

Cheque truncation

[Literature](#), [Russian Literature](#)



The Indian Cheque Scenario - an IBM Point-of-View Cheque volumes will continue to increase for the next 5-7 years - All parties involved have strong reasons to continue to promote check usage Banks - significant revenue flows are tied to the use of checks Slow consumer adoption of electronic payments - cheques are free + Perception of safety

Merchants, Corporates, Governments, and Non Banking Financial Institutions - due to lack of cheap, convenient alternatives and because many accounts payable and receivable systems are designed around checks. © Copyright IBM Corporation 2003 IBM Business Consulting Services Image based processing of cheques in India present several challenges - which all add up to the cost for the banking industry Geographical spread & volumes impact speed of physical movement of paper (specially inter-city) Multiple languages & scripts Multiple handling due to current processes in ranches - high rejects in an imaging process Legal & Regulatory issues Lack of Centralized Banking systems in many banks to enable STP Potential for fraud/counterfeit cheques increases © Copyright IBM Corporation 2003 IBM Business Consulting Services The Truncation initiative will have a major impact on Payment Operations - some key recommendations Indian Model - Truncation at presenting Bank Big Bang approach - mandatory cutover for ALL Branches Each Bank to decide it's own model - Truncation at Branch or Service Branch or Outsourced Recommendations for Banks Understand volumes, current operations

Develop strategy & optimized operations architecture in a truncationenvironment Define new processes (focus on mitigating operational risk) Re-define clearing operations & organization © Copyright IBM

Corporation 2003 IBM Business Consulting Services RBI's Working Committee on Cheque Truncation has recommended truncation at the presenting bank itself, to maximize efficiency PRESENTING BANK Big Branches DRAWEE BANK Core Core Banking Banking System System Branch Capture Data and Image One Pass readers for MICR Data, Greyscale & Bitonal Images Front & Back UID assigned

At Teller/Behind Teller Real-time/Batch Intra-Branch Intra-Branch Cheque Clearing Cheque Clearing Clearing House System House System House IMAGE & MICR ARCHIVAL PKI enabled CLEARING CLEARING CLEARING HOUSE HOUSE SYSTEM SYSTEM SYSTEM IMAGE & MICR ARCHIVAL 3 Months + 8 Years Browser based access to images for Banks & Customers Images, MICR, UID2 Clearing House Interface Clearing House Interface Service Branch Service Branch Or Or Or Outsourced Service Center Outsourced Service Center Outsourced Small Branches Images, MICR, UID MIS MIS Signature Signature Verification Verification Customer

Customer Statements Statements IMAGE & MICR ARCHIVAL © Copyright IBM Corporation 2003 IBM Business Consulting Services Reduced costs, improved customer service and increased flexibility will drive each Bank's imaging decision Value realization will differ from Bank to Bank New offers of value to customers Reduced costs from re-engineered check exchange practices REALIZED VALUE Reduced costs via productivity enhancements and fraud reduction Near-term customer service enhancement 2005 2006 2007 TIME 2008 2009 2010 © Copyright IBM Corporation 2003 IBM Business Consulting Services

With RTGS and Cheque truncation, Banks will potentially lose a large income leverage. The truncation initiative will re-define business models. Loss of float. Additional cost of infrastructure & Operations. Recommendation for Banks: Develop a fee based product strategy to offset losses - from customers, from secondary banks.... differentiated service models. Re-engineer Cash Management services for Corporates. Create an optimized cost model for Operations - build and operate OR outsource? Utilize the opportunity to image inter-branch cheques to improve customer service & reduce paper process costs. Copyright IBM Corporation 2003. IBM Business Consulting Services. Technology choices and implementation models will create differentiation in services and operational costs... Each Bank's defined operating model is directly related to its technology choices, implementation options and costs. At each Branch vs. at a service Branch. Smaller cities in a region? Remote Branches? Certification of Operations is a must! Recommendations for Banks: Analysis of current and expected cheque volume patterns should drive future model. Optimize model with a mix and match - inhouse + outsource.

Select Open Architectures to enable backwards integration. Security, BCP and Operations Management are CRITICAL. © Copyright IBM Corporation 2003. IBM Business Consulting Services. Cheque Processing and IBM - A summary view. Over 90% of the 40B US cheques issued yearly are processed with IBM Solutions "VIEWPOINTE" - Bank of America, JPMChase & IBM Joint Venture for Cheque Processing Centers. +1 Billion new items stored monthly. +5. 1 Million image retrievals daily. Storage space occupies 2. 8 PB of data. In India, the Reserve Bank uses IBM Solutions for its high speed clearing operations.

IBM manages Cheque clearing/processing Operations in over 12 countries Partnering with BCSIS for Cheque solutions for Banks in India Complete end-to-end CHS functionality (Applications, Infrastructure, Integration, Operations Management, Outsourcing Service Centers) Totally compliant with RBI directives, PKI security enabled Based on Open Standards - enables easy integration to Core Systems © Copyright IBM Corporation 2003 IBM Business Consulting Services IBM uses its structured methodology to enable Banks to maximize their RoI from a Cheque imaging initiative

1 1 Create the Vision
4 4 Review Bank Operations / Delivery strategy Review / Establish Bank Payments Strategy Obtain Stakeholder commitment
2 2 Develop Business case Develop Business case for Check applications // for Check applications image enablement image enablement Cost effectiveness vs. Business needs Time to market & competitive pressures Identify Applications Systems, Storage & Network Architectures
5 5 Create Implementation Plan Create Implementation Plan Application & integration priorities Rational steps Business Process & Organization Reengineering Coincidence with industry initiatives

Applications Setup & Test Applications Setup & Test Setup, configure and Customise applications Integrate with Core Systems, PKI Infrastructure Integrated and User Testing Develop Training program & materials Develop Operations model & timelines Develop infrastructure cost model Develop Operational cost model Develop products & revenue plan
3 3 Develop Infrastructure Plan Develop Infrastructure Plan
6 6 Manage Implementation Manage Implementation Program Management - Process, Change Implement connectivity Establish Organization - Process, IT Training Implement & Test

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