

# The Central Bank of the U.A.E.

## *Image Cheque Clearing System*

Newsletter No. 2

July, 2006

### **1. The ICCS Project So Far.**

The ICCS project has been under way since September 2005.

We would like to thank all banks for their participation and work so far. ICCS will bring UAE cheque handling into the 21<sup>st</sup> Century.

To date, only a small number of countries worldwide have moved to image based cheque clearing. The Central Bank approach has taken account of the experiences of these other early adopters of image based cheque clearing.

Image based cheque clearing will ultimately increase efficiency and reduce clearing times for cheques in the UAE. Initially, until the legal issues have been resolved, banks will continue to retain physical cheques for legal purposes. Clearing and settlement will be carried out based on cheque images and captured cheque data. Central Bank will act as the arbitrator in cases where the issuing bank, upon physical inspection of the document, believes that a cheque is not valid. See later in this document for further explanation.

We have built our technical infrastructure around a standard known as X9.37. By adopting this approach, we endeavoured to allow banks to adopt an off the shelf approach when they chose the technology which would integrate best with their existing systems.

By the end of July 2006, we will have carried out the first phase of testing with banks. This first testing is very simple and has shown up few problems of any note.

Work has started with the legal aspects of image based cheque clearing.

### **2. Next steps.**

On 1-6 August there will be meetings with banks to discuss Phase I testing and to agree on what will happen during Phase II testing and beyond.

Phase II testing is designed to allow banks to exchange cheques with all of the other participants in the system.

We have dedicated all of August to Phase II testing. During this phase, all banks should be connected using their systems as they will be in production and using the network connections to be used in production if at all possible. We realise that this may be difficult as we will all be reliant on Etisalat delivering the appropriate connectivity. But we would ask banks to make best efforts with Etisalat.

The ICCS Team will be arranging consultative meetings with banks to discuss issues and to gain opinions on how best to go live with ICCS. Central Bank realises that this is a major change for all banks. If ICCS is to be a success, it will require the complete co-operation and confidence of all participating banks.

### **3. Processing Issues.**

So far there have been a number of issues which banks should be aware of. They will be fully covered in the Operating Procedures which are currently being drafted.

We have summarised some of the more commonly raised issues below.

#### **3.1 Shift in liability.**

Banks need to be aware of their responsibility to other banks and to the banking system in general. Issuing banks will make decisions to pay based on cheque images and data gathered by presenting banks. The responsibility for quality control checking lies firmly with the presenting bank. If the issuing bank subsequently finds that the cheque should not have been submitted to ICCS because of obvious irregularities with the cheque, they will be entitled to ask for Central Bank to intervene. If Central Bank finds that the presenting bank has been at fault, it will take action and penalise the presenting bank.

#### **3.2 Representment of cheques.**

A bank customer may present a cheque for payment at any bank at which he/she has an account. If the cheque is returned to the customer for any reason, it can only be represented by the bank at which the customer originally presented it for payment. The cheque should be endorsed by the first bank to present the cheque. If the cheque is taken to another bank for payment, that bank should not present the cheque to ICCS. The cheque should be handled through special clearing.

If a different bank represents a cheque to ICCS, the issuing bank should return the cheque. The presenting bank will be penalised and there will be an AED 200.00 administration charge.

#### **3.3 Dispute resolution.**

As previously mentioned, banks make decisions based on the images captured by other banks. If the issuing bank identifies an irregularity with a cheque and feels that the cheque should not have been presented to ICCS, it has the right to refer the case to Central Bank, Banking Operations Division. If the issuing bank can produce enough evidence to prove that the cheque should not have been presented, Central Bank will reverse the transaction and refund the value to the issuing bank. Central Bank will debit the presenting bank and credit the issuing bank immediately.

Depending on the situation, Central Bank may also penalise the presenting bank if they are deemed to have been negligent.

#### **3.4 Physical cheque distribution.**

Whilst we are still relying on physical cheques for final verification and legal disputes, Central Bank will provide a sorting and distribution service to banks. Banks must bring cheques to Central Bank processing centres within three days. There will be a reconciliation done between ICCS and the sorting systems. If banks do not deliver

cheques to Central Bank within three days they will be penalised. There will be an administration charge for every item that is delivered late.

#### **4. Go Live**

As mentioned above, Central Bank realises how important it is to have a safe implementation of ICCS. It is imperative that banks and their customers are not adversely affected by the implementation of ICCS. Therefore we must consider carefully how we move from the existing method of cheque clearing to ICCS.

There are a number of possible ways to go live. Each has its own characteristics. In every case we intend to go through a period of parallel running till everyone is confident that whichever approach is adopted can be successful.

This will be discussed with banks over the coming months.

We would welcome feedback from banks on this subject if they have firm opinions on the matter.

#### **Comments and questions.**

For comments and more information, please contact: Bob Thomson, Senior Manager – IT Projects Unit,

FAX : 02 6663597, e-mail : [itpu@cbuae.gov.ae](mailto:itpu@cbuae.gov.ae).