



CENTRAL BANK OF
TRINIDAD & TOBAGO

Payments Quarterly

Payments Quarterly is a newsletter on developments in the Payments System in Trinidad and Tobago

Volume 1. Issue 4

December 2008

Inside this issue:

Financial Institutions Act 2008 is now Law!

Trends in International Retail Payments

The Emergence of Electronic Payments in Trinidad and Tobago

Payments Glossary

safe-tt, GSS & ACH Volume Meter

Financial Institutions Act 2008 is now Law!

The Financial Institutions Bill 2008 was passed unanimously in the House of Representatives on November 14, 2008. Subsequently, the Bill was debated in the Senate on December 2, 2008 and was passed with amendments. The Bill received Presidential assent on 19th December 2008 and made law after ratification of the amendments by the House of Representatives. It is now referred to as the Financial Institutions Act 2008. A significant enhancement of the Act is the ability of the Central Bank to conduct consolidated supervision of banking groups, whereby the Bank will be able to effectively assess the risks of a group as a whole and apply capital and other prudential limits on a consolidated basis.

The Act also introduces for the first time the establishment of Financial Holding Companies or FHCs. Groups which contain two or more financial entities and other non-financial commercial enterprises may be required to establish a FHC, in order to protect the financial entities from contagion and other group risks by separating the financial activity from the non-financial activity. While this enhancement helps to better safeguard depositors funds, it is recognized that financial institutions impacted by this requirement would have to undergo some level of restructuring. Accordingly, an appropriate transitioning period has been provided in the Act.



Section 12 of the new Act deals with the framework for Payment Systems. The framework outlines requirements for operating a payments system, arrangements for application and withdrawal of licenses from operators, appeals, sanctions and the oversight powers of the Central Bank.

The legislation also addresses the Validity and Enforceability of Financial Collateral Arrangements, Close-out and Netting Arrangements, Substitution and Topping-up of Financial Collateral, Perfection of Pledged Financial Collateral and Enforcement of Pledged Financial Collateral.

The Payments Systems department at the Central Bank will soon be involved in the preparation of regulations to compliment the section 12 of the Act. A copy of the Financial Institutions Act (2008) can be viewed on the Central Bank website - www.central-bank.org.tt ■

Trends in International Retail Payments



Mr. Tim Mills
Electronic Payments Network



The Central Bank of Trinidad and Tobago in conjunction with the Trinidad and Tobago Interbank Payments System (TTIPS) hosted a seminar on **Electronic Payments in Trinidad and Tobago** at the conference facility of the Central Bank on Thursday 25th September 2008. Mr. Tim Mills of the Electronic Payments Network (EPN) made a presentation on the emergence of mobile payments and the move towards consolidation of international financial service providers.

Mobile Payments

Internationally, mobile payments have grown substantially. Worldwide mobile payments have increased from \$3.2bn in 2003 to \$55bn in 2008. Willingness to use mobile payments is relatively high in the United States. They are also popular in other countries such as Malaysia, Philippines, Kenya and South Africa. There are three platforms for mobile payments.

1. SAS (short message service) – widely available
 - SAS is defined as the transmission of short text messages, no longer than 160 alpha-numeric characters to and from a mobile phone. Once the message is sent, it

is stored in a short message service centre which then forwards it to the destination mobile.

2. Downloadable applications – pre-loaded and convenient
 - This platform runs from the user’s mobile and includes ringtones, games, graphics and music.
3. WAP (wireless application protocol) – supports nearly any mobile device with a browser.
 - This is a network communication in a wireless communication environment which enables access to the internet from a mobile telephone.

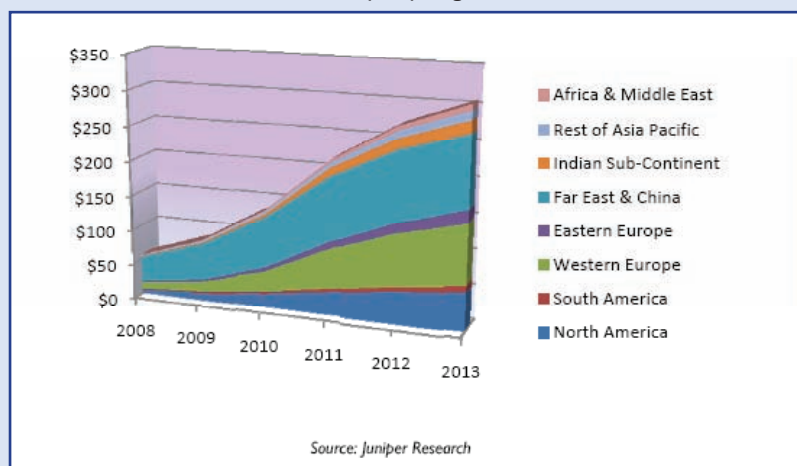
Payment System Consolidation

Mr. Mills stated that **Target 2**, the single shared infrastructure platform

in Europe, went into operation in May 2008. It replaced some twenty Real Time Gross Settlement Systems in SEPA, the Single Euro Payments Area. Through **SEPA**, European companies and other economic actors are able to make and receive payments in Euros, within Europe, whether between or within national boundaries, under the same basic conditions, rights and obligations, regardless of their location.

He drew another example of Payments System consolidation in the form of the **Payments Services Directive (PSD)**. The PSD harmonises the regulatory regime for payment services across European Union (EU) member states. All EU member states are required to transpose the directive into national law by November 1, 2009. ■

Graph 1: Global Remote Mobile Payment Market: Gross Transaction Values (\$bn) Regional Forecast 2008-2013



The Emergence of Electronic Payments in Trinidad and Tobago¹

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

¹ This article is one of a series of newspaper articles published by the Central Bank in 2008 on the Payments System in Trinidad and Tobago.

The Emergence of Electronic Payments in Trinidad and Tobago (continued)

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 ■

Payments Glossary



1 Financial Holding Company

A financial entity engaged in a broad range of banking-related activities. These activities include: insurance underwriting, securities dealing and underwriting, financial and investment advisory services, merchant banking, issuing or selling securitized interests in bank-eligible assets and generally engaging in any non-banking activity. (<http://www.ffiec.gov/nicpubweb>)

2 Close-out netting

A special form of netting which occurs following some predefined events such as default. Close-out netting is intended to reduce exposures on open contracts if one party meets certain conditions specified by the contract (e.g. becomes subject to insolvency procedures) before the settlement date. (*Glossary of Terms Used in Payments and Settlement Systems, BIS*)

3 Collateral

An asset that is delivered by the collateral provider to secure an obligation to the collateral taker. Collateral arrangements may take legal forms; collateral may be obtained using the method of title transfer or pledge. (*Glossary of Terms Used in Payments and Settlement Systems, BIS*)

4 Mobile payment

Mobile payment (also referred to as mobile web payment or WAP billing) is the collection of money from a consumer via a mobile device such as a cell phone. (<http://en.wikipedia.org>)

The safe-tt, GSS and ACH Volume Meter

	2006	2007	Jan - Mar		April - June		July - Sept		Oct - Dec	
			2007	2008	2007	2008	2007	2008	2007	2008
safe-tt	26,924	34,222	7,614	10,146	8,014	10,793	8,465	11,179	10,129	10,944
GSS	6,970	11,975	2,980	3,356	3,632	3,519	2,654	3,996	2,709	3,573
ACH	190,431	978,318	128,653	433,677	193,116	489,162	256,302	516,409	409,247	589,388
Total	224,325	1,024,515	139,247	447,179	204,762	503,474	267,421	531,584	422,085	603,905

Payments Quarterly replaced the safe-tt newsletter from 2008.

Payments Quarterly is published quarterly by the Central Bank of Trinidad and Tobago, Eric Williams Plaza, Independence Square, Port-of-Spain.

If you require any further details or would like to offer any suggestions, please contact the Payments System Department at the Central Bank of Trinidad and Tobago at Phone number: 1 (868) 625-4835 ext. 2719; or send an email to: rtgs@central-bank.org.tt