



Article 3

Electronic Payments – The ACH System

The previous article discussed the electronic payments regime for large value payments - the Real Time Gross Settlement (RTGS) system. This article examines the Automated Clearinghouse (ACH), an electronic system for smaller value (retail) payments. The ACH, called *Transach*, is jointly owned by the commercial banks and the Central Bank. A company, the Trinidad and Tobago Interbank Payments System (TTIPS), was established to operate the ACH which was launched in January 2006.

How the ACH works

To use the ACH, an individual (or company) simply informs his bank that he wants to make a payment through this system and provides details of the payment such as the amount of the transaction, the beneficiary's account number, bank details and the date for payment. Inasmuch as many businesses tend to process several transactions simultaneously, they sometimes find it more convenient to send an electronic file containing multiple requests to their bank for processing. The file can contain instructions to debit one or more of its accounts and/or to credit any number of accounts either within the same bank or at several banks. On receipt of these multiple requests, the files are sorted to separate those payments that are for accounts at the receiving bank from those that are for accounts at other banks.

All requests involving other banks, whether coming from individuals or businesses, are sent via a secure internet connection to the ACH. The ACH electronically sorts and delivers to each bank a list of its payments and receipts. It also calculates the net value for each bank and forwards this information to the Central Bank where each commercial bank's account is automatically updated. Payments transmitted through the ACH are available to the beneficiary by the following day.

Benefits of the ACH

The major benefit of an ACH system is that payment transactions are completed in a timely, convenient and cost-effective manner. For all payments, but particularly for numerous and/or recurring bill payments, it provides a far superior means of moving money from the payer to the beneficiary. Common examples of these payments include salaries, annuities, pensions, mortgage and insurance payments, utility bills, cable TV subscriptions and club dues. In the case of payroll for instance, a company can automatically pay its employees every month at accounts at any bank by sending a single file of multiple payments to one bank.

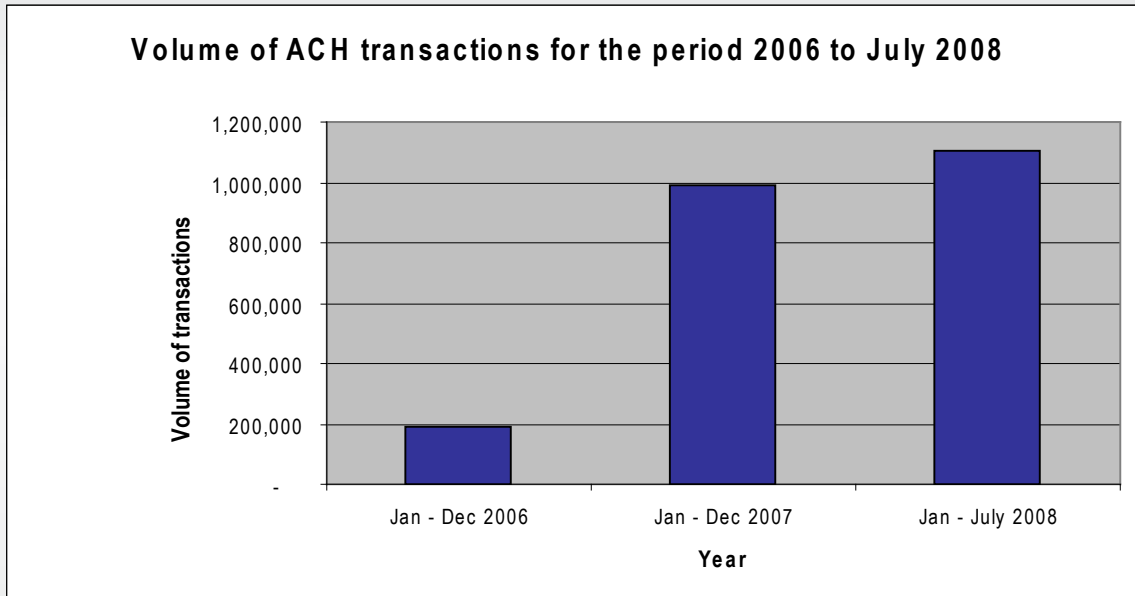
The ACH ensures **reliability** since it avoids the possibility of counterfeit, forged signatures or other risks associated with cheques. It also provides payment on a **more timely** basis as funds are available by the following day compared to the four days required for processing cheques. Use of the ACH also means that companies write, store and process fewer cheques and thereby incur **lower administrative costs**. Further, the ACH is more **secure** as it utilises file encryption and user authentication and does not pass through multiple hands in the processing phase.

The cost of an ACH transaction is on average about \$1.50, although this amount varies between banks based on their costs and other factors. Some banks also offer special rates for multiple payments.

Performance of the ACH

The number of ACH transactions processed by **safe-tt** has increased more than fourfold over its first two years of operation. In 2006, the first year of operations, the total volume of transactions processed over the ACH amounted to 200,000. This total climbed to over 980,000 in the following year and during the period January to July 2008, the transaction volume at 1,105,000 had already surpassed the total for the year 2007. (See *chart*)

Chart



Conclusion

Notwithstanding the significant increase in the use of the ACH, cash and cheques remain the dominant means by which payments are made in Trinidad and Tobago. While this is likely to persist for some time to come, we expect that, like elsewhere, there would be continuous growth in the use of electronic payments over the next few years. Some developed countries have already advanced to the use of mobile (cell-phone) payments and in the future this means of payment is expected to become commonplace. The Bank will continue to keep the public aware of developments in electronic payments. Further information is available on the Bank's website, www.central-bank.org.tt/financial_stability.

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