

Cheque Truncation System

(Updated as on October 31, 2022)

1. What is Cheque Truncation?

Truncation is the process of stopping the flow of the physical cheque issued by a drawer at some point by the presenting bank en-route to the paying bank branch. In its place an electronic image of the cheque is transmitted to the paying branch through the clearing house, along with relevant information like data on the MICR band, date of presentation, presenting bank, etc. Cheque truncation thus obviates the need to move the physical instruments across bank branches, other than in exceptional circumstances for clearing purposes. This effectively eliminates the associated cost of movement of the physical cheques, reduces the time required for their collection and brings elegance to the entire activity of cheque processing.

2. Briefly explain the entire process flow in Cheque Truncation System (CTS).

In CTS, the presenting bank (or its branch) captures the data (on the MICR band) and the images of a cheque using their Capture System (comprising of a scanner, core banking or other application) which is internal to them and meeting the specifications and standards prescribed for data and images under CTS.

To ensure security, safety and non-repudiation of data / images, end-to-end Public Key Infrastructure (PKI) has been implemented in CTS. As part of the requirement, the collecting bank (presenting bank) sends the data and captured images duly signed digitally and encrypted to the central processing location (Clearing House) for onward transmission to the paying bank (destination or drawee bank). For participating in the clearing process under CTS, the presenting and paying banks use either the Clearing House Interface (CHI) or Data Exchange Module (DEM) that enables them to connect and transmit data and images in a secure and safe manner to the Centralised Clearing House (CCH).

The Clearing House processes the data, arrives at the settlement, and routes the images and requisite data to the paying banks. This is called presentation clearing. The paying banks through their CHI / DEM receive the images and data from the CCH for further processing.

The paying bank's CHI / DEM also generates the return file for unpaid instruments, if any. The return file / data sent by the paying banks are processed by the Clearing House in the return clearing session in the same way as presentation clearing and return data is provided to the presenting banks for processing.

The clearing cycle is treated as complete once the presentation clearing and the associated return clearing sessions are successfully processed. The entire essence of CTS technology lies in the use of images of cheques (instead of the physical cheques) for payment processing.

3. What type of instruments can be presented for clearing through CTS? What is CTS-2010 Standard Cheque?

Only CTS-2010 standards compliant instruments can be presented for clearing through CTS.

CTS-2010 standards contain certain benchmarks towards achieving standardization of cheques issued by banks across the country. These include provision of mandatory minimum-security features on cheque forms like quality of paper, watermark, bank's logo in invisible ink, void pantograph, etc., and standardisation of field placements on cheques. The minimum-security features and standardisation help presenting banks while scrutinising / recognising cheques of drawee banks in an image-based processing scenario.

4. Are non-CTS cheques invalid?

Banks have been advised to issue only CTS 2010 standard compliant cheques from September 30, 2012. Earlier, there were septate clearing sessions for non-CTS cheques. However, they were discontinued with effect from December 31, 2018. As of now, non-CTS cheques cannot be presented in CTS. Bank have been advised to withdraw the non-CTS cheques from the customers. However, non-CTS cheques remain to be valid as a negotiable instrument.

5. What are the benefits of CTS to customers?

CTS enables fast and cheap realisation of funds to customers as compared to traditional mechanisms. Under grid-based CTS clearing, all cheques drawn on bank branches falling within in the grid jurisdiction are treated and cleared as local cheques. No outstation cheque collection charges to be levied if the collecting bank and the paying bank are located within the jurisdiction of the same CTS grid even though they are located in different cities.

CTS also benefits issuers of cheques. The Corporates if needed can be provided with images of cheques by their bankers for internal requirements, if any.

6. What is the status of CTS implementation in the country?

CTS has been implemented in New Delhi, Chennai, and Mumbai with effect from February 1, 2008, September 24, 2011, and April 27, 2013 respectively. After migration of the entire cheque volume to CTS, the traditional mechanisms of cheque clearing have been discontinued across the country. Further, banks have been advised to ensure that all branches are connected to CTS.

Under CTS, cheque processing locations in India are consolidated into the three grids in Chennai, Mumbai and New Delhi.

Each grid provides processing and clearing services to all the banks under its respective jurisdiction. Banks, branches, and customers based at small / remote locations falling under the jurisdiction of a grid would be benefitted, irrespective of whether there exists at present a formal arrangement for cheque clearing or otherwise. The illustrative jurisdiction of the three grids is indicated below:

- Chennai Grid : Andhra Pradesh, Telangana, Karnataka, Kerala, Tamil Nādu, Odisha, West Bengal, Assam and the Union Territory of Puducherry.
- Mumbai Grid : Maharashtra, Goa, Gujarat, Madhya Pradesh and Chhattisgarh.
- New Delhi Grid : National Capital Region of New Delhi, Haryana, Punjab, Uttar Pradesh, Uttarakhand, Bihar, Jharkhand, Rajasthan and the Union Territory of Chandigarh.

7. What is “One Nation, One Grid” project?

Under the One Nation, One Grid project, three CTS grids explained above are to be merged to create a single grid for the nation. Single grid shall benefit customers with faster realisation of outstation cheques. It shall also benefit banks with easier fund management, streamlining of infrastructure and overall efficiency improvements.

8. What care should be taken by customers while writing cheques?

There are three images of each cheque that are taken in CTS – front Gray Scale, front Black and White and back Black and White. Customers should use image friendly coloured ink to write cheques to facilitate clear image of written information. Further, customer should use permanent ink to prevent fraudulent alternation of contents later. However, Reserve Bank of India (RBI) has not prescribed specific ink colors to be used to writing cheques.

Customer should also be aware that cheques with alteration / modification are not accepted under CTS. No changes / corrections can be carried out on the cheques (other than for date validation purposes, if required). For any change in the payee's name, courtesy amount (amount in figures) or legal amount (amount in words), fresh cheque leaves should be used by customers. This would help banks in identifying and controlling fraudulent alterations.

9. What is Positive Pay System for Cheques?

Positive Pay System (PPS) for CTS is an additional indicator provided by NPCI to all banks to facilitate the clearing process and pre-empt cheque-related frauds and shall form part of prudent practices followed by banks for payment processing. It has been introduced to augment customer safety in cheque payments and reduce instances of fraud occurring on account of tampering of cheque leaves.

Banks have been advised to enable PPS facility for all account holders issuing cheques for amount of ₹ 50,000 and above. While availing of this facility is at the discretion of the account holder, banks may consider making it mandatory in case of cheques for amounts of ₹ 5,00,000 and above.

10. What are the precautions required to be taken by the banks in CTS?

Banks should exercise care while affixing stamps on the cheque forms, so that it does not interfere with the material portions such as date, payee's name, amount, and signature. The use of rubber stamps, etc., should not overshadow the clear appearance of these basic features in image. It is necessary to ensure that all essential elements of a cheque are captured in an image during the scanning process and banks / customers have to exercise appropriate care in this regard.

Banks are also required to verify the security features additional to CTS-2010 standard that have been voluntarily implemented

11. If a customer desires to see the physical cheque issued by him for any reason, what are the options available?

Under CTS the physical cheques are retained at the presenting bank and do not move to the paying banks. In case a customer desires, banks can provide images of cheques duly certified/authenticated. In case, however, a customer desires to see / get the physical cheque, it would need to be sourced from the presenting bank, for which a request has to be made to his / her bank. An element of cost / charge may also be involved for the purpose. To meet legal requirements, the presenting banks which truncates the cheques need to preserve the physical instruments for a period of 10 years.

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