

The National Electronic Clearing System (SNCE)

Introduction

The Spanish retail payment system SNCE was established in 1990 as an ACH. Its management was initially assigned to the Banco de España, but, as a result of the reform of the Spanish payment system, this task has been transferred to Iberpay, a private company owned by the credit institutions participating in the SNCE. However, the Banco de España still has the authority to approve the rules of the system and carry out its oversight.

The SNCE is a decentralised system that processes transactions related to retail payment instruments. Owing to the variety of payment instruments, the SNCE's operating scheme relies on several clearing sub-systems, each of which specialises in a single instrument. Currently, according to its Regulation, these subdivisions are as follows: cheques, credit transfers, direct debits, bills of exchange and other operations. The Other Operations sub-system was created in October 2001 for the processing of a diverse range of transactions (non-standardised documents, commissions and fees from credits and/or documentary remittances, foreign currency exchange, etc). The Petrol and Traveller's Cheques sub-system was integrated in the Cheques sub-system in end-March 2006.

Most commercial banks, saving banks and credit co-operatives belong to the SNCE, since it has proved to be the fastest and most efficient way of communicating all the data necessary for the rapid clearing of retail payments. This has been facilitated by a well-structured legal framework entailing various market-efficient solutions - in particular truncation (cheques and bills of exchange under the truncation limit established in inter-bank arrangements are not physically exchanged but immobilised at the payee's bank) and liability agreements.

The system takes advantage of paperless communication networks by providing each associated participant with an infrastructure through which all the relevant payment data are bilaterally exchanged between the interested parties. Thereafter transactions are cleared, and settlement takes place at the Banco de España once the net amount has been confirmed. Nevertheless, credit transfers and cheques over €50,000 have been settled individually in the SLBE since June 2005 and thus are not included in the clearing process.

Participation in the system

The following institutions are entitled to become participants in the SNCE: the Banco de España (as a member of the system, in order to channel the retail payments of the public administration); and commercial banks, saving banks and credit co-operatives, which meet the criteria (compliance with the rules and requirements related to adequate technical capacity, scale of activity, discipline and financial support for the system, etc.) for membership of the SNCE.

There are two forms of participation:

Direct participation, i.e. participation in the exchanging stage of clearing on the institution's own behalf (with the additional possibility of representing one or more indirect participants), and subsequent participation in the settlement process.

Indirect participation, i.e. representation by a direct participant (the requirements for indirect participation are less demanding). Indirect participants do not take part in the settlement stage of clearing, although they may choose to have the individual transactions (credit transfers and cheques over €50,000) directly settled on their own accounts at the Banco de España. In any case, indirect participants never take part in the exchanging stage.

According to figures for 2006 there were 23 direct and 202 indirect participants in the system.

Types of transaction handled

Clearing is carried out for cheques, bills of exchange, credit transfers, direct debits and other operations. At the end of 2006, €686 billion were exchanged in cheque-related transactions, whereas the figure was €719 billion for credit transfers, €168 billion for bills of exchange, €321 billion for direct debits and €5 billion for other operations.

In terms of volume, in this same year 113 million operations were carried out in relation to cheques, 305 million credit transfers, 34 million bills of exchange, 900 million direct debits and 616 thousand other operations.

Operation of the transfer system and transaction processing environment

The SNCE has adopted an intermediate solution which constitutes neither a completely centralised nor a completely decentralised clearing and settlement system. Information is exchanged bilaterally between the parties involved without a physical exchange of documents, thanks to truncation agreements that allow the immobilisation of documents at the sender's bank. Clearing is performed in a centralised manner by the SESP (Iberpay) and the settlement takes place (likewise in a centralised manner) on the RTGS accounts which each credit institution holds with the Banco de España. All communications are carried out on a private virtual network which complies with a set of security standards.

Documents are no longer physically exchanged, but rather the relevant data contained therein; thus, telecommunication lines are the main channel for member institutions to communicate, via common software, the required information both among themselves and to Iberpay, which permits rapid clearing. Only in the case of documents relating to an amount which exceeds the specified threshold does a traditional exchange become necessary, although the electronic procedures for

transmitting the information also take place. However, since November 2003 the physical transfer of some documents has been replaced by the electronic transmission of images. Thus, the vast majority of the operations (99.6% in 2006) are processed electronically, i.e. without requiring a physical exchange.

Each transaction is processed in its respective sub-system, so that a net balance for each pair of institutions is obtained in each of the sub-systems. These bilateral balances are reported to Iberpay.

In order to prevent the system from suffering prolonged downtimes or hardware/software crashes, several recovery procedures have been established. In exceptional circumstances, recourse can be had both to a second consecutive session of the SNCE and (as a last resort) to communication via magnetic tapes.

The timetable for communications is not the same in every sub-system. The earliest communications are made at 3.30 p.m. in the direct debit sub-system, followed by the credit transfer sub-system, which starts at 7 p.m. The rest of the sub-systems start at 9 p.m.

Settlement procedures

Since June 2005 there have been two types of settlement. On the one hand, credit transfers and cheques over €50,000 are settled individually on a bilateral basis on the accounts that the participants hold with the Banco de España, which has removed the risk which operations of this magnitude represented for the SNCE. On the other hand, the remaining transactions are included in the clearing process, which is performed on an electronic basis. Each pair of institutions reports its bilateral net balances to Iberpay, and the latter is entitled to verify their matching, resolving the possible discrepancies in an automatic manner, in accordance with a set of established rules. Regardless this automatic conciliation process, Iberpay informs the institutions about these discrepancies.

Once the bilateral balances have been reported, Iberpay obtains a net net balance (either credit or debit) by consolidating the bilateral balances for each institution in each sub-system. The latter are then settled on the participant's RTGS accounts at the Banco de España by debiting short participants' accounts before crediting those of long participants.

In the event of any incident of a technical nature that prevents communication within a set timetable, Iberpay is free to extend the timetable, to open a special session or, as a last resort, to use the established contingency procedures.

Pricing

Participating institutions are subject to the fees established by the system's operator, which include the costs related to connectivity (stemming both from the use of communications and from the compulsory rate charged for the software licence). These fees result from distributing the cost of functioning of the system among the participants, which is done once a year.

In addition, institutions have established interbanking fees for those transactions whose costs are borne exclusively by the sender. These fees depend on the degree of automatism of the transaction (STP versus non-STP). Finally, each institution must also pay the SLBE's fees for each entry made in its centralised accounts.

Main projects and policies being implemented

The process of transferring competences from the Banco de España to Iberpay has virtually been completed. Iberpay took charge of coordinating participant working groups in March 2006, and is in the process of adapting the rules governing the system to the new situation. The Regulation of the SNCE, which contains the basic operating rules of the system, has recently been published. In addition, Iberpay has undertaken the complete management of the clearing process establishing its own infrastructure and developing its own software and thereby replacing in January 2007 that owned by the Banco de España.

In view of the implementation of the SEPA project, Iberpay has begun to work on adapting the SNCE to the new environment. It is envisaged that the SNCE will start to process the new standard SEPA instruments (credit transfers and direct debits) as soon as they are available to the public in 2008.