

## IV. ANNEX

### 1. Launch of the Electronic Check in Taiwan

In order to promote efficiency of payment in checks, to facilitate payment flow emerging from e-Commerce, and to meet the needs of diversified business transactions, the Bank initiated a plan for developing a nationwide electronic check (eCheck) service system in December 2000. Based on this plan, the Bank, the Ministry of Finance and the Ministry of Economic Affairs assigned the Taiwan Clearing House (TCH) to establish a set of rules and frameworks for the operation of an eCheck service. In September 2003, the first electronic check system in Asia was successfully launched in Taiwan. This Annex provides a brief overview of the recent launch of eChecks in Taiwan.

#### **What is an eCheck**

An eCheck is a check in electronic form with an electronic signature instead of a written signature or a physical seal. An effective eCheck satisfies the following requirements: (1) the legal mandatory information of an eCheck should be the same as for a paper check; (2) the payee column on an eCheck must not be left blank, and should bear the payee's identification code;(3) the payee's e-mail address should be included on an eCheck; and(4) only one payee can appear in one eCheck. The scope of eChecks covers crossed checks, promissory notes payable by/through banks, and bankers' acceptance drafts.

#### **Legal Frameworks on eCheck Transactions**

The eCheck transaction combines electronic transactions with the legal infrastructure and business processes associated with paper checks. In Taiwan, the eCheck transaction is subject to the Electronic Signatures Act and the Negotiable Instrument Act. Under these Acts, the TCH stipulated regulations to clearly identify the legal responsibilities and obligations of all interested parties in eCheck transactions. In addition, the protection of proprietors and the regulations on eCheck credit records are the same as those on paper checks.

### **Data Security of eChecks transactions**

To protect data security, the Centralized Registration and Custody System was introduced along with the development of eChecks. EChecks, issued by drawers and then verified by the paying banks in terms of drawers' payment identification codes, will be sent to the TCH for booking and custody. The TCH handles all the book entries of check transfers, financing earmarks, deposits for collection, checks being cleared or withdrawn etc. This centralized administration is used to guard against incompetent duplication in order to protect proprietors' rights.

In addition, under the framework of the Public Key Infrastructure mechanism, e-Signatures in digital matrix form use authorization and arithmetic algorithms to identify authentication, data integrity and non-repudiation. It can also be used to prevent data transmission from impersonation, data contents from alteration, and trading counter parties from denial. Regarding the electronic certificate, it adopts the unified security certificate specification established by the Bankers Association of Taiwan.

### **The Benefits from the eCheck Service**

The benefits from using eChecks are as follows: (1) for all parties, the concerns of paper checks, such as incorrect seals/signatures, losing blank checks and stopping payment are significantly reduced; (2) the eCheck service will reduce time wastage and save manpower costs and materials for customers, banks and clearing houses; (3) by its rapid and secure settlement of financial obligations, the eCheck service lowers the possibility of circulation of dishonored checks; (4) the eCheck service provides automated payment operations from different parties and integrates the functions of e-information, e-trading, e-payment, and e-finance. In other words, it may serve as an important payments instrument for helping businesses make the transition into the world of electronic commerce; and (5) by using the on-line inquiry system of eCheck, businesses can get information about the process of eChecks transactions which will benefit their financial operations.