



IBM Business Consulting Services



Indian Cheque Truncation Initiative

Key challenges for Indian Banks

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A background image of a lush green jungle with various plants and trees, partially obscured by a blue gradient overlay on the right side.

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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.**

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 branches – 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**

The Truncation initiative will have a major impact on Payment Operations – some key recommendations

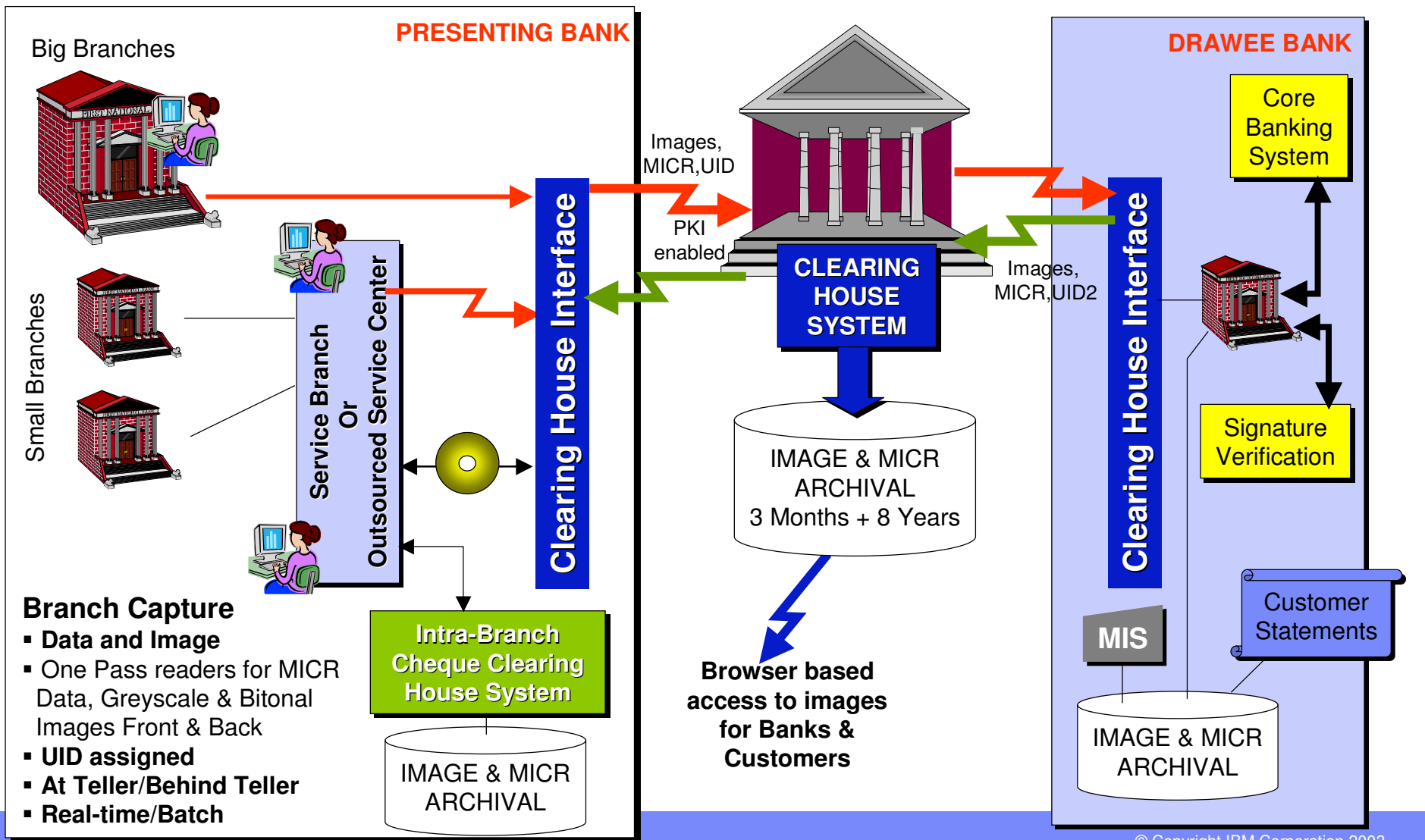
□ Indian Model - Truncation at presenting Bank

- 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

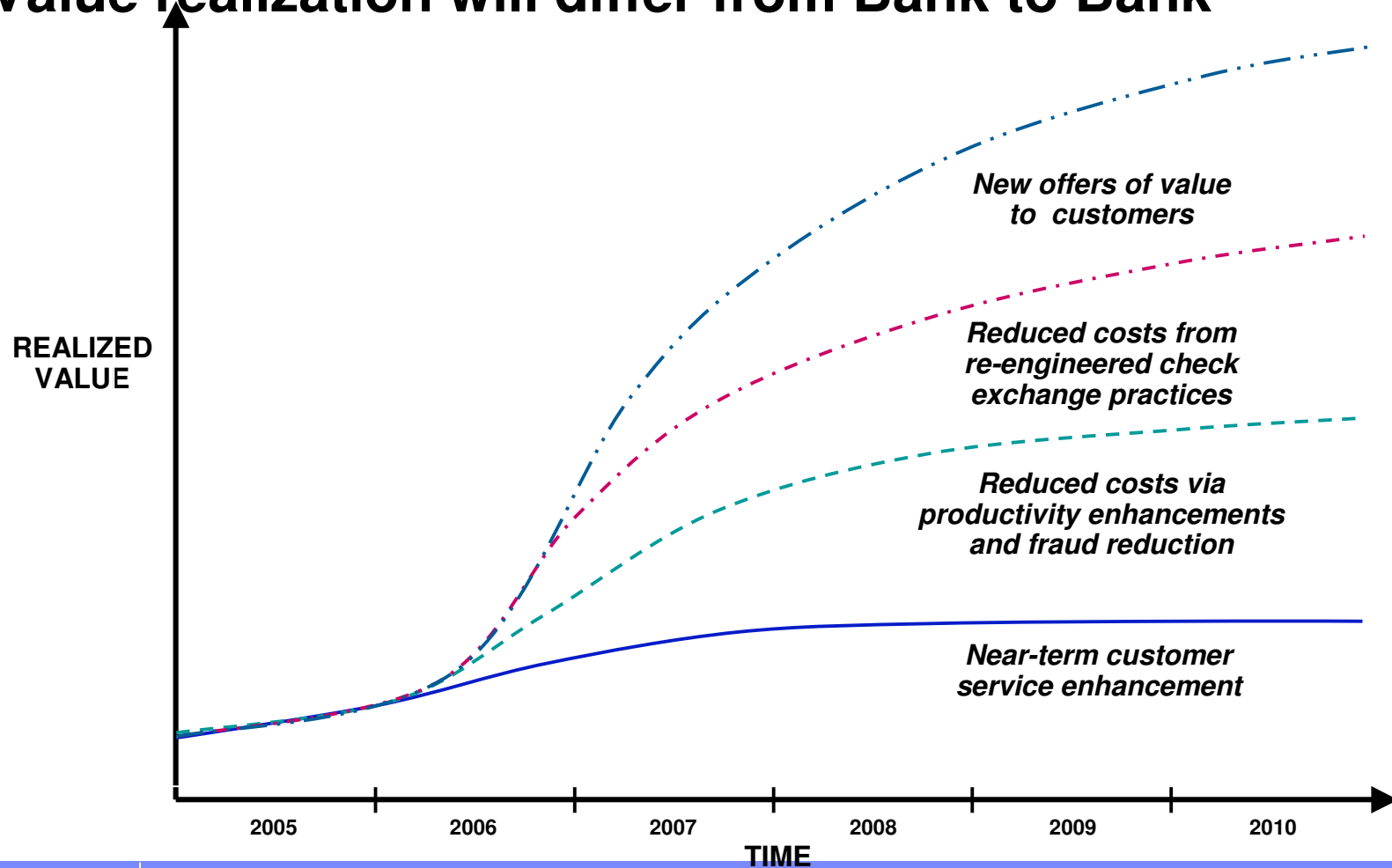
- Understand volumes, current operations
- Develop strategy & optimized operations architecture in a truncation environment
- Define new processes (focus on mitigating operational risk)
- Re-define clearing operations & organization

RBI's Working Committee on Cheque Truncation has recommended truncation at the presenting bank itself, to maximize efficiency



Reduced costs, improved customer service and increased flexibility will drive each Bank's imaging decision

Value realization will differ from Bank to Bank



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**

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

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**

IBM uses its structured methodology to enable Banks to maximize their Rol from a Cheque imaging initiative

1 Create the Vision

- Review Bank Operations / Delivery strategy
- Review / Establish Bank Payments Strategy
- Obtain Stakeholder commitment

2 Develop Business case for Check applications / image enablement

- Develop Operations model & timelines
- Develop infrastructure cost model
- Develop Operational cost model
- Develop products & revenue plan

3 Create Implementation Plan

- Application & integration priorities
- Rational steps
- Business Process & Organization Reengineering
- Coincidence with industry initiatives

4 Develop Infrastructure Plan

- Cost effectiveness vs. Business needs
- Time to market & competitive pressures
- Identify Applications
- Systems, Storage & Network Architectures

5 Applications Setup & Test

- Setup, configure and Customise applications
- Integrate with Core Systems, PKI Infrastructure
- Integrated and User Testing
- Develop Training program & materials

6 Manage Implementation

- Program Management – Process, Change
- Implement connectivity
- Establish Organization – Process, IT Training
- Implement & Test Security for Certification

Summary – Maximize your opportunities from the Cheque Truncation initiative

Well prepared Banks will benefit greatly from the Cheque truncation initiative

New Opportunities

- Improve Customer Services
- New Product Offerings
- Product Differentiation
- Cross-selling Revenue

Higher Efficiency

- Fraud Savings
- Productivity savings
- Operational cost reduction
- Reduction in call volumes & follow-up



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Thank You

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