



Article 1

The Emergence of Electronic Payments in Trinidad and Tobago

Electronic payments are defined here in a broad sense to refer to any non-cash, non-paper based means of making a payment. Globally, making electronic payments is rapidly becoming the norm today. This is because the public is seeking faster and more convenient ways of paying for goods and services, and modern technology is making it possible to satisfy this demand at reasonable costs. This worldwide trend is already evident in Trinidad and Tobago. In view of this development, over the next few months, the Bank will be publishing a number of articles aimed at making the public more familiar with electronic payments.

In this first article, we address the changing trend in the way payments are being made in Trinidad and Tobago and the role of the Central Bank in this evolution. In subsequent articles, we will discuss various aspects of electronic payments in Trinidad and Tobago – the clearance and settlement arrangements, different kinds of electronic payments and the regulatory framework.

Prior to the 1990's, almost all domestic payments were made either by cash or cheques. While ATMs were in existence they could only be utilised for proprietary transactions. **In the 1990's**, following global trends, there was a noticeable increase in the use of electronic payments. The number of payments made by debit cards rose dramatically following the introduction of the LINX system in 1995. This system allows customers electronic access to their bank accounts from point-of-sale terminals at a large number of merchants and from ATMs. The use of credit cards also increased as an alternative means of paying for goods and services. In the **latter part of the 1990's** commercial banks introduced telephone banking and more recently have offered their customers internet banking.

All means of making payments other than cash require some system for ensuring that value actually passes from the person or entity making the payment to the person or entity to be paid in a secure, timely and accurate manner. These clearance and settlement systems form the backbone of a payment system. The term **clearance** in a payment system refers to the process of verification that the payer has the money to make the payment and that the payment method by which the transaction is effected is valid. It always precedes the settlement process. **Settlement** refers to the actual exchange of value from the payer to the beneficiary.

The **Central Bank** plays a key role in the clearance and settlement of payments and has been at the center of recent efforts to modernise these systems. The Central Bank Act mandates that the Bank establish and maintain a clearinghouse in conjunction with the commercial banks. In the cash/cheque payment environment that prevailed previously, the Bank presided over a **cheque clearinghouse** and a “special clearings” facility for large value payments. With the emergence of electronic payments, the Bank has spearheaded the development of **automated systems for clearance and settlement.**

In 2004, the Bank introduced the Real Time Gross Settlement (RTGS) system for large value (\$500,000 and over) and time-critical payments. The Bank also partnered with commercial banks in the establishment of an Automated Clearinghouse (ACH) to improve the systems for payments of smaller value (2006). Instead of the 4 days on average that banks require for the clearance and settlement of cheques, the arrangements for electronic payments are both faster and safer. In the case of the RTGS system the process is completed in a couple of hours, while for the ACH it is the next day.

The modernisation of the payments system in Trinidad and Tobago, as elsewhere, extends beyond these infrastructure improvements to include reforms to the legal framework as well as the strengthening of oversight arrangements. Consequently, amendments are being made to the Financial Institutions Act to improve the regulatory framework for payments, while oversight of payments systems is now being explicitly undertaken. The Bank applies the international standards in the *Basle Core Principles for Systemically Important Payment Systems* as the benchmark for its oversight work. The Bank also established a Payment System Council, comprising of major stakeholders in the payment system, to promote measures which will ensure that the country continues to have an appropriate payment system as its needs change over time.

The **outlook**, both internationally and locally, is for an acceleration in the use of electronic payments. In light of this, the Bank will, from time to time, provide information to the public to assist them with payment decisions. Further information on the payments system can be obtained from the Central Bank's website, www.central-bank.org.tt/financial_stability.

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