

Automated Clearing House (ACH)

INTRODUCTION

Lesotho is in the process of modernising its payment and settlement system, and the establishment of an Automated Clearing House (ACH) has been identified as one of the main strategies for payment system reform. The Millennium Challenge Corporation (MCC) has agreed to fund the establishment of this ACH coupled with the introduction of alternative payment options. The MCC funding also covers establishment of an appropriate legal and regulatory framework for the ACH that will be compatible with that of South Africa to cater for cross-border funds transfers.. This will also include the appropriate physical infrastructure

The interest of MCC in this project is brought about by the potential to achieve poverty reduction and stimulate economic growth. The project supports the Central Bank of Lesotho's payments and settlement vision that reads:

“By 2015 Lesotho shall have a widely accessible, secure, reliable and efficient payment and settlement system.”

IMPORTANCE OF PAYMENT SYSTEM

Payment system refers to institutions, payment instruments, processes, legal and regulatory framework, and the physical infrastructure that support and lead to the transfer of monetary value from the paying to the receiving party.

The main importance of payment system is that:

- It enables trade and promotes economic efficiency,
- It provides relevant, secure, fast, reliable and cost-effective services to a wide range of users within the country

Automated Clearing House (ACH)

The **Automated Clearing House** is a secure, private electronic funds transfer system that connects to all participating financial institutions and provides interbank clearing of

these electronic payments for the participating financial institutions. ACH processes large volumes low value credit and debit transactions which are originated in batches. ACH is a critical component of the nation's payments infrastructure and services a wide spectrum of the public.

The main objectives of ACH are to;

- Increase economic activity by creating a modern and efficient payment and settlement system,
- Facilitate the extension of low-cost financial services to the banked and the unbanked poor,
- Improve Clearing times for all payment streams.
- Decrease costs associated with funds transfer thus lowering the cost of financial transactions.
- Expand the outreach or widen access of financial services to rural areas and reduce poverty.
- Reduction in the use of paper based instruments e.g cheques and cash.

Accommodate introduction of multiple payment streams for different payment instruments, such as EFT's, Credit /debit cards, etc.

DISADVANTAGES OF THE CURRENT CLEARING PROCESS

- Costs associated with clearing manual paper based instruments are high.
- Clearing times are longer and result in too much delays.
- The clearing process is largely manual and therefore risky and inefficient.

BENEFITS OF THE PROPOSED AUTOMATED CLEARING HOUSE TO DIFFERENT AGENCIES

- Reduced operating costs through elimination of paper cheque handling.
- Reduction of unit cost of processing high volume, low value payments and therefore shall enable the banks to divert resources to other profitable enterprises.

- Accelerated funds transfer through shorter clearing cycle.
- Elimination of clearing float thus improving efficiency in financial system.
- Encourage introduction of a number of electronic payment instruments.
- Afford safety and security by way of elimination of stolen or lost cheques since movement of cheques will be curtailed.
- Effective and accurate monitoring of the liquidity in the banking system and improved risk management of payment process.
- Greater transparency within the high volume payments arena.
- Greater accuracy in the measurement of liquidity.
- Reduced processing costs.
- The payment process will gain predictability,

SMART CARD PAYMENT

Another project that MCC shall fund is the implementation of smart card payment stream.

The main objective of introducing Smart card payment stream is to expand access to financial services to the underbanked and the unbanked rural poor.

Advantages

- Smart card technology creates affordable transactions,
- It provides transaction channel between the formal business and the un-banked and under-banked,
- Transactions shall be provided off-line or on-line making it a suitable payment option for the rural area.
- Smart cards could be purchased at nominal fee and may also be linked to mobile phone payment stream,
- Cards are more secure than use of cash,
- Card holders will pay minimal monthly fees.

ENVISAGED USES OF SMART CARDS

- Payment of salary and wages,
- Banking (Savings, Cash deposits, card to card transfer),
- Bill payments,
- Social Grant benefits,
- Pensions,
- Pre-paid utilities,
- Voucher-less airtime Top-Up

IMPLEMENTING ENTITY

The Central Bank of Lesotho (CBL) will be responsible for overall implementation of the project while MCA-Lesotho is responsible for coordination of all MCC funded projects.

CONTACT INFORMATION

**For Further information on the Automated Clearing House and Credit Bureau Projects please visit our website www.mca.org.ls
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