CENTRAL BANK OF KENYA

KENYA BANKERS ASSOCIATION

CHEQUE TRUNCATION SYSTEM FREQUENTLY ASKED QUESTIONS

The Kenya Bankers Association member banks are working together to make your cheques safer. In addition to the new cheque book size (4" X 7"), you will experience extra features that enhance security while making the cheque clearing process faster.

What is cheque truncation?

Cheque Truncation (CTS) is a system of cheque clearing and settlement between banks based on images and associated electronic payment data, without the physical exchange of the cheques.

How different is CTS from the current Clearing Process?

The current practice of transporting cheques from all bank branches countrywide to the Automated Clearing House using courier services will cease. Banks will instead use telecommunications links between their branches to send the cheque data for settlement.

What does the Cheque Truncation System mean for customers?

The time it takes to transmit cheque data between banks will be drastically reduced. This savings in time will result in a faster clearing process, more accurate reconciliation of accounts and the reduction in paperwork will reduce the avenues for fraud emanating from cheque substitution.

A faster Clearing process will eventually lead to a reduction in the clearing cycle, ensuring that customers get their cleared funds sooner, and a general improvement in the liquidity of the economy.

How are the new cheque books different?

The new cheque design incorporates a security watermark. Extensive use of new Ultra Violet sensitive paper, tamper-evident paper stock as well Micro Text features on the cheques further enhances the security of the cheques. As part of the new standard, the cheque book size is 7 inches by 4 inches, is currently known as the corporate size.

Why is this change in size important?

This size of cheque is most suitable to contain enhancement in security features, as well as allow for the new scanners to effectively capture all the cheque details that will be transmitted in the electronic clearing process.

Is there a deadline for replacing old cheque books?

The old design cheques are gradually being replaced with the new compliant version of cheques. Therefore the old design of Cheques will be accepted after the deadline of 1st June 2011. The old design cheques remain valid for exchange and depositing at all our commercial banks and will be honored upon presentation. KBA will communicate a date when the old design of cheques will cease to be exchanged at the Automated Clearing House.

What do customers have to do in the new Environment?

As part of the new System, cheques design standards have been changed to enhance image qualities as well as security features. As part of the new standards, all cheques in the CTS environment will be in one standard size. All currently existing cheque books will be replaced with new CTS compliant books that will be requested/ ordered for by the customers from their respective banks in the usual manner.

What will happen if an old cheque is received after cut-off date?

Banks will decline to process the cheque and will request the customer obtain a CTS compliant cheque from the drawer.

If a cheque is unpaid, will customers get their cheque back as is the current practice?

Since the purpose of Cheque truncation is to stop the physical movement of the cheque, any cheques returned unpaid will not be returned to the customers. Instead the collecting bank will issue an Image Return Document to the payee. This Document will contain the image of the cheque, the payment information as well as the reason for return. The IRD will be sufficient advice of the unpaid cheque and can be re-presented, depending on the return reason.

How does Cheque Truncation work?

On acceptance of a customer cheque deposit, the collecting bank takes an image of the cheque and reads in the Magnetic Ink Character recognition (MICR) code line information from the cheque. This information together with the cheque amount is sent to the Paying bank through the Automated Clearing House for settlement.

What type of cheques can be presented in the CTS?

The new Cheque Truncation System will cater for Kenya Shilling cheques and Domestic Foreign Currency cheques drawn on banks in Kenya including the Sterling Pound, United States Dollar and the Euro. There will be no changes in the clearing process for foreign cheques drawn on offshore banks (i.e. out of Kenya)

What are the precautions required to be taken by the bank customers to avoid frauds?

The new CTS compliant cheque has been redesigned with advanced security features to identify alterations and fraud attempts. Customers are advised to use dark colour ink (blue or black) while drawing the instruments. Care should be exercised in the use of stamps, so that it does not interfere with the clear appearance of the cheque image

How can customers be assured of security now that an image will be used in the clearing house?

The security, integrity, non-repudiation and authenticity of the data and image transmitted from the paying bank to payee bank will be ensured using encryption and other security techniques to ensure integrity of the data from one bank to another.

What should I do in preparation for CTS?

Order your new CTS compliant cheque book today and deposit any old cheques like dividend cheques before June 1st 2011. Do not accept cheques with alterations even if they have been countersigned.

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