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## AN OVERVIEW OF THE CHEQUE PAYMENTS SYSTEM IN NIGERIA



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### 1.0 INTRODUCTION

The dynamic nature of business activities in Nigeria has necessitated the diverse innovations in the payments system. These innovations are specifically characterised by speed, efficiency, reliability and promptness, which aptly reflect the tremendous progress that the system had undergone in the past years. The present trend in the cheque payments system is no doubt designed to propel robust growth and development in the payments system. In this context, the cheque payment system is considered a substantial subset of the payments system. Thus, the various stages that it had undergone over the years, since its inception, have far reaching implications for the payments system. By implication, the usage and the volume of cheques cleared highlight the relevance of cheques as a means of payment.

The present cheque payment systems is no doubt designed to complement the upcoming payments system, which is designed to reduce the volume of cash-based transaction and thus, creates cash-less transaction that can mitigate the risks which are associated with it. Thus, the relevance of the cheque payment cannot be

ignored in the bid to reduce the volume of cash used in business transactions. It is in accordance with this objective; coupled with the use of electronic-based transaction, that a cap is placed on the cheque payment (the maximum limit for cheque payment is N10 million while that of third party cheque payment for encashment over the counter is N150,000.00).

Before the advent of electronic banking, cheque payment was considered as an improved and better alternative to cash transaction. For instance, in the past, a trader could use "a trailer load" of cash to effect the payment of goods and services with all risks involved. Thus, the only possible alternatives that would mitigate such risks were to resort to the use of cheque to consummate such transactions. This implies that cheque was the earliest means of payment or one of the few negotiable instruments that was developed to ease the challenges of cash transactions in the payments system.

Presently, the world is in a state of unprecedented transformation which is accentuated by the rate of technological change. The shift from cheque payment system is a direct pointer to these changes that had culminated in the payments system. In addition, there has been a push from a low tech cheque payments system to a high tech cheque payments system. This began with the introduction of Magnetic Ink Character Recognition (MICR) in 1993 along with the manual clearing system, which was replaced by the Nigeria Automated Clearing System (NACS) in October 21, 2002. The rate of technological changes had accelerated the entire payments system to the point where we now have what is

called cheque truncation, which entails presenting the cheque electronically without the rigours of gathering DMBs' representatives in any of the premises of CBN for the purpose of clearing cheques. It is against this background that this paper is designed to examine critically the modern trends in the cheque payments system in Nigeria. In the light of this, the paper is divided into nine parts. The second part of the paper examines the concepts of payment, clearing and settlement. The evolution of cheque clearing in Nigeria is examined in part three. The part four presents the cheque standard in Nigeria. The part five gives the synopsis of cheque payment in Nigeria while the cheque truncation system (CTS) and its benefits and challenges are examined in part six and part seven respectively. The paper concludes with recommendations and conclusion in part eight.

### 2.0 THE CONCEPTS OF PAYMENT, CLEARING AND SETTLEMENT

According to Luis and Andre' (2017), payments system plays a central role in the functioning of modern market economies, by enabling the transfer of money and financial instruments between economic agents in a safe and efficient way. As a result of this role, researchers have devoted a great deal of attention to the assessment of the spillover effects that the development of payments system could induce in an economy and on the demand for currency (Luis and Andre', 2017). A payment system is a mechanism that facilitates intermediation through the processing and transfer of value of money from the payer (buyer) to the payee (seller) in the

process of exchanging goods and services (Amedu, 2005). It is a set of instructions and procedures used for the transfer of value and settlement of obligations arising from the exchange of goods and services within a defined market (Ovia, 2005). It consists of institutions, set of instruments and procedures through which financial obligations are discharged by economic agents (Nnanna and Ajayi, 2005). The payment system is categorised into retail/small value payment and wholesale/ large value payments system. A retail payments system is a fund transfer system which is operated either by the private or the public sector that deals with large volumes of low value payments which is operated either by the private or public sector that deals a variety of forms like cheques, credit transfers, direct debits and card payment transactions while the large value payments system is also a funds transfer system, but processes large value and high priority payments and is operated by central banks (Luis and Andre', 2017). However, the emphasis of this paper is on the retail payments system which consists of paper-based instruments, including personal cheques and other instruments.

Clearing is a system whereby bankers exchange the financial instruments drawn on each other through the use of a clearing house (Oyedele, 2009). It is also the process of establishing the amount each person/each bank owes in the clearing house. Nnanna and Ajayi (2005) stated that clearing is the exchange of payment related information between system participants and any regulations under which payments are settled on bilateral or multilateral basis. In addition, clearing is the process by which banks meet on banking days at specified hours to exchange payment instruments, particularly bank drafts and cheques. Apart from the aforementioned financial instruments, other

instruments that are approved for clearing are manager's cheque, corporate cheque, dividend warrant, interest warrant, among others. These instruments are also called negotiable instruments because they are used to secure the payment of money through endorsement and delivery which guarantees complete ownership and transfer of legal title from one party to another. The operations of these instruments are examined in the subsequent sections of this paper.

It is important to draw a distinction between clearing and settlement. Clearing is the process of establishing the amount owed by a bank (or payer) in the clearing house, while the process of moving the amount owed to another bank (or payee) is called settlement. Hence, clearing does not imply the transfer of value, it is settlement that ensures the transfer of value and thus, completes the payment system in this context. Nnanna and Ajayi (2005) explained that settlement is the actual discharge of an obligation i.e. by debiting specific amount from the payer's account and crediting same to the payee's account. Alade (2005) considered settlement as a component of a country's payment system and it is an act that discharges obligations in respect of funds or securities transfer between two or more parties. Oyedele (2009) defined settlement as the calculation of the multilaterally netted payments obligations due and from each participant in the clearing house. This therefore, implies that settlement follows the activities (i.e. the process of establishing the indebtedness) in the clearing house within the premises of the CBN.

According to Casu, Girardone and Philip (2006), clearing relates to the transfer and confirmation of information between the payers (sending financial institution) and the payee

(receiving financial institution), while settlement is the transfer of funds between the payer's financial institution and the payee's financial institution. Casu, Girardone and Philip (2006) further emphasised that settlement discharges the obligation of the payer's financial institution to the payee's financial institution with respect to the payment order. It can be deduced from the foregoing definitions and analyses that the clearing and settlement of the values of cheques form the bedrock of the retail payment system in Nigeria.

### 3.0 THE EVOLUTION OF CLEARING SYSTEM IN NIGERIA

The clearing system commenced in 1961 with the establishment of the Lagos clearing zone and First Bank was the clearing house during this period. The establishment of the Central Bank of Nigeria by the CBN act of 1958 provided fresh impetus to the payments system in Nigeria. Thus, section 29 sub-section (1) and section 42 of CBN Act (1958) empowered the CBN to promote the establishment of bank clearing system; provide facilities for the conduct of clearing, as well as, facilitates the clearing of cheques and other credit instruments for banks carrying out business in Nigeria. In furtherance of this Act, section 47 subsections (2) and (3) of the 2007 Act stated that the Bank shall continue to promote and facilitate the development of efficient and effective system for the settlement of transactions (including the development of electronic payments system); and the Bank shall have power to prescribe rules and regulations for the efficient operations of clearing and settlement system.

Apart from the Lagos clearing house, other clearing houses were established in the 36 states of the Federation, including the Federal Capital Territory. These

clearing houses were located in the premises of the CBN in the 36 state capitals of the Federation. But the recent introduction of the cheque truncation system (CTS) has led to the consolidation of the clearing houses into a single clearing zone which is located in Lagos.

In the past, the process of clearing cheques in Nigeria was purely a manual process and thus, was highly cumbersome. Alade (2005) observed that it could take as much as eight hours after the commencement of clearing house before banks could know their net positions and as long as twenty one (21) days before customers of banks could take value for their clearing cheques. In the same vein, Ovia (2005) outlined some of the challenges that confronted the clearing of cheques in the past thus:

- ◆ Lack of quantity control of instruments: The system recorded as high as 30-35 per cent of rejection of cheques due to non-conformity with MICR cheque standards for the above tolerable rate of 1-3 per cent;
- ◆ Long clearing days: The clearing days for cheques took as long as 21 days;
- ◆ Incidence of fraud and forgeries: Insider complicity was a key factor in the cases of frauds and forgeries;
- ◆ Incidence of returned cheques: Huge amount of cheques were returned due to insufficient fund in the customers' accounts;
- ◆ Poor banking culture: The culture that trapped huge amount of cash outside the banking system posed dire consequences to the cheque payments system.
- ◆ The introduction of clearing

period came into effect in July 1985 when the 21-day uncleared effect was introduced; it was changed to 15-day uncleared effect in December 1994 and later to 12-day uncleared effect in August 1996 (Durunguma, 2009). In June 2001, the clearing period was reduced to 9 days.

In 2002 clearing session was reduced to T+3 and this meant that from the day a customer lodged a cheque into his or her account to the date he or she will be credited with the value of the cheque would be four days. This was later reduced to T+2 days for both upcountry and local clearing in 2007. These changes were meant to reduce the incident of fraud in the clearing and settlement system because longer clearing days could create opportunities for fraud.

Another major development in the clearing and settlement system in Nigeria was the introduction of a new settlement framework on April 1, 2004. This framework involved the categorisation of the then seventy-five clearing banks, which were operating in Nigeria, into settlement and non-settlement banks. The settlement banks participated directly in the clearing house activities and receive the net clearing position in its settlement account with the CBN, while the non-settlement banks participated in the clearing house activities through a settlement bank and received their net clearing position through the settlement account of their respective settlement banks. The banks that wished to participate as settlement banks must meet the following criteria:

- ◆ The banks must possess the capacity to provide clearing collateral of N15 billion treasury bill which was subject to review;
- ◆ The banks should be able to

offer agency facilities to other banks and also settle on their behalf nationwide; and

- ◆ The banks should be able to provide adequate network in all the states and FCT.

The automation of the Nigeria clearing and settlement system was equally considered as another major milestone following the launching of the Automated Clearing System (NACS) in 2000, which later went live in Lagos in October 2002. This innovation set the pace for the new clearing rule that culminated in the issuance of the Cheque Truncation Guidelines by the Central Bank of Nigeria in 2012. The Guideline was designed to reduce the clearing cycle from T+2 to T+1 for both local and upcountry cheques. Thus, it was the advent of the cheque truncation system that scrapped the physical movement of cheques and encouraged the processing of dematerialised physical cheques through the use of electronic image. The legal framework for the use of the electronic image for business transaction in Nigeria was established when the Electronic Transaction Bill was passed into law in 2015 by the National Assembly.

Overall, the evolutionary stages of the clearing and settlement system were aided by the undermentioned innovations:

- ◆ Magnetic Ink Character Recognition (MICR): The introduction of MICR marked the beginning of automation of clearing. The establishment of MICR was mooted in 1982 when the CBN commissioned Messrs. KOMPLEX limited to carry out full feasibility study on how to improve the domestic payments system. The Report of the firm advocated the introduction of MICR which was

eventually adopted in 1988 by the CBN. The second phase took off in 1991, but was formally introduced in 1993; and was fully implemented in the Lagos clearing zone in July 1 1994. MICR was introduced to achieve the following objectives to:

- Facilitate document process;
- Shorten the clearing duration; and
- Boost the confidence of the banking public nationally and internationally.

The introduction of MICR technology was, however, confronted with some challenges that were peculiarly posed by lack of cheque standards and the long operation of clearing system which took 9 to 15 days for customers to obtain value for their cheques. Then the reject rate of cheques processed on MICR machines was 40 per cent. These challenges had in recent times been addressed by the evolving innovations in the e-payment channels.

- ◆ Nigeria Inter-bank Settlement System (NIBSS): NIBSS was established by the Central Bank of Nigeria and the Nigerian Bankers' Committee in 1993 and began operation in June 1994. NIBSS is a payment and settlement company set up to provide electronic payments, transactions switching, payment aggregation and settlement services for the banking industry.
- ◆ Nigeria Automated Clearing System (NACS): NACS was launched in 2000 to automate financial instruments like cheques used in the clearing system. It enhances the automation

of the financial instruments that are used in the clearing system. Presently, the introduction of the cheque truncation system had resulted in the establishment of one clearing zone in Lagos. This system implies that the scanned copies of cheques are sent electronically to the Lagos clearing unit of the CBN Lagos and finally to NIBSS for clearing and eventual settlement.

- ◆ Cheque Printers Accreditation Scheme (CPAS): CPAS was introduced in September 2005 to ensure efficiency in the clearing system. It was also established to regulate

cheque printing and standardisation which implies that only accredited printers, foreign or local shall be given approval or licence to print cheque in Nigeria (CBN, 2015).

- ◆ Nigeria Uniform Bank Account Number (NUBAN): NUBAN simply implies 10 digit account number which was implemented in 2010 to enhance efficiency in the activities of the Automated Clearing House (ACH) by reducing wrong account postings by receiving banks and also reduce the number of transactions that were wrongly processed due to incorrect account numbers.

#### MAJOR TIMELINE IN THE EVOLUTION OF CLEARING CHEQUES IN NIGERIA

1961	The establishment of the Lagos Clearing zone; First Bank was the clearing house.
1988	The introduction of the Magnetic Ink Character Recognition (MICR).
1985	21- day uncleared effect was introduced.
1993	The establishment of Nigeria Interbank Settlement System(NIBSS) to provide clearing and settlement services to the DMBs.
1994	15-day uncleared effect was introduced.
1996	12-day uncleared effect was introduced.
2001	The clearing period was reduced to 9 days.
2002	The full implementation and live operation of Nigeria Automated Clearing System (NACS); the reduction of clearing cycle to T+3 (local) and T+5 (upcountry).
2005	The introduction of cheque standard and Cheque Printers Accreditation Scheme.
2006	The commencement of the old RTGS.
2007	The harmonization of clearing cycles (upcountry and local) at T+2; Payment System Vision 2020 (PSV2020) was equally inaugurated.
2010	The directives enforcing a cheque cap of N10 million was implemented coupled with the implementation of the Nigeria Uniform Bank Account Number (NUBAN).
2012	The implementation of cheque truncation system in Lagos; the clearing cycle was reduced from T+2 to T+1 in Lagos.
2013	The cheque truncation system was introduced nationwide; the clearing cycle was equally reduced from T+2 to T+1 nationwide. The new RTGS and the Payment System Vision2020 (PSV2020) Document Release 2 was launched.
2014	BVN was introduced to address the absence of unique identifier.
2015	Electronic Transaction Bill was passed into law by the National Assembly.

Source: Compiled by the author



**4.0 THE CHEQUE STANDARD IN NIGERIA**

A cheque is an instrument payable on demand and drawn on or payable through or at an office of a bank, whether or not negotiable, that is handled for forward collection or return (CBN, 2016). Two types of cheques exist in terms of sizes: the small cheque which comprises personal cheque and the large cheque which comprises managers' cheque, bank draft, corporate cheque, interest warrants, dividend warrants, debit notes and direct debit. The following are the permitted transaction codes for the aforementioned sizes of cheques:

CODE	ITEMS
01	PERSONAL CHEQUE
02	CORPORATE CHEQUE
03	BANK DRAFT
04	MANAGER'S/BANK CHEQUE
05	BANKERS' PAYMENT
06	DEBIT NOTE
11	DIVIDEND WARRANT
12	INTEREST WARRANT
13	DIRECT DEBIT
19	TEST CHEQUE

Among the items listed in the above table, the personal cheque, corporate cheque, bank draft and the manager's cheque are commonly used by the customers of banks. The personal and corporate cheques have similar connotations and usage, but differ in the category of customers that issue them. Personal cheque, as the name implies, is issued by individual

customers, while the corporate cheque is issued by corporate bodies that are considered legal entity and are equally the customers of banks in this context.

The bank draft and the manager's cheque also share similarities except the location. For instance, the bank draft is issued for the purpose of

transferring money from one location to another or from one clearing zone to another clearing zone, while the manager's cheque is issued within a clearing zone.

Similarly, the cheques that are drawn on the banks contain the following digits on their code lines in the following order:

CHEQUE SERIAL NUMBER	8 DIGITS
SORT CODE	9 DIGITS: <i>The sort code on the cheque enables the MICR device to identify the bank on which the cheque was drawn the branch and the state in Nigeria where the bank is located.</i>
ACCOUNT NUMBER	10 DIGITS
TRANSACTION CODE	2 DIGITS

It is equally important to note that the first three digits on the sort code is called the Bank code. Hence, with the bank code one can identify a particular cheque

and the bank on which it is drawn. The table below highlights the list of the Deposit Money Banks (DMBs) in Nigeria and their respective bank codes.

S/N	BANK	3DIGIT CODE	S/N	BANK	3DIGIT CODE	S/N	BANK	3DIGIT CODE
1	ACCESS BANK	044	8	GT BANK	058	15	STERLING BANK	232
2	CITIBANK	023	9	HERITAGE BANK	030	16	SUNTRUST BANK	100
3	DIAMOND BANK	063	10	KEYSTONE BANK	082	17	UNION BANK	032
4	ECOBANK	050	11	PROVIDUS BANK	101	18	UNITED BANK	033
5	FCMB	214	12	SKYE BANK	076	19	UNITY BANK	215
6	FIDELITY BANK	070	13	STANBIC IBTC	221	20	WEMA BANK	035
7	FIRST BANK	011	14	STANDARD CH.	068	21	ZENITH	057

SOURCE: Compiled by the author as provided in the NUBAN guidelines.

As earlier stated, the introduction of the 10 digit account number was designed to enhance the efficiency of the automated clearing house. Similarly, the Nigeria Cheque Accreditation Scheme (NICPAS) was inaugurated to address the fundamental problems of poor quality of cheque and inadequate security on the paper. These innovations have

encouraged the adoption of appropriate technology that complies strictly with every bit of technical requirements so as to avert the abuses that were associated with clearing activities in the past.

Furthermore, innovations in the clearing activities, as emphasised in the preceding section, had somewhat

addressed the inherent anomalies through the following ways:

- raising the standard for printing cheques in Nigeria which includes printing cheques with uniform physical properties, minimum cheque quality to reduce reject rates, minimum security features for all the banks and the ability of banks to confirm the genuineness of other banks' cheque;
- promoting greater efficiency in the clearing system through the introduction of the CTS, which will be examined in the subsequent section, to reduce reject rate and other irregularities and thus, enhance the use of image technology and the process of archiving by CIWA; and
- mitigating the risks of cheque fraud through the introduction of security features which are designed to protect the cheques against fraudulent alterations and cloning.

### 5.0 A SYNOPSIS OF CHEQUE PAYMENT IN NIGERIA

As it has been established in this paper, the foremost mode of payment had been the cash payment; and the Nigerian payments landscape was largely dominated by cash-based transactions. A review of the payment transactions that were carried out by the CBN in 2010 revealed that 99 per cent of customers' activities were mainly cash-based.

The cheque, as a means of payment, had been considered in the past as the best alternative to cash. In fact, cheques help customers to

manage their money and following the clearing rules, they provide safe security and documentary evidence of payments than other channels of payment and above all the cheques that clear through the banking system are, like other electronic payment instruments, considered as potential indicators of current GDP growth (Galbraith and Tkacz, 2015). Cheques played this role for a considerable number of years before the advent of the e-payment channels and other recent innovations like the ATM, NIP, NEFT and the PoS. The introduction of these payment landscapes reduced the usage of cheques. In 2009, the value of cheque transactions reduced from N29, 436.03 billion to N4, 309.43 billion in 2014 and this decline was attributed to the increased use of the e-payment channels. The e-payment channels have become popular among consumers of financial services, particularly with the introduction of the cash-less policy in 2012. However, the e-

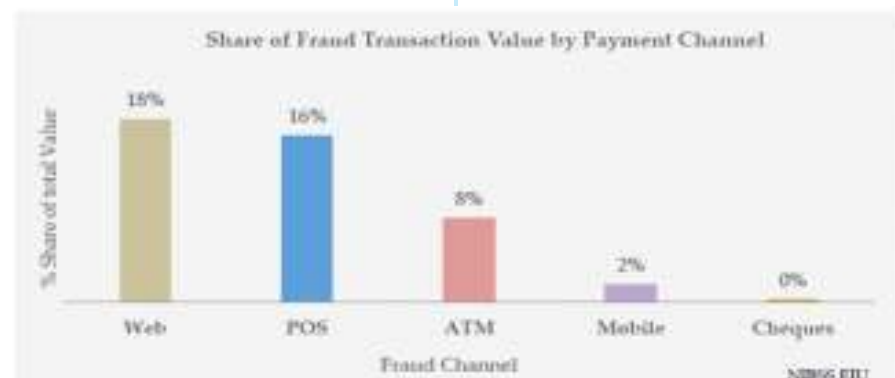
payments were equally designed to complement the cheque payment. For instance, the maximum limit on cheque payment is N10 million per transaction and the payment in excess of such transaction shall be consummated only through the e-payment mode.

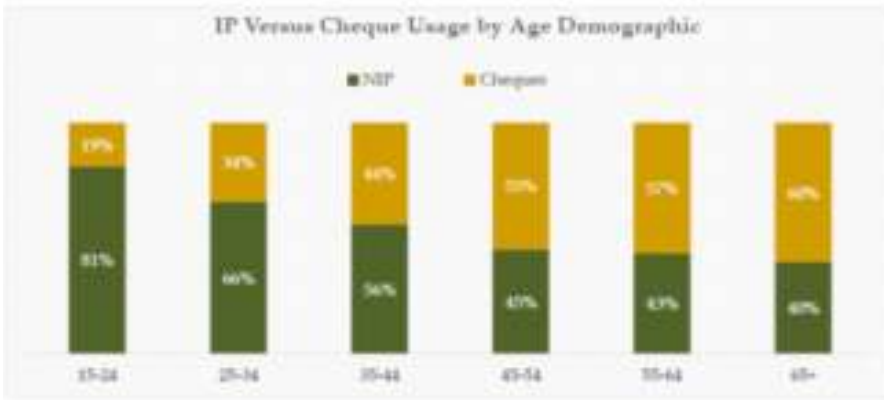
However, the cheque payment still remains the preferred option for high value transaction because it is believed to be more secured than other modes of payment. Similarly, it gives control to its users over their funds through the features that give it the ability to stop cheque and equally postdate a cheque payment (NIBSS 2016). The following table provides a comparative analysis of average transaction value for cheques and other e-payment channels: Further studies show that cheque payment has the least chances of fraud transaction, compared with other modes of payment as shown in the following figure:

Payment Channel	Average Transaction Value(₦)	*Average Transaction Value(US \$)
Cheque	496,988	1,630
POS	12,097	40
Instant Payment	283,698	930
ATM	8,393	27.50

\*Exchange Rate (N/US\$:305)  
Source: NIBSS

Further studies show that cheque payment has the least chances of fraud transaction, compared with other modes of payment as shown in the following figure:





Source: NIBSS

Despite the aforementioned benefits that accrue to cheque payment, the usage of cheque payment among a considerable number of consumers of financial services has been in decline since the advent of e-payment channels. As shown in the subsequent figure, there is a generational division in the usage of cheques in Nigeria. The cheque usage is high among individual between the ages of 35-64 years while the age bracket that is below 45 and 35 years prefer the e-payment option (NIBSS, 2016).

### 6.0 CHEQUE TRUNCATION SYSTEM (CTS)

On August 10, 2012, the Cheque and Automated Clearing Working Group of the Payments System Vision 2020 reviewed the Nigeria Bankers' Clearing House Rule and this was followed by the launching of the Cheque truncation guideline on March 14, 2012. The objectives of the Cheque truncation guidelines are to:

- ◆ Provide for regulation and management of cheque truncation in Nigeria with a view to reducing cost and days of clearing instruments;
- ◆ Articulate the rights and the responsibilities of the presenting and paying banks in the cheque truncation system;

- ◆ Provide for minimum technical and operational standards for cheque truncation; and
- ◆ Facilitate the implementation of an effective and efficient payments system in the Nigeria banking industry.

#### 6.1 WHAT IS CHEQUE TRUNCATION?

To truncate simply means to stop the flow of physical cheques issued by a drawer to the drawee's branch. Cheque truncation is a process that involves stopping the physical movement of the cheque and replacing the physical instrument with the image of the instrument and the corresponding data contained in the MICR line. It is a system of cheque clearing and settlement between banks which is based on images and associated electronic payment data without the physical exchange of cheques. That is, a physical cheque is dematerialised and converted into an electronic image.

The process of CTS ensures that the cheque details, which are basically the MICR line that includes the bank routing number, account number, cheque number, cheque amount and other details that are printed near the bottom of a cheque in magnetic ink in accordance with the Nigeria

Cheque Standards, are captured by the bank that presents the cheque or its agent. The data captured is then presented electronically to the clearing house which is eventually delivered to the paying bank for payment. This process is obviously in contrast to the old process of presenting a cheque physically to the paying bank or a situation whereby cheques were transported from all the branches countrywide to the clearing house using courier services.

From the above analysis, it could be deduced that three parties are directly involved in the cheque truncation system:

- i. The presenting bank (or sending bank): The bank that receives the cheque from the customer either directly or via third party. It also presents the cheque to the clearing system for clearing and eventual settlement. In the context of cheque truncation, it is the presenting bank that dematerialises the physical cheque by converting it into an electronic image which is transmitted to the paying bank via the automated clearing house. This implies that cheques are truncated at the presenting bank, and the minimum retention period of physical cheques by the presenting bank is five (5) years (CBN, 2016).
- ii. The paying bank: It is the bank at or through which a cheque is payable and to which the cheque is sent for payment or collection (CBN, 2012).
- iii. The automated clearing house (or Electronic Clearing House): The automated clearing house acts as the intermediary for data and image flow between the presenting



bank and the paying bank. NIBSS is the automated clearing house and the Central Image Warehousing Agency (CIWA) that is charged with the responsibility of storage and certification of cheques. The paying bank may request any image from CIWA for the purpose of proof of payment up to a period of ten (10) years. This equally implies that the electronic image shall be retained by CIWA for a minimum period of ten (10) years (CBN, 2016).

**7.0 BENEFITS AND CHALLENGES**

Delivering services on the platform of automated process provide enormous benefits to both the customers and to the banks that provide such services. The advent of the CTS, as this paper had alluded to, had eliminated the cumbersome process of exchanging physical cheques among clearing banks. Be that as it may, the introduction of the CTS poses dire challenges that basically border on cybersecurity risks. The following sections will examine those challenges and benefits.

**7.1 BENEFITS TO THE CUSTOMERS**

- **FASTER SETTLEMENT OF CHEQUES:** When a cheque is lodged by a customer, its value is quickly obtained within two days after the

cheque was lodged. This trend stands in total contrast to the distant past when the values of cheques were obtained within fifteen or twenty-one days. In the same vein, the migration from T+2 to T+1 enhances faster intercity clearing and this specifically implies that when a customer deposits his or cheque on Monday, the value of such cheque will be obtained on Wednesday.

- **EFFICIENT SERVICES:** The CTS has ended the days of piling up mountains of customers' cheques. As stated in the preceding paragraph, customer's cheque cannot be held for twenty one or fifteen days in the paying banks' vault; and this obviously underlines the fact that consumers of banking services can have access to efficient and faster service delivery through customer-focused and technology-driven stance of the financial services industry through the CTS.

**7.2 BENEFITS TO THE BANKS**

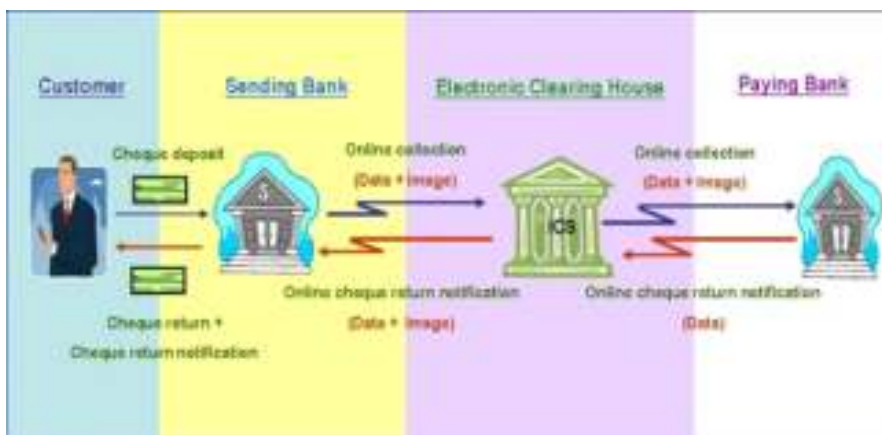
- **REDUCTION IN OPERATIONAL COST:** The operational cost of moving "portfolios" of cheques coupled with the associated logistics using courier services has reduced. In

addition, the cumbersome process of moving a cheque from the bank in which it was deposited to the bank on which it was drawn and the movement of money in the opposite direction had stopped with the advent of CTS, thereby ending the incident of loss of cheques in transit, which hitherto posed dire risks to the banks.

- **OPERATIONAL EFFICIENCY:** The removal of the cumbersome process of exchanging cheques and the subsequent consolidation of all the clearing zones into a national clearing centres, which culminated in the introduction of the Automated Clearing House have ensured efficiency in the clearing and settlement system. This has equally reduced the risks that are associated with paper sharing as a result of abolishing the use of physical cheque during the clearing session. It has also eased reconciliation and verification challenges that were associated with the manual process of clearing cheques.

**7.3 ISSUES AND CHALLENGES**

Every innovation is bound to be confronted with issues and challenges. The CTS, which is also an innovation in the payments system, is not an exception. As a result of its technological implications, the CTS has become increasingly susceptible to intermittent power supply and poor telecommunication connectivity, especially in the absence of alternative power supply or backup device. For instance, the prevalence of system glitch results in the delay in processing cheque payment and equally poses dire



SOURCE: NIBSS

consequences in the entire payments system. Similarly, compromised electronic devices that can be inadvertently used for processing transaction can be infested by virus that may be attributed to the oversight of the participants and operators in the CTS or perpetrators of cyberfraud.

The use of computers and other electronic devices have made the CTS, like the entire payments system, to be prone to cybercrime. If adequate cybersecurity is not established, the entire system may be hacked by cybercriminals whose top motives are to steal money by holding the entire system to ransom (i.e. ransomware).

## 8.0 RECOMMENDATIONS AND CONCLUSION

The implementation of the CTS

has no doubt improved the operations and the management of cheque transaction thereby reducing the processing time and the operational costs that were hitherto incurred by the banks in the past as noted by this paper. This paper further deduced from the foregoing that the CTS represent an exceptional innovation in the payments system which had eased the challenges of the cheque payment.

As clearly noted in this paper, the cheque payment still remains the preferred option for high valued transaction. Therefore, it is important to sustain this attribute and thus, make the cheque payment system to appeal to a broad spectrum of stakeholders in the financial system. This can be achieved by ensuring that adequate cybersecurity is

established to guard the CTS against e-fraud. In addition, efficient and effective capacity building must be put in place so as to allay the potentials of operational risks; the custodians of CTS devices-servers, scanners, workstations, software, among others - must handle such devices with utmost care because of their sensitivity and fragility.

In conclusion, this paper envisaged an era of drastic improvement of the CTS whereby customers will sit in the comfort of their homes to truncate their cheques by simply sending the details of the cheque to the paying bank using their mobile devices. This will entail capturing the MICR details of the cheque on the mobile device and then transmit such details to the paying bank and then get the value of the cheque truncated on real-time basis (i.e.T+0) from their respective banks.

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