

In 1385, the financial sector in Iran witnessed great developments in the payment system through launching of a large-value transfer payment system. The CBI developed and adopted a strategy for modernizing the payment system through Real Time Gross Settlement (RTGS) system. Upon implementation of the first phase of this system since the beginning of 1385, real time settlement through the RTGS was started. In the second phase of implementation in the month of Dey, the same year, real time interbank clearing and settlement system of Tehran and other cities was put into operation as well.

Besides this large-value transfer system, Retail Funds Transfer System (SAHAB) that handles a large volume of payments of relatively small value, came on stream this year. Furthermore, funds worth up to Rls. 10 million may be processed via Interbank Information Transfer Network (SHETAB) to be transferred through Automated Teller Machines (ATMs), while higher amounts up to Rls. 50 million may be transferred through banks' branches. It is noteworthy that Iran's SHETAB has been connected to Qatar National ATM and POS Switch (NAPS). These developments appear to expedite banking services and e-commerce in the coming years.

### Notes and Coins

Cash (notes and coins with the public) is still the predominant payment instrument.

Notes and coins with the public grew by 21.3 percent to Rls. 61,451.6 billion in 1385, against Rls. 50,675.6 billion in the previous year. However, the ratio of notes and coins with the public to GDP (at current prices) remained virtually unchanged at 1384 level (3.3 percent)<sup>(1)</sup>.

### Interbank Clearing House

Although payment system in Iran is undergoing great developments, financial transactions are mostly channeled through Interbank Clearing House. Various checks including ordinary checks and Iran-Checks are collected and sent to the Clearing House to be settled. The same-day settlement could not be provided since the process has not been automated yet. It might take at least 48 hours<sup>(2)</sup>.

The low denomination notes call for an extensive use of banking checks in lieu of notes in most financial transactions. Roughly 351.1 million checks with a value of Rls. 283.2 trillion were collected by the Clearing House in 1385. The respective figures for the previous year were 301.4 million checks valued at Rls. 113.4 trillion. This shows a sharp rise of 150 percent.

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- (1) The ratio of notes and coins with the public to GDP at nominal prices in Iran differs slightly with the countries enjoying an advanced payment system. In Iran, the bulk of transactions are processed through checks.
- (2) The time for settlement of certain types of checks such as the coded ones may be reduced to 24 hours, but not to the same day.

## Chapter 13 PAYMENT SYSTEM

Given that RTGS is a great leap forward in handling settlement risk, it appears that with the full operation of this payment system in Iran, the demand for the above-mentioned checks in interbank transactions would be greatly reduced in the coming years.

Ordinary checks are usually recognized as interbank coded checks and personal

checks excluding Iran-Checks. The amount of ordinary checks delivered to the Interbank Clearing House in terms of volume and value grew by 13.5 and 42.6 percent, respectively in 1385. Therefore, total transactions settled through ordinary checks in terms of volume and value reached 252.7 million and Rls. 5,259.2 trillion in the review year.

### NET VOLUME AND VALUE OF TRANSACTIONS PROCESSED THROUGH INTERBANK CLEARING HOUSE

	Volume (thousand)		Percentage change	Value (billion rials)		Percentage change
	1384	1385		1384	1385	
<b>Total transactions through Interbank Clearing House</b>	<b>524,154</b>	<b>603,772</b>	<b>15.2</b>	<b>3,800,400</b>	<b>5,542,426</b>	<b>45.8</b>
Iran-Check	301,452	351,064	16.5	113,451	283,226	149.6
Ordinary check	222,702	252,708	13.5	3,686,949	5,259,200	42.6

### Expansion of Electronic Payment Instruments

The upward trend of issuance of electronic cards continued in 1385, slightly less than its growth in the previous year. The rise in the number of ATMs, i.e. 67.5 percent, outperformed that of 1384, reflecting the constantly rapid expansion of electronic payment instruments.

#### ELECTRONIC PAYMENT INSTRUMENTS

	Year-end			Percentage change
	1383	1384	1385	
Bank cards	7,579,757	13,511,529	23,437,601	73.5
ATMs	2,864	4,458	7,468	67.5
Points of Sale (POSs)	18,237	68,532	192,765	181.3
Pin pads	5,227	11,268	15,692	39.3

### SHETAB

The full operation of interbank information transfer network is still in its infancy, although four years have passed since its operation. The number of cards issued by the banking system in 1385 reached 23.4 million, up by 73.5 percent. The number of ATMs grew by 67.5 percent to 7,468. This shows a moderate growth when compared with the 181.3 percent rise in the number of POSs in the review year. The total number of POSs in 1385 reached 192,765. However, the ratio of POSs to population in Iran is much less than the ratio in other countries<sup>(1)</sup>.

In 1385, in line with advancements in electronic payment, electronic transactions

(1) In 2002, the number of POSs per one million persons averaged 12,040 for member countries of the Payment Systems Committee and the Bank for International Settlement (BIS).

increased. The number of interbank electronic transactions processed in SHETAB through ATMs and POSs grew respectively by 107.1 and 345 percent to 230,181 and 7,143 thousand, bringing the total settled transactions to Rls. 10,616 billion in this year.

Growth in the number of issued debit cards by 73.5 percent as compared with the growth rate of total transactions processed through SHETAB is indicative of an extensive use of debit cards. This shows public willingness to use the electronic means of payment.

#### NET VOLUME AND VALUE OF TRANSACTIONS PROCESSED THROUGH SHETAB

	Volume (thousand)			Percentage change	Value (billion rials)			Percentage change
	1383	1384	1385		1383	1384	1385	
<b>Total transactions through SHETAB</b>	<b>38,568</b>	<b>112,742</b>	<b>237,325</b>	<b>110.5</b>	<b>1,323</b>	<b>4,341</b>	<b>10,616</b>	<b>144.6</b>
ATM	38,333	111,137	230,181	107.1	..	..	..	0
POS	235	1,605	7,143	345.0	..	..	..	0

SHETAB helped transfer of up to Rls. 10 million through ATMs and Rls. 50 million through banks in SAHAB. It is expected that with the extensive use of this serv-

ice in the banking network, the alternative means of transactions such as the coded checks, Iran-Checks, and notes recede from the Iranian payment landscape in the coming years.

#### Real Time Gross Settlement System (RTGS)

Payment systems consist of a series of instruments, procedures, and regulations used to settle financial transactions between individuals. Retail or small-value payments are transactions between natural persons and firms, while large-value payments are for bank to bank transactions. RTGS system is the one that streamlines settlement of large-value transactions between banks in which the processing and final settlement of funds transfer take place in real time. Transfers are settled individually without the netting of debits against credits as happens in a traditional net settlement system. However, under a normal

(traditional) netting settlement system, the settlement of funds transfers occurs on a net basis. Therefore, a participating institution's net position is calculated (all debit and credit transactions are netted) and this net settlement usually happens at a particular time, which may be the end of the trading cycle or the business period. This system carries various types of risks. Conversely, the continuous intraday fund transfer feature of the RTGS System, mainly the simultaneous clearing and settlement, reduces the risks associated with the settlement in the payment system.

### RTGS System in Iran

As mentioned before, the year 1385 witnessed launching of the RTGS System. As the overseer of the mentioned system, the CBI designed mechanisms for liquidity management of banks' settled accounts. Moreover, with organizing courses in technical and

executive levels for bank experts and managers, the CBI facilitated the operation of the mentioned payment system. During 1385, a total of 11 thousand transactions valued at Rls. 650,411 billion were settled.