PAYMENTS SYSTEM COUNCIL

Article 2

Electronic payments – The RTGS system

As was mentioned in the first article of this series, any payment made in a form other than cash requires a process for the money value to move from the payer to the beneficiary. Consequently, there are clearing and settlement arrangements for cheques, for debit and credit cards and for other forms of electronic funds transfers.

In Trinidad and Tobago, there are two major automated systems for the clearance and settlement of electronic payments. These are the *Real Time Gross Settlement* (RTGS) system for large value payments and the *Automated Clearinghouse* (ACH) for smaller retail payments. Large value payments tend to pose the greater risk to the payments system of a country because the failure to conclude them successfully can have negative effects for a wide range of other payments. This article discusses the RTGS system and in a subsequent article we will focus on the ACH.

The RTGS system in Trinidad and Tobago was established by the Central Bank in October 2004. It is a fully automated system through which large value ($500,000 and over) and time-critical payments are cleared and settled. Like some other countries, including the United States and the UK, we have given a name, ***safe-tt***, to our RTGS. ***'Safe-tt'*** stands for **S**ettlement **A**ssured for **F**inancial **E**xchange in **T**rinidad and **T**obago.

How *safe-tt* works

To use ***safe-tt***, a payer simply has to inform his banker that he wishes to use this system and provide details of the payment such as the beneficiary, the bank and branch, the amount and account number to be credited and the purpose of the payment. As long as the payer has sufficient funds, the bank would send instructions electronically through ***safe-tt*** to the requested bank for credit to the beneficiary's account. ***Safe-tt*** uses the SWIFT messaging system, which is used internationally by central banks to send payment instructions. The entire process is completed within a couple of hours, allowing the beneficiary to make use of his funds on the same day.

Benefits of *safe-tt*

The major benefit of using ***safe-tt*** is the promptness and certainty with which the beneficiary receives funds. It is the only non-cash payment system which provides same-day access to funds. Banks also benefit from using ***safe-tt*** as it allows them to improve liquidity management and enhances their ability to keep track of all inflows and outflows to their account held at the Central Bank.

From an overall country perspective, the introduction of ***safe-tt*** has significantly reduced risks in the payments system. This is because there is now prompt and final settlement of large payments on an individual transaction basis. Therefore, value moves from the payer to the beneficiary quickly and with certainty, thereby eliminating the risk that a payment will not be settled.

Safe-tt has progressively developed electronic links with a number of other systems that involve large sums of money in order to improve the certainty of payments settlement. These include the primary and secondary markets for Government securities, the ACH and the Central Securities Depository (CSD).

The cost of using ***safe-tt*** varies among banks so that users should obtain this information from their bankers. However, it is safe to say that the experience worldwide is that the RTGS is a more efficient and cost effective method for large value payments than cheques. This is demonstrated in the following example:

- Assume that in one case Company A makes a payment of $500,000 to Company B by cheque and in another case makes a payment to Company C through the RTGS. As shown in the table below, Company C would have access to its money 4 working days ahead of Company B. This is because banks have 4 working days days within which to return a dishonoured cheque to the branch at which it was deposited. Only after this period therefore there is finality of payment.

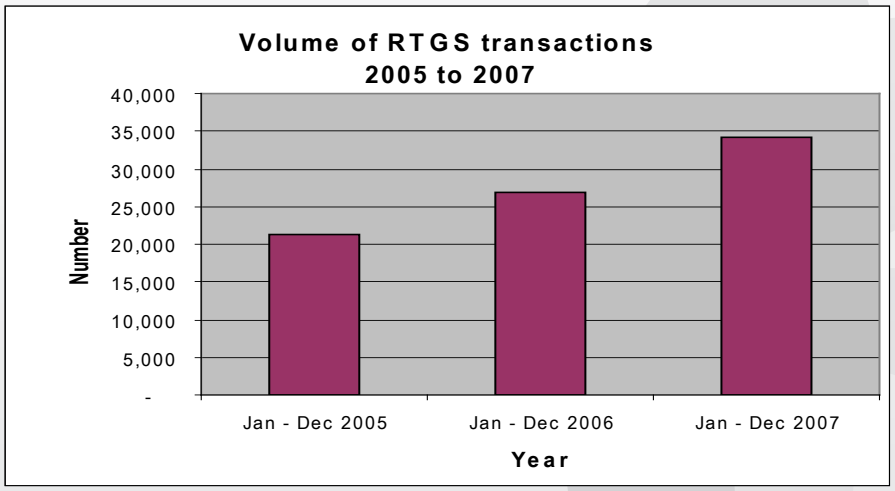
Table

Date	**Company B**	**Company C**
03.09.08	Company A pays Company B $500,000 by cheque. Company B has to deposit the cheque in its bank. If it is a branch, then the branch takes this to the main centre on the same day so that it can be presented to Company A's bank for clearing.	Company A pays Company C $500,000 by RTGS. Company C can either invest this sum, use it to reduce its overdraft or to meet some other commitments.
04.09.08	Company A's bank agrees to pay Company B's bank subject to verification of the cheque. Interest begins to accrue; however the principal is not available for Company B's use until verification of the payment in another 3 working days.	
08.09.08	Company B can now use the $5000,000.	

Performance

Since its launch on October 14, 2004, the number of transactions processed through ***safe-tt*** has increased consistently. The volume of payments has grown from just over 20,000 in 2005, the first full year of operations, to just under 35,000 in 2007 (see chart). However, the system is still substantially under-utilised, perhaps because its many advantages are not sufficiently well-known.

Chart



Conclusion

Over time, the goal is to have all large value transactions made electronically and so cleared and settled through the RTGS. This would substantially improve the safety of our payments system and take us closer towards the international best practice. Further information on the payments system can be obtained from the Bank's website, *www.central-bank.org.tt/financial_stability.*

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