

PRESS RELEASE

Seminar Re: Dishonoured Cheques

A cheque is one of the oldest forms of non-cash payment instruments having wide-spread use in almost every country. A cheque essentially is an instruction to the bank to debit the payer's account for a specified amount and to transfer that value to the payee's bank for credit to the payee account or to pay out cash.

When cheques are drawn on one bank and deposited for collection with another, an inter-bank clearing and settlement process is necessary to channel the transfer of funds from the payer to payee. Inter-bank clearing and settlement is effected through the Clearing House. To give an indication of the cheque population in Malta, quoting from the European Central Bank blue book report entitled : Payment and securities settlement systems in accession countries (August 2002)

'Cheques are still the most widely used means of payment. It is estimated that 9.8 million cheques were drawn in 2001, the equivalent of 25 cheques per person for that particular year. The total value of these cheques was MTL 2.6 billion (€6.55 billion), while the volume of cheques drawn on the Central Bank of Malta was 2.04 million, worth a total of MTL 434 million (€1,093 million).'

This means about 21,300 cheques (not including Central Bank cheques) are issued on a daily basis in the Maltese economy. Whilst the majority of cheques are honoured the Paying Bank may refuse to pay a cheque presented to it,

1. if the drawer does not have sufficient funds to cover the transfer value in the cheque,
2. if the cheque is fraudulent, or
3. the cheque is otherwise invalid.

In such instances, entries passed to the payee bank will have to be reversed. The timing of the dishonour process depends on a number of factors but we are also unhappy to note that the system is not as efficient as it should be in such a relatively small market.

The situation on dishonouring of cheques in the last few years has gone from bad to worse. Trade creditors are facing a daily barrage of cheques coming from all quarters as individuals misuse the trust once placed in a cheque book. Whilst these words may seem harsh to those people who honour their cheques faithfully, the MACM unfortunately must report a growing trend in the number of cheques being dishonoured. MACM was formed two years ago when major players in the business community realised that definite action had to be taken to address the credit issues facing the country.

As a non-profit organisation the focus is on one hand, proposing modern legislative measures to Government whilst taking executive action on the other hand. Since its inception in 2001, MACM has built up a dishonoured cheques register with information supplied on a daily basis by its members. Unfortunately whilst initially dishonoured cheques seemed to have adopted some form of control, we note that there is a trend creeping upwards with new names daily joining the list.

MACM has reviewed the situation in various occasions and with all other members of the commercial community, i.e. the Chamber of Commerce, the Federation of Industry, the General Retailers and Traders Union and also the Banks, and there is common agreement that cheques are today presenting a big problem in the Maltese economy. This does not dilute other credit problems that may exist in particular sectors of the economy since dishonoured cheques is symptomatic of these problems.

The organisation is a key facilitator in members exchanging credit information in a confidential and professional environment. This has led to a dishonoured cheques register being built over the last two years and is invaluable to members in their day to day activities.

The reasons for this upsurge are several and include :

- the failure of the legislative system to cope with the fraudulent use of cheques
- the increased controls put in on credit limits by the Banks in Malta
- the inefficient processing of cheques with today's cheque clearing system
- the increase in over-trading by operators all round without the right capital injections
- the lack of use / availability of more secure alternatives such as debit / credit cards or electronic transfers

What can be done to bring back some form of sanity into this area ?

1. TRUNCATION

The MACM feels that it is time that a truncation system is fully implemented in the Maltese Islands to ensure that honouring of cheques or else notice of dishonour is effected in a much more rapid situation.

Truncation System is simply the practice of holding a cheque at the bank at which it was deposited (the collecting bank) and electronically forwarding the essential information on the cheque to the Paying Bank.

Adopting cheque imaging and truncation can reduce the risks further because of the possibility for earlier settlement (availability of funds), thereby narrowing the time gap when the cheque is presented to the collecting bank and when finality of settlement is achieved. Efficiency is increased because the Clearing House and the drawee bank do not need to handle the physical cheque. Another advantage of this technology is that it will reduce the recurrent operating costs substantially.

2. CENTRAL BANK INFORMATION REGISTER

The Central Bank of Cyprus took an important initiative in February this year. The key points of this directive are that a register will be held of people who :

- (a) (i) over a period of 12 months issue at least three dishonoured cheques, or
- (ii) the combined total value of any dishonoured cheque or cheques issued over this period exceeds £1,000,
- (b) there is a court decision against any natural or legal person for an offence connected with the issue of dishonoured cheques.

The Management Committee of the Registry, may, with a duly justified decision, also extend insertion in the Registry to the following persons:

- (a) the agent or agents of a person already inserted in the Registry, who are authorised to issue cheques as representatives or proxy to that person,
- (b) the holder or holders of a joint account with a person already inserted in the Registry,
- (c) all or any of the Board members of a legal person inserted in the Registry, or any other officials who are considered to have aided in any way, or contributed to the issue of dishonoured cheque or cheques.

All banks, as soon as they are informed of the insertion of a person in the Registry, must proceed to the immediate freezing of all current accounts in the name of that person and demand the return, within ten days, of all unused cheques.

De-registration from the Registry is possible only if all of the following conditions are satisfied:

- (1) a period of 3 years has elapsed since the date of insertion of a person in the Registry,
- (2) the registered person can prove that all dishonoured cheques that have been registered have been honoured,
- (3) a period of 12 months has passed since the last dishonoured cheque was honoured.

A Central Bank register would be a tremendous deterrent and would achieve a lessening of the problem in a short time-frame. The four domestic banks would also have a stronger hand in not issuing cheque books to persons that end up on the Central Bank register. In itself, this would lead to a clean-up of cheque abusers within a short time.

In essence, the Central Bank register would constitute an authoritative and institutional database similar to the one which MACM has built up, with the important difference that it is run and managed by a statutory body and it can be used by banks to refuse cheque business to clients on the register. Bear in mind as well that payment by cheque is today regarded as a very expensive and archaic method; we should speed up the process of electronic payments which is far cheaper to the banking and retail system.

3. CREDIT / DEBIT CARDS

Again from the blue book report by the ECB, one notes that there are already over 344,000 cards held by the public (about 19 cards for every 20 inhabitants), with the younger generation holding the bulk of them.

"The debit card is more popular than the credit card in Malta, as is the case in most countries. In fact, while at the end of 2001 there were around 249,000 debit cards, the figure for credit cards was just 94,000," Over 13.6 million transactions were effected by means of debit cards for a total value of around Lm247 million (€ 622 million).

Stored Value Cards (SVCs) may also displace cash payments for frequent, low-value transactions such as convenience purchases. These will allow customers to 'reload' their card from their savings or cheque account via an ATM, telephone, or PC. Some systems will also support card-to-card value transfer. This card will further reduce the need for customers to use 'bricks and mortar' networks.

4. LEGISLATION

If commerce is to flourish, cheques ought not to be allowed to bounce with impunity, and if they do, the drawer must be brought to quick criminal and civil justice. The means to combat dishonoured cheques must be sufficient to ensure a satisfactory resolution of the problem. Legislation must be perceived by the judiciary as beneficial to the social and commercial fabric of this country. We must ensure that cases will be dealt with swiftly and the judiciary can benefit from a new confidence in the resolution of problems which affect large and small traders alike.

The three speakers of the Seminar organised by MACM shed some light on the issues above whilst proposed some concrete solutions. MACM hopes that the seminar proved conclusive and that all parties who can be conducive towards achieving results in this area will contribute appropriately towards timely and efficient actions.

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