

# LEBANON: PAYMENT SYSTEMS AND PAYMENT MEDIA

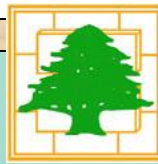
BANQUE DU LIBAN  
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# LEBANON EXCHANGE & PAYMENT SYSTEMS

- Lebanon's exchange and external payments system is characterised by:
  - No restrictions on current payments or on foreign currency transactions
  - Freedom of capital movements, with no restrictions on flows into or out of Lebanese markets
  - A multi-currency system in which foreign currencies co-circulate in the market

# Objectives of Payment System Reform

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



# Role of BDL

- Code of Money and Credit
- In Relation with Payment Systems

# Role of BDL as in the Code of Money and Credit

- Monetary and Financial Stability
- Foreign exchange stability
- Sound and efficient banking system
- Develop capital markets in terms of function, instruments and regulation

# Role of BDL in relation with Payment Systems

- Law No. 133/99 of 26 October 1999, expanded BDL's responsibilities vis-à-vis the clearing & settlement of means of payment
- A mixture of providing services (clearing and settlement of retail payments and interbank funds transfers) and carrying out oversight responsibilities
- Settlement operations related to payment and securities
- Encouraging private sector development in the field of payment and settlement systems

# Role of BDL in relation with Payment Systems II

- Complying with the Core Principles for Systemically important payment systems
- Action Plan for compliance with Core Principles for Securities Settlement Systems (SSS)

# Recent Developments

- The BDL expanded the scope of its activities in the area of technology and payment systems by the formation of the Committee on Modern Banking and Financial Techniques and Information Technology (COBIT) (established on 20 March 2001)
- COBIT is a forum for cooperation between the BDL, the banking sector and other private and public bodies



# COBIT

- Adopting electronic means of payment
- Modernising the techniques of using the SWIFT network in Lebanon
- Modernising banking operations and services, including advanced electronic services
- Recommending circulars and decisions to keep pace with developments in the fields of electronic banking and financial services
- Reviewing the project of direct links between the BDL and the banking and financial system for the purpose of establishing and developing an inter-bank communication network, including data and multimedia
- Examining the means and instruments by which the banking sector may contribute to the development of IT services, activities and production
- Designing training programs for staff involved in implementing modern banking and financial techniques

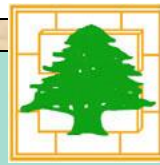
# Action Plan & Recommendations

- Create Self Regulatory Organizations for Payment System
- Create a virtual private network called Secure Banking and Information for Lebanon (SeBIL), based on electronic transfer of transactions and related data
- Create an Automated Clearing House including:
  - on-line daily data transmission from the individual banks to BDL for clearing instead of the physical daily delivery of a diskette
  - Cheque imaging and intraday finality
  - Centralised clearing in Beirut Clearing House.

# Action Plan & Recommendations

(Continued...)

- Establish a real-time gross settlement system (RTGS)
- Introduce new legislation covering electronic transfers and electronic signature with a view to create a settlement system for interbank payment orders
- Improve the clearing and settlement system for securities in the Beirut Stock Exchange (BSE) and Midclear



# Non-Banks Payment Instruments

- Cash ■
- Payment Orders ■
- Cheques ■
- Direct Debit ■
- Credit Transfers ■
- Bills of Exchange ■
- Payment Cards ■
- ATMs ■

# Non-Banks Payment Instruments

## CASH

- Typically provided by the Central Bank,
- Used for small value every day transactions
- Comprises about 55% of M1 in 2002

## Payment Orders

Special payment instruments issued by the Ministry of Finance on behalf of all the Lebanese ministries and in accordance with the National Budget

## Cheques

- Cleared in LBP,USD,GBP and EUR
- Clearing houses in six of BDL branches
- Coded cheques introduced in 1996
- Cheques processed automatically

# Non-Banks Payment Instruments

## Direct Debits

- Pre-authorized payments
- Account is debited following instructions of the payee

## Credit Transfers

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

## Bills of Exchange

For commercial payments due to the widespread use of suppliers' credit in Lebanon

# Non-Banks Payment Instruments

## Payment cards

Number and use is expanding very fast but still small compared to payments by cheques.

## ATMs

- Accept all types of cards authorised by BDL
- Clearing and settlement is done at the Central Bank for local cards used domestically (starting March 2003).

# Interbank Exchange and Settlement Systems

- Payment instructions settled by the BDL over the accounts held with it by members of banking and financial sector
- Use of SWIFT for domestic and cross-border transfers
- The BDL effects cross-border transfers using its correspondent accounts abroad
- Introduction of SWIFT Automated Messages Application (SAMA) to automate data entry for domestic SWIFT messages



# Securities Settlement Systems

## Debt Market

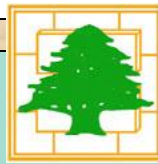
1. Lebanese Treasury bills in LBP
2. Lebanese Treasury bonds in foreign currencies (Eurobonds)
3. Subordinated notes, convertible bonds, domestic CDs and euro-CDs issued by the private sector.

## Money Market

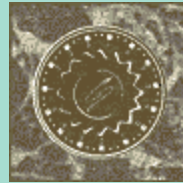
1. Repos
2. Swaps
3. CDs

## Equity Market-BSE

1. The Lebanese Real Estate Company: Solidere
2. Banks
3. Financial Institutions
4. Other private companies

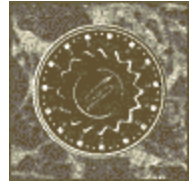


# Midclear



Custodian and Clearing Centre of Financial Instruments for  
Lebanon and the Middle East

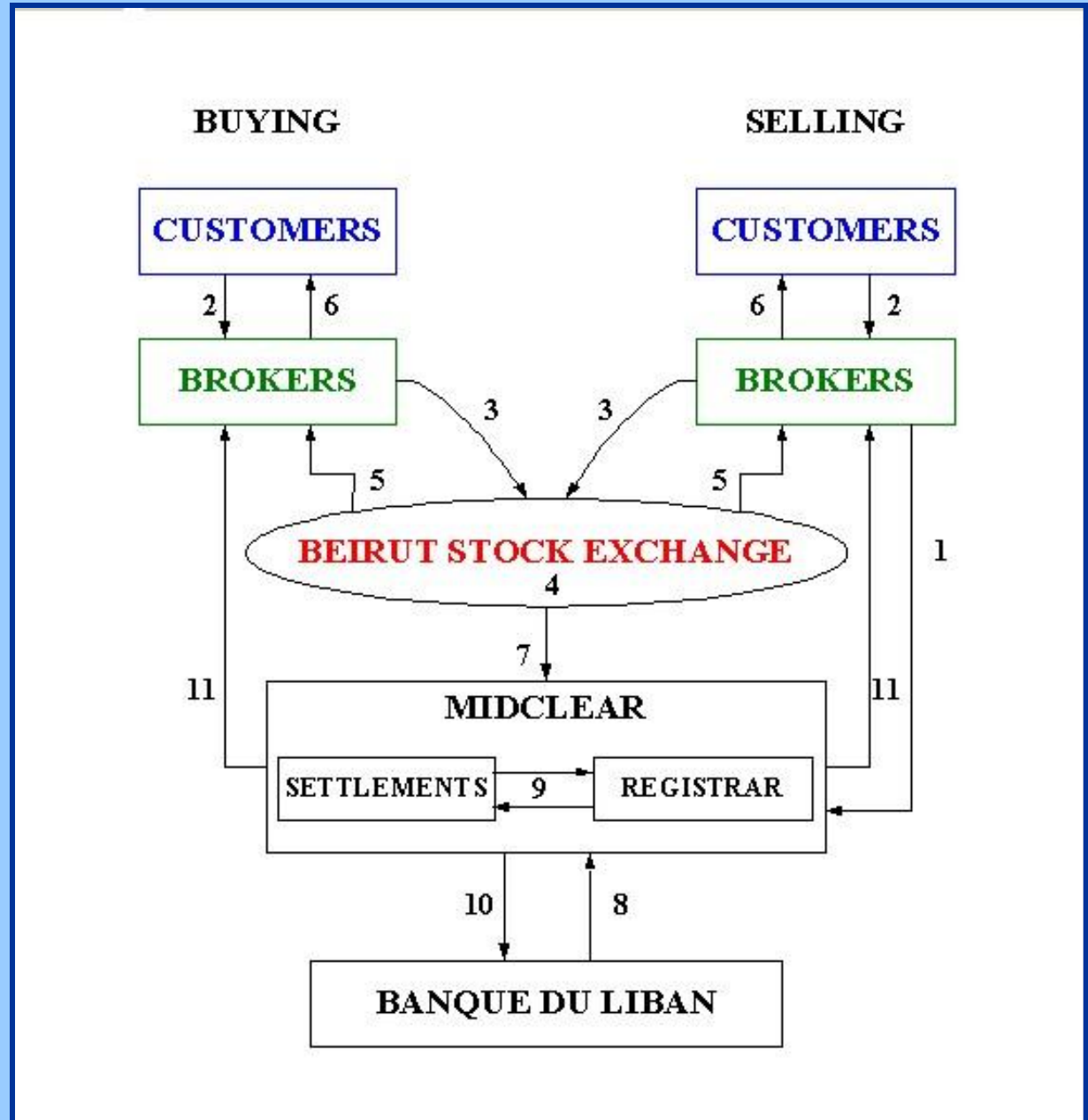
# MIDCLEAR: Lebanon's Central Depository & Clearing House



- Established in 1994 as a joint stock company
- BDL holds 99% of the capital
- Clearing and settlement services of financial instruments
- Custody services
- Administration of securities
- Dematerialization of securities
- Transactions transmitted are irrevocable

# MIDCLEAR:

## Sequence of Operations



# Midclear

1. Dematerialization of physical securities of Midclear before settlement.
2. The customer communicates its buying or selling order to a broker, which acts as account holder or trader.
3. Brokers communicate orders to the BSE on continuous basis between 10:00 and 12:00 on the trading day (day T); each customer order is individually transmitted to the market.
4. On day T the BSE computerized system matches the buy and sell orders continuously. The deal is considered confirmed as soon as the matching occurs in the system.
5. At the end of the session, a list of all trades is issued reconfirming all the deals of the session.

# Midclear

6. The broker relays the execution statement to its customer.
7. The results of the trading session are communicated to Midclear.
8. The BDL transmits the cash balances of the brokers to Midclear on a daily basis.
9. Transactions to be settled are validated against cash and securities balances on the settlement date in Midclear. Transfer of ownership occurs upon updating the registrar of each listed company.
10. The BDL records irrevocable debit or credit entries transmitted by Midclear after the settlement process.