

Interbank payment system enhancements



Central Bank's expenses on printing currency notes, minting coins will be reduced

Sri Lanka Interbank Payment System is a fund transfer system for the handling of interbank payments in Sri Lanka. This was set up by the Central Bank of Sri Lanka in association with Sri Lanka Banks' Association. It provides a customer of any commercial bank the facility to transfer funds through direct debits or credits to or from the accounts of customers of any other commercial bank.

All commercial banks in Sri Lanka and the Central Bank of Sri Lanka are direct participants of SLIPS.

Other financial institutions, corporate bodies and individuals can participate in the SLIPS only through their correspondent banks. On behalf of the Central Bank of Sri Lanka, LCPL operates the SLIPS system.

For the economic development of a country, Payment and Settlement System is very important. It plays a critical role in handling the increasing financial transactions.

With the volume of transactions growing rapidly, an effective and efficient method of payment becomes an absolute necessity.

Customers demand for speedier, efficient and reliable system.

As identified the requirement of a developed payment system, Central Bank of Sri Lanka (CBSL) promotes efficient funds trans-

fer system, from the existing paper based systems. Electronic Funds Transfer system is the most efficient Funds Transfer system available at present. These are more secure, cheaper and faster.

In line with the CBSL's objective, with the guidance of the CBSL, LankaClear developed and upgraded the existing SLIP System to an Online Secure Interbank Electronic Funds Transfer System for retail payments, with the latest product features.

Features of the new system

All banks connect to LCPL through a Virtual Private Network (VPN). In other words, through a private dedicated tie line.

Ability to submit multiple payment files to LCPL a day. This will facilitate the banks to submit all transactions accepted from customers to be submitted to LCPL for payments during the day itself.

LCPL is able to provide the facility to give same day clearing for transactions which they receive before 12.00 noon of any business day.

Digital signing of Outward (from commercial banks to LCPL) and Inward files and reports (LCPL to commercial banks and Central Bank) is compulsory. Therefore, the process operates with highest level of security.

There are no hard copies

of reports. This will pave the way for paperless financial transactions. Paperless transactions support environment protection activities carried out by the participating institutions i.e. Green Initiatives.

Banking hours for customers can be extended since cut off time for filing submissions to LCPL banks is 6.00p.m.

By providing T+0 (same day) clearing facility for interbank payments, Sri Lanka becomes the First South Asian Country which provides T+0 facility for Interbank Payment transactions.

This is better than in Malaysia and Singapore for similar interbank transactions.

LCPL increased its sys-

tem capacity of handling 600,000 transactions per session and enhanced disaster recovery capabilities as well.

Benefits to banks

Changes to SLIPS will help banks in three major areas. i.e. greater revenue generating capabilities, operational efficiencies and cost savings. Due to same day payment realization and low tariff charges compared to other interbank payment systems, SLIPS may attract customer interest and it may tend to induce more transactions. This will definitely increase the revenue of banks.

Outward submission cut-off time is extended from 3:30 pm to 6:00 pm. for session-1. This facility will

allow banks to submit all payment items received during the day to LCPL.

Multiple outward files are allowed to be submitted for a session. (Previous system allowed only one outward file for the day.) At times, transactions are more; banks are able to submit them in batches.

Online availability of the outward processed information due to VPN connectivity.

Highly secure payment platform as all files and reports are digitally signed by using Lankasign Certificate.

Outward files and delivery statements are digitally signed by the originating bank and it is verified at the time of loading the files to the system at LankaClear.

Inward files and Reports are digitally signed by LankaClear and it can be verified at the destination to confirm data integrity of the file.

Save costs on courier, paper printing, document storage since the transactions are processed electronically. Operational overheads and errors can be reduced by eliminating manual work.

Able to bring the outward CD to LCPL incase of a contingency.

LCPL has developed a common platform for banks to introduce new products for their customers. This will pave the way for Banks to offer new financial products for their customers.

Benefits to customers

Cost-saving compared to other interbank payment systems. Same day (T+0) realization of credit payments (except for salary payments at the initial stage and this will be done at the session-2).

Also, this system would facilitate value dated transactions as well.

Reliable fund transfers due to the system ensures a high degree of security.

Operational reliability due to the system has contingency arrangements for timely completion of daily processing.

No hassle of writing cheques and queuing at the counter carrying cash / cheques to make payments.

Guaranteed direct credit payments - Since the originating bank has already debited their client's account with them for the amount of the transaction.

Operational efficiencies: For corporations, accounting reconciliations will be reduced and simplified, thus freeing staff for more productive work.

Customers will have the opportunity of making their payments for same day value.

Institutions would be able to make available necessary funds to pay salaries on the value date of the payment. Previously it was done one or two days in advance depending on the situation.

Stock Brokers could use the system to facilitate payments at a lower cost.

Utility Companies, Insurance Companies are able to collect the payments for their services more efficiently.

As an example, utility companies can encourage their customers to effect the payments via SLIPS instead of paying through cheques or cash. If necessary, the customers are able to authorize the bank to debit their account and pay these bills within a specified ceiling for each payment.

In order to facilitate that, the utility companies can send the bills to their customers few days prior to the billing date. In such a situation, if there is any dis-

crepancy the customers can communicate with the billing company.

Under this arrangement, utility companies are able to collect the funds quickly. Utility companies can encourage their customers to pay their bills as explained.

Benefits to economy

* Higher liquidity in the payment and settlement system

* Induces economic activities and economic growth

* Enhance the competitiveness of the market for financial services.

* Lowers the risks associated with the accumulation of un-cleared payments at the end of each day.

* Development in infrastructure facilities will pave the way for further development in the payment system.

* Provides faster access to low-value and time-critical payments.

* Avoid idling of funds. Funds can quickly move among market participants for productive use.

* Central Bank's expenses on printing currency notes, minting coins, destroying unfit notes, cash transportation, and insurance premium will be reduced.

More details on this enhanced SLIP system could be obtained via e-mail on info@lankaclear.com.