

# BHARAT SCHOOL OF BANKING

## CHEQUE TRUNCATION SYSTEM (CTS)

As per **Negotiable Instrument Act, 1881**, each and every **cheque** is required to be **presented** to the **drawee** bank (paying bank) for the **payment**.

Earlier, **cheques** deposited by **customers**, used to be presented by the **collecting bank** (customer's bank) to the **paying bank** (cheque issuer's bank). Thus, it required the **physical movement** of the **cheque** from collecting bank to the paying bank, consuming a significant amount of **time to clear the cheque**. (Consider several cheque to be cleared in several paying banks! How much time it could take!)

Then, came the concept of **Clearing house**. **Banks** decided to **meet** in this **clearing house**, which acted as the **central place** and **settle** their **net amounts** of cheques. Thus it reduced cheque **processing** time because they need not visit several paying bank, taking several cheques.

### **Cheque Truncation System (CTS)**

At present, we got a **new** concept of **cheque clearing**. Instead of sending the **cheque physically** by the **collecting bank** to the **paying bank**, an **electronic image** (scan copy, along with all necessary details) is **transmitted** to the **drawee/pay**ing bank for payment through the **clearing house**.

This reduced the **time** drastically, as **CTS** stopped the **physical movement** of **cheque** from one bank to another, and also the **costs** involved with it.

### **Grid-based CTS clearing**

**RBI** implemented **CTS** in the **National Capital Region (NCR)** of **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 from **MICR** system to **CTS**, the traditional **MICR-based** cheque processing has been **discontinued** in these **3 locations**.

Based on the **advantages** realized and **experience** gained, **RBI** decided to **operationalize CTS** across the country. Accordingly, **Grid-based CTS clearing** has been launched in these 3 locations.

1. **New Delhi Grid** - NCR of New Delhi, Haryana, Punjab, UP, Uttarakhand, Bihar, Jharkhand, Chandigarh
2. **Mumbai Grid** - Maharashtra, Goa, Gujarat, MP, Chattisgarh
3. **Chennai Grid** - Andhra Pradesh, Telengana, Karnataka, Kerala, Tamil Nadu, Odisha, West Bengal, Assam, Puducherry

### **CTS Clearing Cycle**

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## CHEQUE TRUNCATION SYSTEM (CTS)

**Step 1** - The **Collecting bank** (or branch) captures the **data** (on **MICR band**), and the **images** of a **cheque** using their **Capture System** (comprising **scanner, core banking** or other application)  
To ensure **security, safety** and non-repudiation of data/images, **end-to-end Public Key Infrastructure (PKI)** has been implemented in **CTS**.

**Step 2** - The **Collecting Bank** sends the **data** and **captured images** duly **signed** and **encrypted** to the **central** processing location (**Clearing House**).

The **Clearing House** processes the **data**, and arrives at the **settlement figure** and transfers the **images** and **requisite data** to the **Paying bank**. This is known as **presentation clearing**.

**Step 3** - The **Paying Bank** receives the images and data from the **Clearing House** for **payment processing**. The paying bank generates the **return file** for **unpaid instruments**. The **return file/data** are then sent to the **Clearing House**.

**Step 4** - The **return file/data** is processed by the **Clearing House** in the **return clearing** session and in the same way as **presentation clearing** session. Then these are provided to the **Collecting bank**.

**Step 5** - The **Collecting bank** processes the data received from **Clearing House**. The whole process is known as **Clearing Cycle**.

The **Clearing Cycle** is treated as **complete** once the **Presentation clearing** and the associated **Return clearing** sessions are successfully processed.

### **Amendment in NIA Act, 1881 for CTS**

RBI has confirmed that with **amendments** to **Section 6** and **1(4)** and with addition of **Section 81A** in the **NIA Act, 1881**, the **truncation** of **cheques** has been **legalized**.