which will be cleared on a priority basis.
- Risks of fraud and forgery will be minimized through the use of digital images.
- Risk of loss of cheques during transit will be eliminated.

### What is a high-value cheque?

A cheque for an amount of Rs1 million or more is considered as a high-value cheque.

### Is the cheque truncation system more secure than the present system?

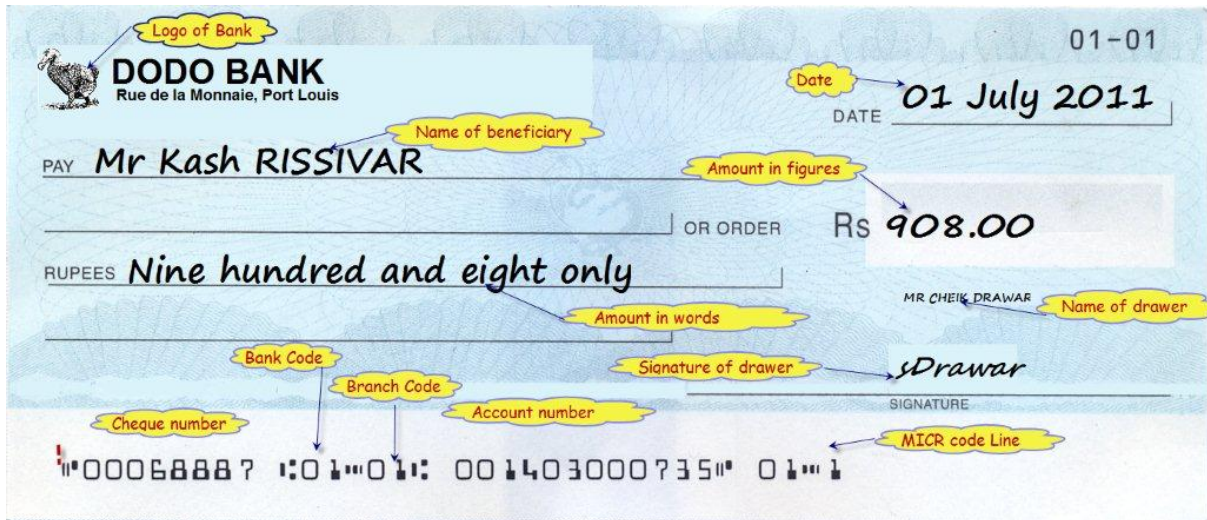
Yes. In the present system, cheques may be forged or lost as they are exchanged manually. Under the cheque truncation system, cheques will be kept by the collecting bank, which will send encrypted and digitally signed images of the cheques through secured network to the clearing house, and, eventually to the paying banks. The system will also detect any tampering of cheque images and payment will not be effected in these cases.

### Will there be additional bank charges and formalities for depositing cheques?

There will be no additional bank charges and cheques will continue to be deposited as per current practice.

### Will the new system accept any cheque?

The cheque truncation system will accept any cheque, containing the essential features as shown below, that has been issued by a local bank:



A cheque which does not contain all the essential features will not be honoured. **It is, therefore, in your interest to use cheques which will be accepted by the cheque truncation system. Further information in this respect may be obtained from banks.**

**Users who still have cheques that do not have the MICR code line must contact their respective banks.**

Torn and mutilated cheques will not be accepted in the cheque truncation system.

### Will an altered cheque be accepted by the cheque truncation system?

The cheque truncation system will accept a cheque which has been altered prior to its first presentation for clearing. But alterations will not be allowed after a cheque has been presented for clearing. A new cheque will have to be issued in this case.

### What will happen if a cheque is not honoured?

When a cheque is returned as unpaid, your bank will give you a Cheque Return Advice, which will state the reason(s) for which payment cannot be effected, and a detachable

Image Return Document (IRD). You will not get back the cheque deposited at your bank. The IRD will serve as a legal copy of the original cheque and is evidence that the cheque has not been honoured.

**Can a returned cheque be presented again?**

- If your bank gives you a Cheque Return Advice with the message **‘PRESENT AGAIN’**, it means that you can request your bank to present the cheque again for payment. There will be no need to issue a new cheque. Detach the IRD only and use it to re-present for payment. If payment cannot be effected again, your bank will give you a new IRD. A cheque can be presented up to a maximum of **THREE TIMES**. After that, payment cannot be effected against that same cheque. A new cheque will have to be presented.
- A cheque which has to be corrected for date, signature, amount, and so forth, cannot be presented again in the cheque truncation system. **However, until 31 December 2011, cheques which require corrections after the first presentation will be accepted and cleared manually. After 31 December 2011, cheques altered after the first presentation will not be accepted.**
- **The cheque truncation system will keep record of returned cheques.**

**Summary of impacts on processes in the cheque clearing system**

The table below compares the processes associated with cheques under the present system and under cheque truncation.

<b>Process</b>	<b>Old system</b>	<b>New System (Truncation)</b>
Place of Cheque Clearing	Clearing House at Bank of Mauritius	Unchanged
Cheque deposit	At the counter of bank	Unchanged
Cheque encashment	At the bank of drawer	Unchanged
Cheque of another branch of the same bank	At the counter of bank	Unchanged
Returned cheque	Cheque returned to holder	Image of cheque, called IRD, returned to holder
Re-presentation of cheque (which does not require correction of original cheque)	Original cheque is presented several times	IRD is presented up to a maximum of 3 times
Re-presentation of cheque (which requires correction of original cheque)	Can be presented again after correction	Cannot be presented again. A new cheque has to be issued. IRD is proof that the

		original cheque was not encashed
Stop Cheque	Through letter sent to bank	Unchanged
Cross-Cancellation	Drawer cancels by signing thereon	Unchanged. Correction to be made before presentation
Correction on cheques	To be made by drawer and signed. Correction can be made after first presentation	Correction will be allowed before first presentation and no subsequent correction allowed thereafter
Stale cheques (cheques more than one year old)	To be validated by drawer	Validation by drawer to be carried out before first presentation

### What precautions should be taken before you accept a cheque?

- Before you accept a cheque, verify that the cheque contains the essential features listed earlier
- Check for apparent alteration(s) through any of the methods described below:
  - i) Use of thick felt pen on designated fields (include beneficiary name, date, amount in figures and amount in word) to over-write originals that are visible.
  - ii) The use of correcting fluid to cover any field on the cheque.
  - iii) Cheque appears to be photocopied on a thin or light weight paper instead of security paper
- The cheque should be neat and should not be torn.
- Ensure that the cheque being deposited at your bank for payment is endorsed.

### What precautions should be taken when issuing a cheque?

- Use blue or black ink when writing down a cheque so that all details appear clearly on the image.
- Write correctly the amount in word and figures, the name of the payee and the date and make sure that you sign the cheque.
- If you use seals on your cheque, make sure that the seals do not mask the essential information on the cheque.
- You should ensure that there is sufficient fund on your account before you draw a cheque as **it is an offence to draw a cheque with insufficient fund on your account.**

**How will the activities of the cheque truncation system be regulated and will all banks make use of it?**

The cheque truncation system will operate under the provisions of Section 48 of the Bank of Mauritius Act 2004, Section 44A of the Bills of Exchange Act and the PLACH Rules. All banks in Mauritius will use the new system for cheque clearing.

**Can a paying bank insist on physical presentment of a cheque?**

In case of doubt, a paying bank may request, under Section 44A(3) of the Bills of Exchange Act, for the physical cheque from the collecting bank before the close of business on the next business day following the presentment of the cheque.

**How long will information pertaining to cheques presented for clearing be retained?**

Information, including images, on all cheques presented for clearing will be centrally archived at the Bank of Mauritius and will be retained for a period of 7 years from the date of presentment.

**Who has to be consulted for information or to lodge a complaint on cheques deposited for payment?**

If you have any complaint or require any information on cheques deposited for payment, you should contact your bank.

**Further information**

For further information, you may contact your bank or visit the web sites of the Bank of Mauritius (<http://bom.intnet.mu>) and The Mauritius Bankers Association Limited (<http://mba.mu>).