



CENTRAL BANK OF TRINIDAD & TOBAGO

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ADDRESS

at the Media Launch

of the Trinidad and Tobago Interbank Payments System Limited (TTIPS)

by

*Ewart S. Williams
Governor, Central Bank of Trinidad and Tobago
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Over the last year or so, the Central Bank met a few times with the Media to explain plans for the upgrading of the payments system in Trinidad and Tobago. Today I am happy to welcome you to celebrate with us the latest of a number of initiatives that are being implemented to modernise the payments system.

I am also very pleased to note that this is yet another example of close collaboration between the commercial banks and the Central Bank. This one was three years in the making but today, the Central Bank is very proud to formally launch, in collaboration with the commercial banks, the **next Generation of Electronic Payments in Trinidad and Tobago**.

As you know, the Government's vision for making Trinidad and Tobago the Pan-Caribbean Financial Centre, calls for a considerable strengthening of our financial infrastructure.

Accordingly, over the past two years or so, much effort has been put into **upgrading financial sector legislation** to bring it in line with international best practices. In addition, several new institutions which are standard in mature financial systems have been created. The list includes:

- a Regional Credit Rating Agency (CariCRIS);
- a Central Depository (TTCD);
- the Financial Services Ombudsman; and
- an Automated Credit Bureau.

Automated trading on the Stock Exchange is now a reality, we have introduced an auction system for government bonds: and tied to this we have established a depository and settlement system for Government securities.

The **modernisation of our payments regime** is also an important aspect in the upgrading of our financial architecture. Approximately one year ago, the Central Bank launched the **Real Time Gross Settlement (RTGS) System, *safe-tt***, to address the risks posed by the settlement of large value payments (those of

\$500,000 or more). The RTGS ensures that all large value and time-critical payments **which are made electronically are settled promptly**, in real time, with finality. The RTGS is intended to be the modern alternative to the **use of large value cheques** which carry **heightened settlement risks and could result in lengthy settlement delays**.

The new electronic payment system being launched today (the Automated Clearing House) is but a further upgrading of the payments landscape. It is designed to facilitate a faster transfer of retail payments (those of smaller value than \$500,000) while offering businesses and consumers more **payment options and, we would expect, more cost efficient alternatives**. It is hoped that the Automated Clearing House will significantly reduce the volume of paper-based (cheque-based) transactions used in conducting business.

Ladies and gentlemen, throughout the world, **payment by cheque has been giving way to electronic payments**. The United States, for instance, which has traditionally been a cheque-based society, saw **electronic payments surpassing the use of cheques for the first time in 2003**. In Canada, paper items account for **24** percent of total transaction volume while electronic items make up **76** percent of the volume.

In Trinidad and Tobago, over the last few years, we have seen a significant rise in the use of debit and credit cards. Indeed, between 2000 and 2004 the number of Point of Sale transactions rose by 86 percent from 4.3 million to 8 million. Most banks today offer on-line banking services and many of us now look to the Internet for making purchases.

Whatever the reality, there is a **general perception that security is an issue with electronic transfer systems**. It is therefore worth emphasizing that

this electronic system (the one we are launching today) overcomes many of the security issues involved in handling electronic payments. First of all, there is no card to lose or to be counterfeited; and secondly, it uses both biometrics and encryption to ensure clear messaging, to prevent unauthorised access and to protect the information that is being transmitted.

As you would imagine, our **legislative framework was developed to support a payments system based on cash and cheques**. The Central Bank and the Government are now working to amend existing legislation to support a modern and efficient national payments and settlements system that **recognises the reality of electronic payments**.

Amendments are to be made to the **Financial Institutions Act** to assign regulatory responsibilities for the payments system to the Central Bank. A Draft Data Protection Policy and a Draft Electronic Transactions Policy, prepared by the Ministry of Public Administration, are currently out for public comment.

When the relevant legislation comes into force, the Central Bank will formally assume oversight of the payment system. Our responsibility will be to ensure that the systems designed for the transfer of funds, are **safe and efficient**. The rationale for the Bank's involvement lies in the fact that, if not properly managed, payment systems could pose systemic risks and ultimately contribute to undermining financial stability. In its surveillance of the payments system, the Central Bank will also seek to protect the rights of consumers while allowing payment service providers to compete in a liberalized financial environment.

Ladies and Gentlemen, there is no doubt that a well-functioning system of electronic funds transfer can bring significant benefits **to the economy** by way of processing efficiencies, and **to consumers**, in terms of convenience, speed and hopefully cost.

I would like to emphasize, however, that in order for the potential benefits to be truly realized, **three major hurdles need to be overcome.**

Firstly, Government transactions need to be shifted from being paper-based to being electronic. While we are aware that plans are in the pipeline to automate many of its systems and services, to date the Government is not a user of much of the available technology which could enhance its internal procedures and provide the benefits of electronic systems.

For example, when an electronic system is in place, transactions between Government ministries and suppliers, as well as tax and wage payments, could be made by electronic transfer. In turn, having Government as an active participant in the electronic payment system will increase transactions volume and reduce unit cost.

Secondly, the banking system and the business community could and should be more aggressive in discouraging the use of large value cheques and promoting the use of electronic transfers. The business sector needs to recognise that **electronic payments are more cost effective** and more operationally efficient. In line with the principle of cost recovery, the Central Bank will soon introduce a fee for cheque-clearance, which will ultimately be paid by the issuer.

Thirdly, we all must be reminded that for the **retail electronic system** to be successful it must be widely used. But it represents change and sometimes change is not embraced as willingly as it should, even when it is to our benefit. (Mr. Howai would expound the benefits of the system). If we are to join the ranks of developed societies, we need to upgrade (to modernise) our systems. It

is thus in all our interest, (commercial banks, Central Bank, business community) to promote the system.

In closing, I want to congratulate the members of the several committees, representatives from all the banks and the Central Bank who have worked long and hard and who should feel justly proud that this phase of the project has come to a successful conclusion. But I am told that there is more to be done .. so sorry .. you are not finished yet. I would also like to recognise the contribution made by the E-FINITY consultants.

To all the banks, thanks again for working **with us at the Central Bank**, for the benefit of Trinidad and Tobago.