



CENTRAL BANK OF NIGERIA

PRESS RELEASE

ON CHEQUE TRUNCATION IN NIGERIA

As part of efforts aimed at revamping the National Payments System, the Central Bank of Nigeria (CBN), in August, 2007, launched the Payments System Vision2020 (PSV2020) initiative. This process commenced with the unveiling of the PSV2020 Strategy document, which benchmarks the Nigerian Payments System against global best practice. The CBN conducted a gap analysis using the Bank for International Settlements (BIS) Core Principles, and thus gained an overview of the Nigerian Payments System. This was used to determine areas of improvement in our desire to install a **“Nationally Utilized and Internationally recognized”** Payments System in Nigeria.

Following the survey, the Bank created 11 working groups with members drawn from the CBN, Deposit Money Banks (DMBs), and other stakeholders in the payments ecosystem. Bearing in mind the objectives of the PSV2020 mandates, the eleven working groups were further categorized into three groups, namely, **Infrastructure**, **Initiative**, and **Special Interest**, working groups.

One of the working groups under Infrastructure, is Cheque & Automated Clearing House (Cheque & ACH), charged with the following mandates:

- To draft the Policy for the maximum limit on cheques;
- To update the Nigerian Bankers Clearing House Rules;
- To facilitate the introduction of cheque truncation/express clearing in Nigeria’s Automated Clearing House infrastructure;
- To monitor, and make recommendations to the Bank on the ACH infrastructure, in line with global best practice.

We are happy to inform all stakeholders that, in addition to the review of the Nigerian Bankers Clearing House Rules (NBCHR), the Nigerian Uniform Bank Account Number (NUBAN) scheme, has also gone live.

To further improve the efficiency and timeliness of cheque clearing in Nigeria, the CBN recently approved the Guidelines on Cheque Truncation in Nigeria. The objectives of the Cheque Truncation Guidelines are to:

- (i) provide for the regulation and management of cheque truncation in Nigeria with a view to reducing cost and days of clearing instruments;
- (ii) articulate the rights and responsibilities of presenting and paying banks in the Cheque Truncation System;
- (iii) provide for minimum technical and operational standards for cheque truncation; and
- (iv) To facilitate the implementation of an effective and efficient payments system in the Nigerian Banking Industry.

As part of our preparation for the introduction of the Cheque truncation system, the CBN carried out a Systems Audit Certification/Test on all Deposit Money Bank, to confirm their readiness for the commencement of the scheme in Nigeria. Our finding is that conditions are appropriate for the cheque truncation scheme to go-live in the Lagos area. The implementation of the initiative will reduce the Cheque clearing cycle from T+2 to T+1, and thus make it more attractive to users, as an alternative means of payments, instead of transacting in cash. The approved Guideline for cheque truncation was subsequently presented to key stakeholders on April 27, 2012.

In consideration of the above report, and other indices, the CBN is pleased to inform all the banks and the general public that the commencement date for cheque truncation in Nigeria shall be August 10, 2012. The Lagos Clearing Area will serve as the pilot zone. We propose that as soon as

possible, the scheme will be extended to the other clearing zones across the country.

It must however be borne in mind that as we commence the implementation of cheque truncation scheme in Nigeria, the CBN is not unmindful of the inherent risks associated with the process. To this end, and in furtherance of the electronic payments initiatives, the Guideline has clearly defined the roles, infractions, and sanctions for all the participants in the scheme. Compliance shall be strictly monitored and defaulters duly sanctioned.

Furthermore, all stakeholders are implored to make the necessary arrangements, to ensure the successful implementation of the scheme. It is important to state that following the implementation of this scheme, all customers' mandates, and other instructions requiring the sighting of physical cheques before making payments decisions, will no longer apply as the instruments are expected to be pre-confirmed by the issuers of such instruments.

As the initial cost of cheque truncation to banks is likely to be significant, the CBN would encourage multi-bank shared cheque processing centers/facilities. This is likely to reduce the cost of the new scheme.

We request all stakeholders to be guided accordingly.

Signed

Ugochukwu A. Okoroafor
Director, Corporate Communications
Central Bank of Nigeria

FREQUENTLY ASKED QUESTIONS ON CHEQUE TRUNCATION IN NIGERIA

S/NO	QUESTIONS	ANSWERS
1	What is cheque truncation	This refers to the conversion of physical cheque into electronic form (i.e. scanned image) for transmission to the paying bank
2	What is the rationale behind this policy	To improve the efficiency of cheque clearing and ensure faster settlement of Cheques by eliminating the cumbersome process of exchanging physical Cheques amongst clearing banks
3	What will customers benefit from cheque truncation	There will be faster settlement of Cheques as value will be obtained two days after the cheque deposit date rather than the current three days
4	Does the policy apply to cheques only	It is applicable to all clearing paper instruments including dividend warrants and drafts
5	Will there be an increase in the maximum amount limit for cheques when the policy commences	The maximum limit for Cheques under cheque truncation will still be N10 million as currently obtainable except otherwise advised by CBN
6	Will clearing cycle reduce or increase under cheque truncation	Under cheque truncation, the clearing cycle will reduce by 1 day; from the current T+2 to T+1. It means that if a customer deposits a cheque on Monday; value will be obtained on Wednesday as against Thursday under the current clearing cycle
7	How many clearing sessions will obtain daily	There will be 3 clearing sessions daily: 1 st session: For presentation of all clearing instruments 2 nd session : For presentation of all clearing instruments except fresh Cheques 3 rd session: For returning of dishonored clearing Instruments only
8	Can fresh cheques still go for 2 nd clearing session if it is paid in early in the morning	No. Cheques paid in will be sent for clearing the next day as only the 1 st clearing session is available for presentation of fresh cheque instruments and it ends by 8am

9	Do customers have to confirm all Cheques under cheque truncation	No. Cheque to be confirmed will depend on your Bank's cheque confirmation limit and your own mandate
10	When should Cheques be confirmed during cheque truncation	Customers are expected to pre-confirm all their clearing Cheques before they are presented for clearing by the beneficiary. This is to prevent their Cheques will be returned as clearing Cheques are to be returned same day received if not confirmed
11	What happens to unfunded accounts during cheque truncation	Customers are expected to pre confirm all their clearing cheques before they are presented for clearing by the beneficiary. This is to prevent their cheques being returned, as clearing cheques are to be returned the same day they are received if not pre confirmed
12	Will there be an avenue for regularization of stale and dormant accounts during cheque truncation	Customers are meant to fund their accounts immediately cheques are issued, otherwise such cheques will be returned the same day it is received through the clearing system
13	Can CMA cheques still be processed during cheque truncation	There is a slim window available for processing of CMA cheques under cheque truncation. CMA accounts / cheques must be funded / confirmed latest by 3pm daily to avoid such cheques being returned same day received. However physical instruments will not be sent to any Primary Mortgage Institution (PMI) or Discount House (DH) for confirmation
14	How will customers' special mandate requiring physical handling of cheques be verified during cheque truncation	These categories of special mandates will not be allowed during cheque truncation as the genuineness of such special mandates cannot be verified on the electronic images of cheques received
15	Will customers have access to their physical cheques if dishonored	Yes, the physical instruments will be returned to customers if dishonored
16	Can a returned cheque be represented under cheque truncation	Yes, a returned cheque can be represented for a maximum of three times in line with the clearing rules

17	How will physical cheques be stored during cheque truncation	Original cheques will be stored by the collecting bank
18	Will there be legal backing for the use of electronic images of cheque to make payment decisions	The cheque truncation process is backed by the CBN guideline already approved
19	When will cheque truncation take effect	The take-off date is August 10, 2012 and this will be officially announced by CBN and widely communicated to the public
20	Will cheque truncation take effect in all states in Nigeria at the same time	No. Cheque truncation will commence in the Lagos clearing zone in the first instance, and will later be extended to other parts of the country. The date would be announced by CBN.
21	Any contact for cheque truncation related issues?	Call Sam on +234 803 785 0757 , or Salisu on +234 803 451 0621 . Or Email: psv2020@cbn.gov.ng