

# Lebanon as a Regional Financial Sector: Towards eBanking & eFinance

*Dr. Nasser Saidi*

First Vice Governor

Banque du Liban

Seminar of Arab & Mediterranean Central  
Banks

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# Towards eBanking & eFinance: Agenda

- Financial Stability and the Payment System
- Payment System Development & Reform
- Role of Central Banks in Payment System Development
- Lebanon: towards eBanking & eFinance

# Role of Central Banks: [I]

- Expansion of banking & financial services in modern economies  $\Rightarrow$  wider role of CBs
- Modern ICT  $\Rightarrow$  Lower information costs & lower payment costs
- Monetary Arrangements & Policy: maintain price stability
- Exchange Rate Arrangements & Policy
- Public Debt Management

# Role of Central Banks: [II]

- Financial Market Stability
- Payment & Settlement Systems: promote safe sound and efficient payment systems
- Banking Control & Supervision

# Role of Central Banks: [III]

- Wider Role & Responsibility:
  - Inform the general public
  - Advise Government
  - Inform International Organizations
  - Inform Markets: domestic, international
- Regional & International Economic & Financial Integration

# Objectives of Payment System Reform

- Foster Banking & Financial Market Development
- Reduce Cost of Banking & Financial Transactions Costs
- Financial & Macroeconomic Risk Management

# INTERDEPENDENCE OF MONETARY POLICY AND PAYMENT SYSTEMS

## ■ The Payment System

- is a technical and institutional framework affecting money demand and the money supply process, the credit markets, financial markets and their operation, and channels monetary policy operations throughout the financial market

## ■ Monetary Policy Operations

- Affects the participants in the payment system - as cost of long-term and short-term funding are affected

# THE PAYMENT SYSTEM: KEY ELEMENTS

- Financial infrastructure and a communications network
- Similar to other networks: communications, electricity, highways, railroads, ports
- Analysis of uses and cost structure similar to the telephone system: network economies. Cost declines with number of users & transactions
- Needs continuous maintenance & updating to ensure improvement in speed, efficiency and safety



# Objectives of Payment System Reform

- Foster Financial and Banking Market Development
- Reduce Cost of Banking & Financial Transactions
- Financial & Macroeconomic Risk Management
  - reduce systemic risk
  - Apply Core Principles for Payment Systems and Securities Settlement Systems

# TWO BASIC TYPES OF PAYMENT SYSTEMS

## Payment Systems

Systemically important payment systems (SIPS)

### Retail / small value payments

- Low share of value
- Large share of volume

### Wholesale / large value payments

- Large and time-sensitive payments
- Large share of value
- Low share of volume

# “TRADITIONAL” PAYMENT INSTRUMENTS

## Cash

- Typically provided by the central bank/government
- Estimated to comprise 75% to 90% of all transactions in developing countries

## Checks

- **Debit-based instrument**
- **Several methods to overcome potential creditworthiness problems: check guarantee cards, pre-paid checks (banker’s draft) fines...**

## Direct debits

- **Pre-authorized payment. Account is debited following instruction of receiving customer**

## Credit transfers

- **Transfers after approval of paying customer’s bank**
- **Standing orders for regular payments e.g. public utilities (electricity, telephone, water)**

# Changing World of Financial Services

Three major factors affecting financial services

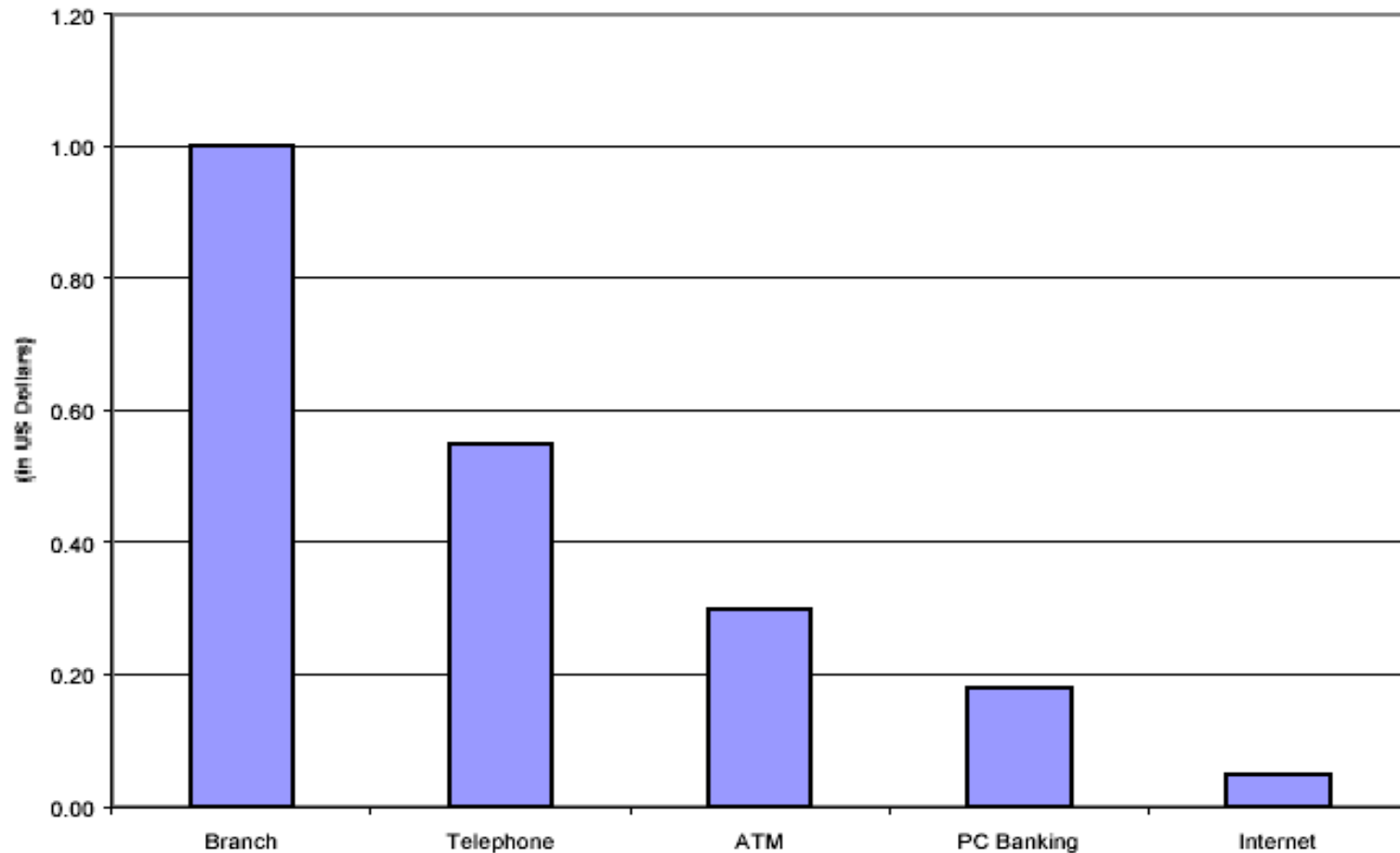
- **Globalization**: increase in capital flows, cross-border financial services, migration of trading/listing offshore:
  - » Leading to increasing economic integration
  - » Resulting in greater trade in financial services
- **Deregulation**: geographic, markets and products:
  - » New entry and increase of foreign presence in many domestic markets
  - » Integrated banks offering a broad array of services
- Technological progress in **Information & Communications Technology**, particularly internet

# Changing World of Financial Services [2]

These factors are:

- Changing industrial structure for financial services (products and markets)
- Reducing costs of producing financial services and providing new delivery channels
- Providing large potential benefits to consumers and business clients, including governments

# Technology Reducing Cost of Financial Services



# Impact on Emerging Markets

- E-finance is growing rapidly in many emerging markets
  - many financial institutions are using best practice e-finance approaches, e.g., best banks in Brazil rival US banks
  - on-line brokerage expanding fast, e.g., in Korea more than 2/3;
  - many new trading systems being introduced; migration of listing and trading offshore rapid in some markets;
  - small markets and lack of institutional setups can allow for rapid progress and leapfrogging, e.g., Estonia
  - forms of e-finance vary, e.g., more mobile (cell-phone) solutions in emerging markets
  - demand and institutional factors major constraint to growth

# Changes in the model of financial sector development

<i>Areas</i>	<i>Current Paradigm</i>	<i>New Paradigm</i>	<i>Working Groups</i>
<b>A. Creating an enabling environment</b>			
• Regulatory framework for telecommunications	🔴	⬛	✓
• Security framework and PKI infrastructure	🔴	⬛	✓
• Framework for information and privacy	✓	⬛	✓
• Framework for contract enforcement	✓	⬛	✓
• Financial system laws that are institution specific	⬛	🔵	🔵
• Market infrastructure	⬛	🔵	🔵
<b>B. Risks: At the Institution, Product or Consumer Level</b>			
• Consumer protection	🔵	⬛	✓
• Investor protection	🔵	⬛	✓
• Prudential Regulation	⬛	🔵	⬛
<b>C. Markets: Conduct/Functioning, Performance, Risks</b>			
• Competition policy	✓	⬛	🔴
• Functioning, fragmentation & volatility	🔵	⬛	✓
• Rules for markets, liquidity, transparency, access	🔵	⬛	✓
• Disturbances, liquidity risks, stress Properties.	🔵	⬛	✓
<b>D. Forms of Government Intervention</b>			
• Development banks, public micro-lending institutions and directed credit	🔵	✓	🔴
• Information provision and “collateral” institutions	🔵	⬛	🔴
• Modifying use of existing institutional infrastructure	🔵	⬛	🔴

🔴 Not important or not addressed    ✓ Somewhat important    🔵 Important    ⬛ Very important

*Source:* Authors assessment and for Working Group column various reports issued by international agencies (see Annex 4: International Working Group Summaries).



# Implications for Banking & Financial Sector Development

Arab, Mediterranean countries should leapfrog: not easy, but changes call for:

- Revise view of financial sector development
- Role of government & central banks to change: selected leapfrogging to be considered more proactively, and monitoring of increased risk to participants
- Public policy needs to develop preconditions:
  - infrastructure (telecommunications) & *infostructure*
  - law and regulations to enable eBanking and eFinance
  - Security
  - Competition policies
  - From institutional to more functional approach to regulation and supervision

# Impact on Emerging Markets [1]

- E-finance and related e-commerce and overall penetration is growing rapidly
- Potential constraints:
  - Telecom Sector
  - Overall legal and regulatory framework and information and technology policy
- E-finance has the potential to
  - Improve quality of financial services
  - Improve scope of financial instruments offered and venues for trading risks
  - Offer more cost-effective delivery of services to a much greater set of retail and commercial clients

# Impact on Emerging Markets [2]

- Financial Sector Development: A new paradigm
  - Substantially reduce safety net
  - Reassess approach to financial regulation and supervision
  - Focus on reforms in basic legal, information, and technology infrastructure

# Required Changes in Public Policies

- Enabling environment
  - Communications Infrastructure
  - Electronic Security Arrangements
  - Information Infrastructure
  - Legal framework and enforcement Risk related regulations
- Competition policy
- Managing risks
  - Institutions/prudential
  - Consumer/investor protection

# Policy Lessons [1]

- 1. A well-functioning payment system is essential for economic & financial development. It needs frequent maintenance and improvement**
- 2. Central Bank may need to be initiator of payment system development & modernization in emerging markets**
- 3. Central Bank is key supervisor and participant in payment system but need not operate all the payment system**

# Policy Lessons [2]

- 4. Large Value Transfer Systems are moving toward RTGS, but netting is not likely to disappear any time soon**
- 5. Central Bank is ultimate source of payment media and liquidity has responsibility and authority over payment system to manage systemic risk**
- 6. Central Bank should share or delegate authority for payment system to selected Self Regulatory Organizations**

# Lebanon Challenges

- Needs to rebuild infrastructure & institutions following wars and violent conflicts
- Faces challenge of adapting to changing regional, technological and economic environment
- Choice is to leapfrog through adoption of SeBIL project, **Secure Banking & Information network for Lebanon**



SOEBIL

# Secure Banking & Information for Lebanon



# LEBANON

Beirut

## Foundation: challenges facing the Lebanese financial sector

- platform for secure payments (banks, markets, governments & cross border)
- increased ability to manage market liquidity & risks
- increased discipline in financial market practices

re-establishment of prominence in global financial markets

keeping pace with rapid change and modernization

- electronic end-to-end processing at all levels of interaction
- assured reliability & integrity of strategic information
- appropriate regulatory environment

# Context Map

## Outside Trends

- Basel II
- CLS (FX PvP)
- T+1 settlement
- virtual banks
- EU trade agreement
- development in UAE financial markets

## Technology Factors

- use of standards to ensure integration compatibility
- end-to-end security
- high availability

## Political Climate

- draft law for e-signature
- law re information privacy
- laws re electronic documents

## Customer Needs

- more consolidated reports with greater detail
- clarity of data elements
- centralisation of processing
- straight-through-processing
- delivery versus payment

## Inside Trends

- manual process
- hard copy usage
- computerization of operations
- duplication of reports & data
- data ownership policy & data sharing

## Inside Needs

- real time settlement
- inclusion of public sector
- documented business process re-engineering
- management information

## Uncertainties

- connection with existing credit card



# Project O

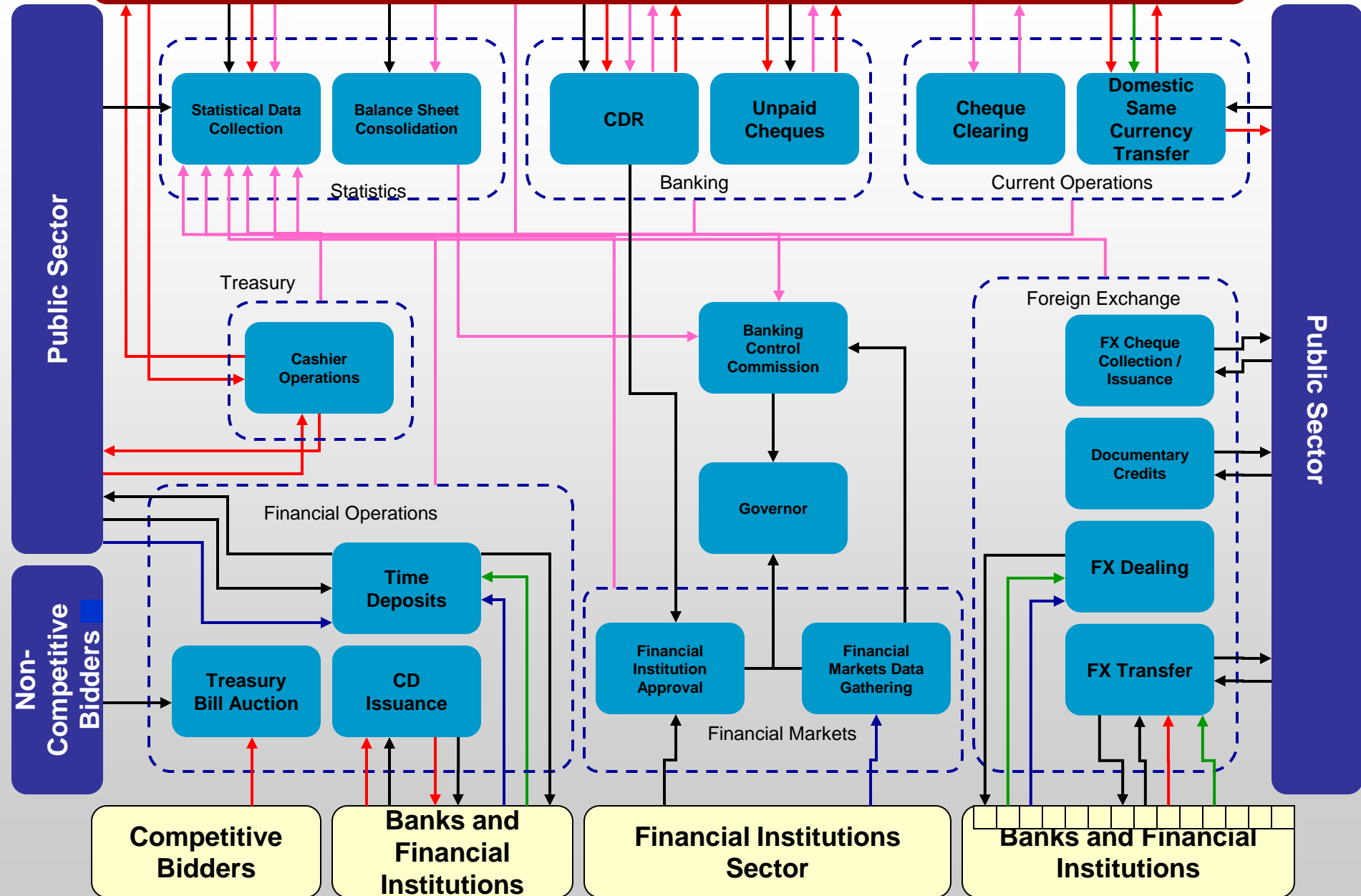
## Interbank Processes:

- transaction processing efficiency
- report collection efficiency
- effective information extraction from data

## Infrastructure:

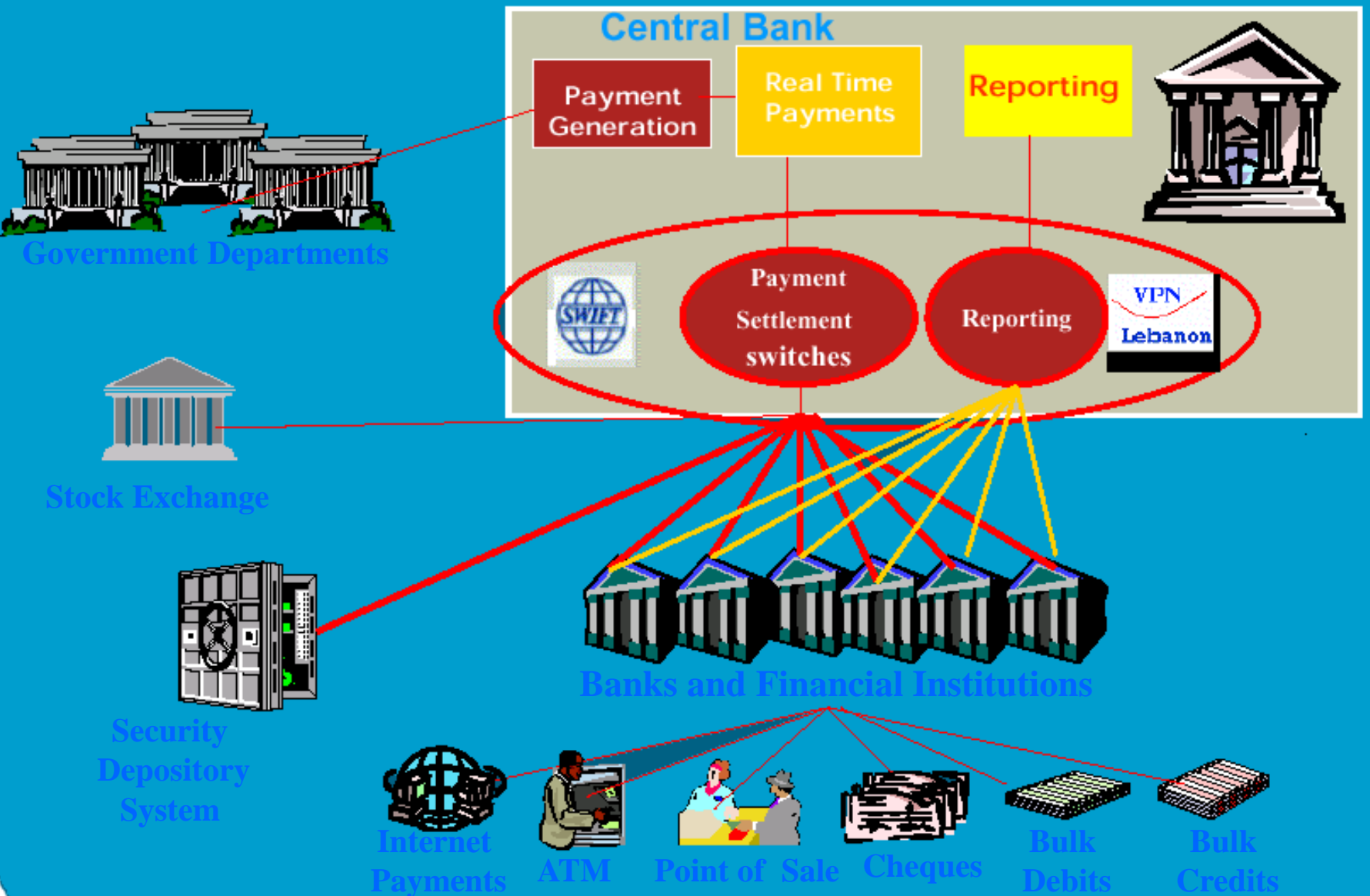
- reliable communications network
- strong, pervasive security
- high availability

# Banks and Financial Institutions



form, diskette, e-message, paper, telephone, manual

# Transaction and Reporting System

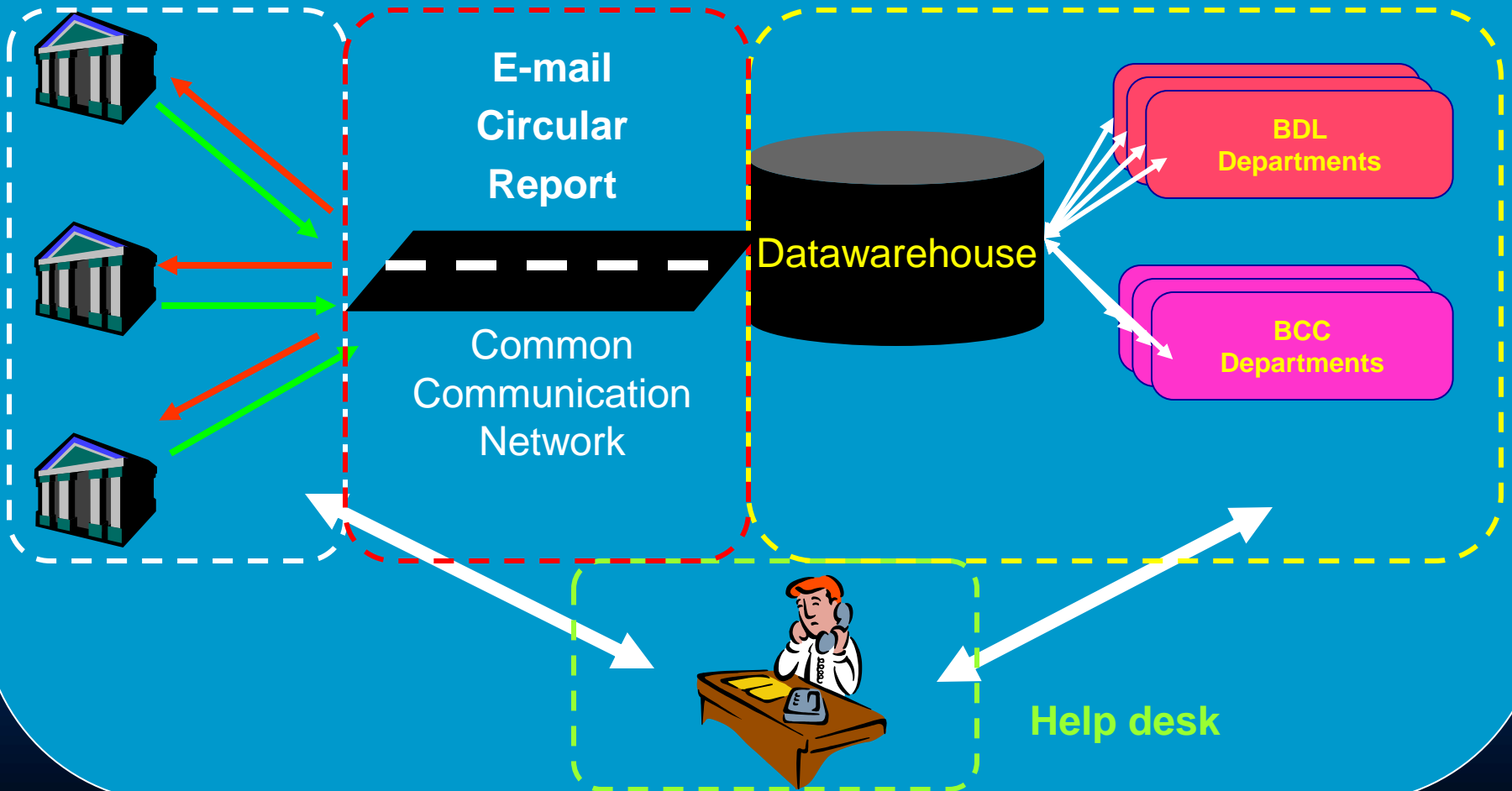


# Reporting & Communications Solution

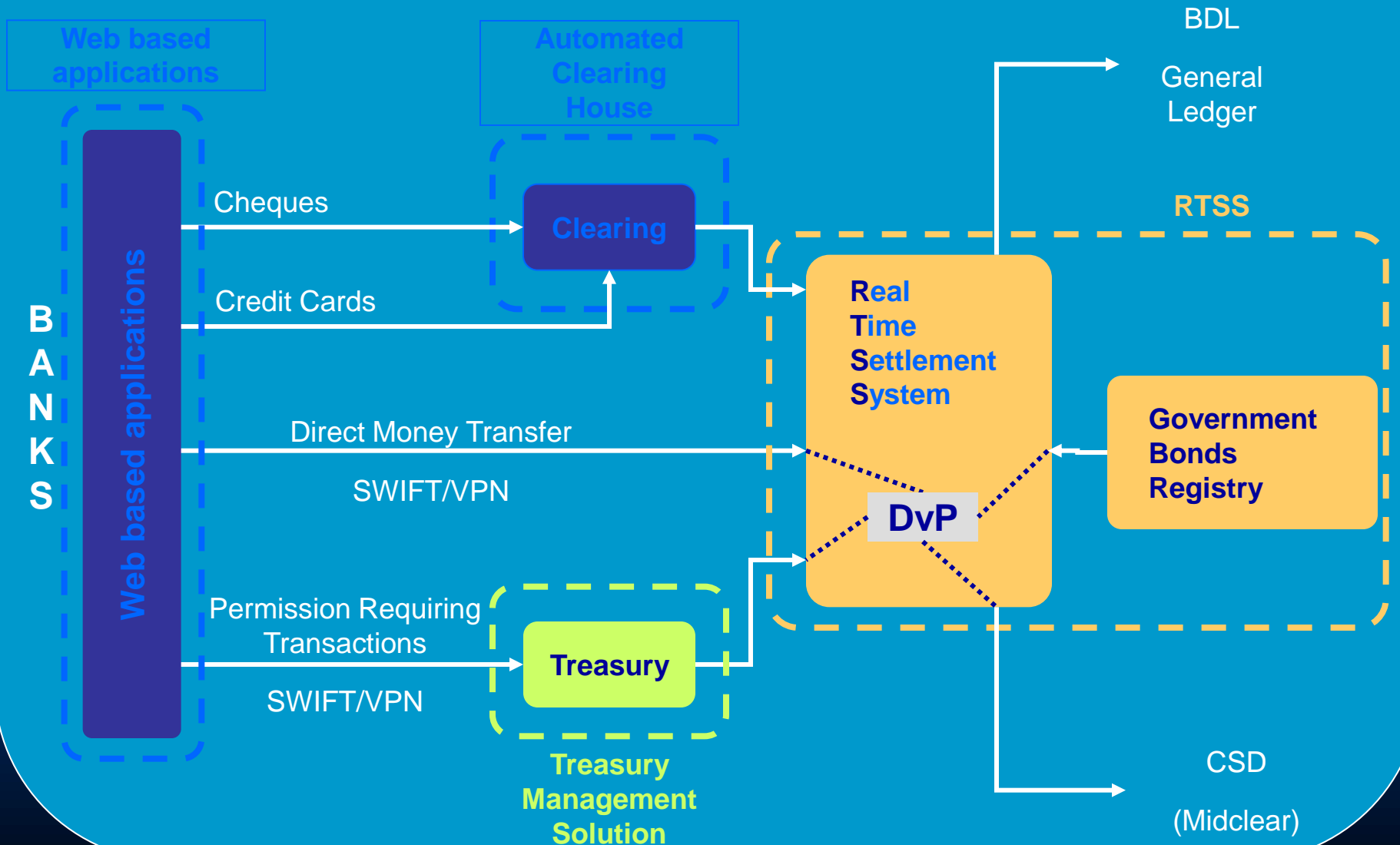
Web-based application processing

Common communications network

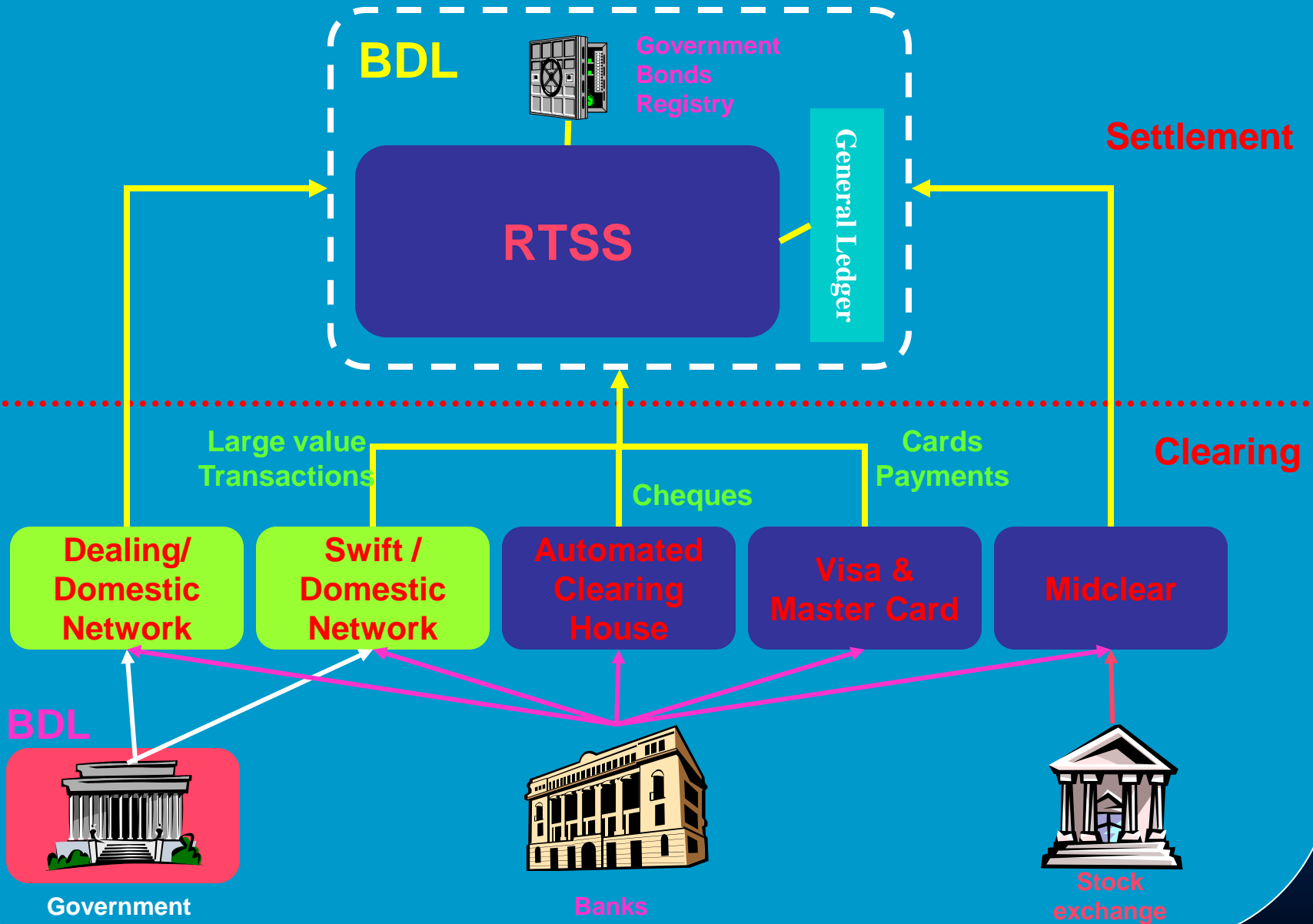
Electronic reporting



# Transaction Solution Overview



# Real-Time Settlement Systems Process Flow





# Regional & Global public policy dimensions

- Access to cross-border financial services raises the following issues:
  - Single license (passport) with home rule regulation
  - Country standards and jurisdictions
  - Greater use of technology and networks with externalities involves operational and other risks and need for more coordination between countries of the region
- Market disturbances could increase:
  - Easier spread of misinformation
  - Imply more capital flow volatility
  - Herding, contagion, and susceptibility to spurious currency attacks may increase
- – Capital account restrictions become more difficult to enforce

# Some Conclusions for the Region

- We should aim to ‘leapfrog’ in developing our banking, payment and financial systems to support eBanking & eFinance
- SeBIL will be Lebanon’s platform for a new regional eBanking and eFinance role: it will allow us to leapfrog
- We should aim to develop Arab regional payment networks and integrate national payment networks: essential for fostering trade and investment

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