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SOCIEDAD ESPAÑOLA DE SISTEMAS DE PAGO

# The Spanish Payments Scene

ESTA Business Conference, 19th May 2008

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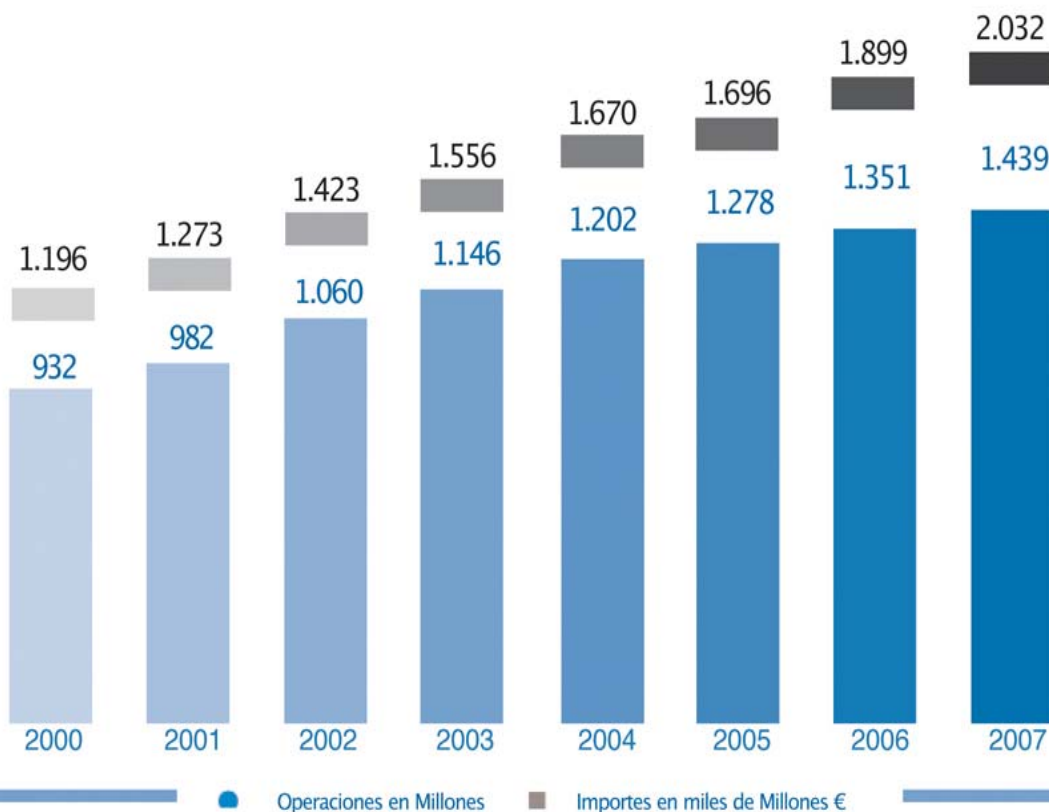
(I) A personal view about the Spanish payments scene

(II) The experience of Iberpay regarding the Cash Cycle in Spain as managers of the Auxiliary Deposit Service

# Spain has one of the most efficient ACH's in Europe

## SISTEMA NACIONAL DE COMPENSACIÓN ELECTRÓNICA

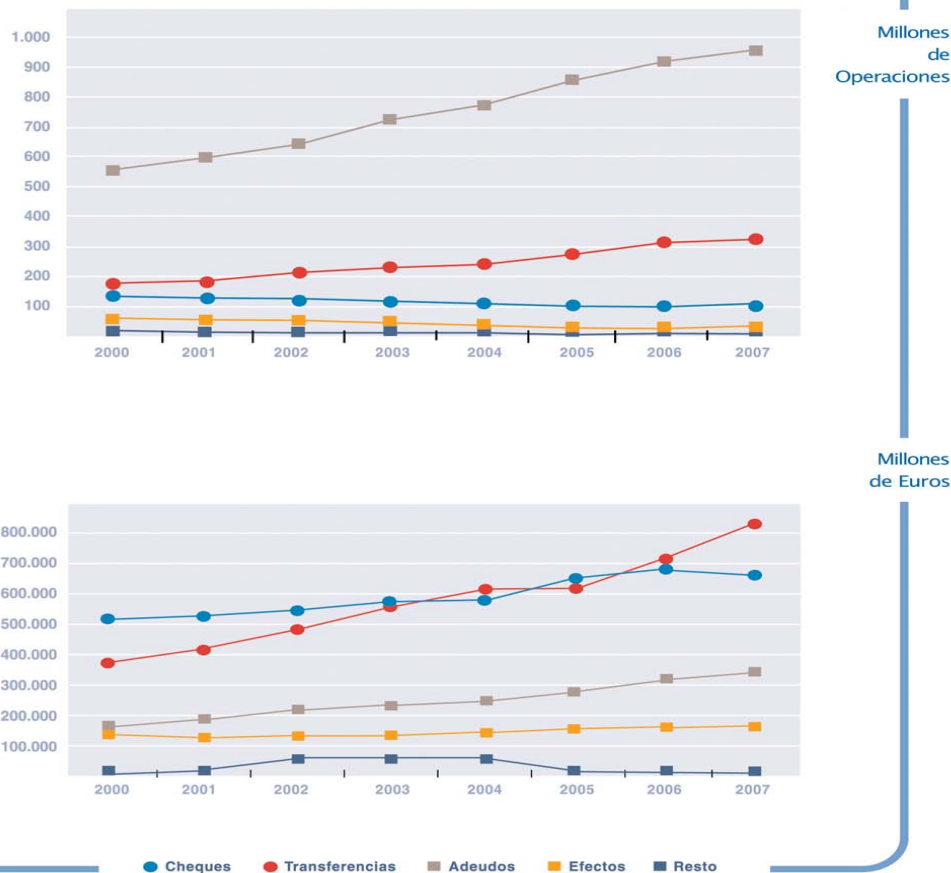
### Resumen de Evolución de Operaciones e Importes



- The number of operations grows steadily in the recent years (an average of nearly 10% in the recent years)
- And so does the value of the transactions

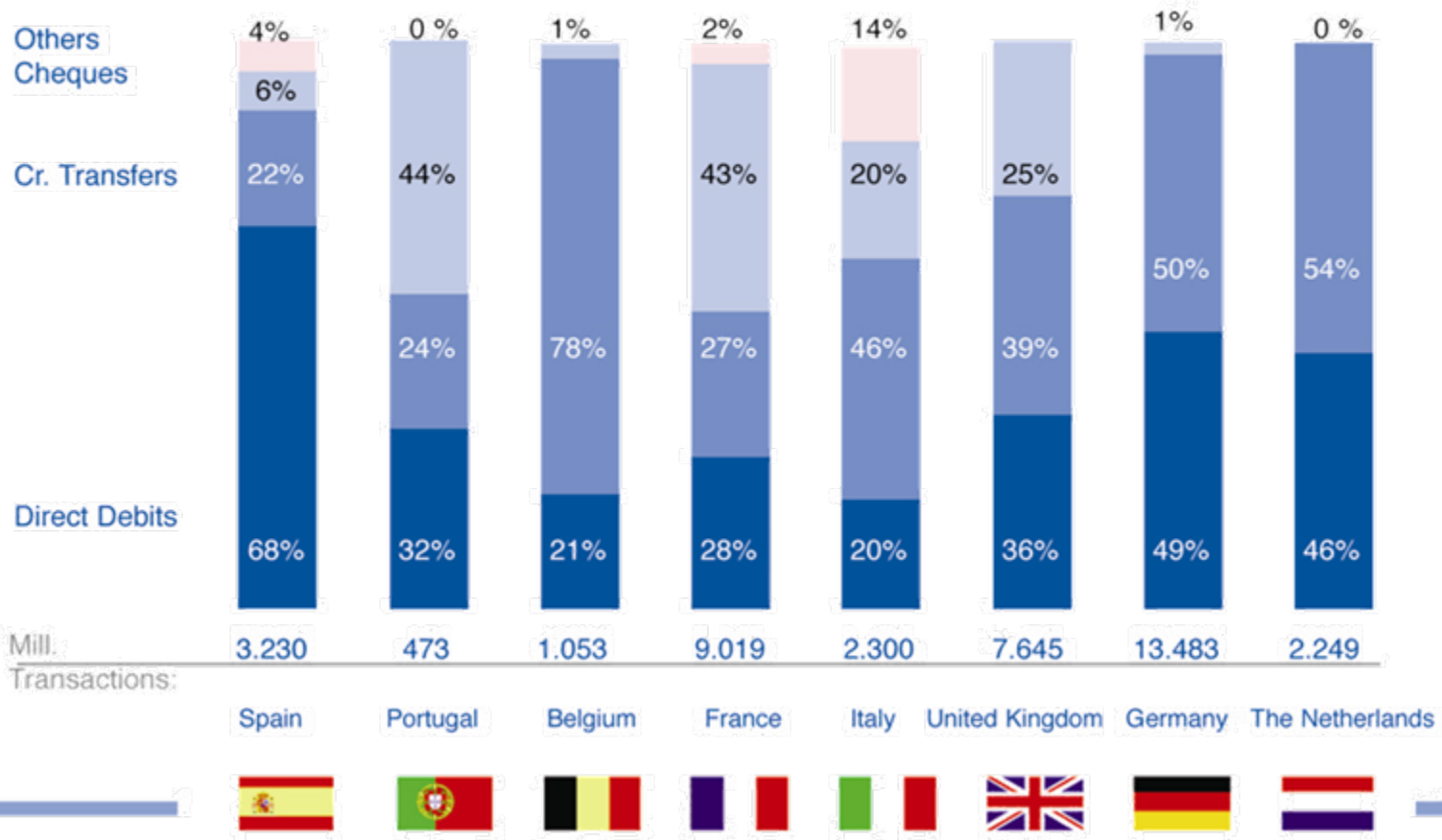
# Number and Value of Transactions per Instrument

SISTEMA NACIONAL DE COMPENSACIÓN ELECTRÓNICA  
Evolución de la Distribución por Subsistemas



- Steadily growth of Direct Debits and Credit Transfers
- Checks are less used, but the average value of each check is substantial.
- Credit Transfers are the most important instrument in terms of value, followed by checks

## SPANISH MIX OF PRODUCTS VS. MAIN EUROPEAN COUNTRIES



Source : Blue Book  
Year: 2005

- Great success of Direct Debits in Spain due to the national consumer habits
- Great differences in the usage of Checks around Europe

# Big development of card payments in Spain

## Some figures about card development in Spain

- There are more than 100 million of payment cards issued in Spain (2,5 cards per citizen). This figure has increased around 10% in the last years
- Out of the 100 million cards, there are 75 million are credit and debit cards issued in Spain. All of them are Visa or Mastercard cobranded
- There are around 65.000 ATM and 1,35 million Point of Sales Terminals in Spain (highest numbers in UE25)
- These figures are the result of the fierce competition among the three card networks in Spain: Sermepa, 4B and Red 6000
- The use of payment cards has increased steadily around 8% in the recent years: 4 billion transactions were processed using credit or debit cards in 2007
- For the first time ever, in 2007 the use of credit and debit cards in POS has increased the value withdraw in ATM

## Why cash is king in Spain? (I)

- **Scarce use of electronic means of payments by many important groups of citizens**
  - Old and young people (17% > 65 years; 15% < 14 years)
  - Immigrants (around 10% of the population)
  - People living in rural areas (20% of the population)
  - People with low incomes to avoid spending money they haven't got
  - Tourists (more than 60 million in 2007)
  - People in the shadow economy (¿10%?)
- **Cash is the favourite and sometimes the only mean of payment accepted in**
  - Micro and small transactions (Kiosks, bars, taxis, small shopping, laundries, markets...)
  - Transactions with Public Administrations (Fines, local taxes, park meters, licenses, Public transportation...)
  - Department Stores using their own cards or shops without PoS



### Why cash is king in Spain? (II)

- Cash is perceived as the highest secure mean of payments (phishing, on line fraud, forgot PIN, problem in magnetic stripes)
- Cash is perceived as a zero cost mean of payment, but it involves a lot of cost for the banks. No bank has dared to apply any cost to the use of cash (only when using an ATM of other network or abroad)
- On the contrary, electronic payments involve tiny cost for the banks, but clients are heavily charged when they use them
- Consumers are efficient from a pure economic point of view
- Use of cash in the shadow economy and for tax evasion (lack of traceability)
- Many people prefer to go to an ATM and spend the money instead of using available PoS terminals
- Cash is kept in wallets and used for unexpected events
- **Cash is accepted everywhere and at every time**

## Future of Cash in Spain

- **Electronic means of payments are continuing their growing tendency in the future**
  - Banks are very interested in increasing the use of payment cards (affinity cards, earning miles or points, other innovations)
  - Increase use of credit cards to obtain credit from the banks (i.e. revolving cards)
  - Merchants have seen a high decrease in interchange fees
  - New initiatives (Mobile, P2P, Prepaid, Paypal, Contactless...)
  - Is the SEPA being a factor?
  - Is the coming crisis being a factor?
- **The application of the Framework for recycling banknotes in Spain is going to further increase the cost of cash for the banks**
- **But, in my opinion, Cash will be, in the short and medium term, the favourite mean of payment for citizens in Spain, unless they are charged for its use**

(I) A personal view about the Spanish payments scene

(II) The experience of Iberpay regarding the Cash Cycle in Spain as managers of the Auxiliary Deposit Service

## ● Situation before 2002

Central Bank of Spain used to provide Cash Services to the Credit Institutions throughout its 52 branches located in each of the provinces in Spain



# Decision to close down Central Bank Branches

It was decided to discontinue the following 10 branches of the Central Bank of Spain:

Ávila  
Castellón  
Cuenca  
Guadalajara  
Lérida  
Lugo  
Palencia  
Segovia  
Soria  
Teruel

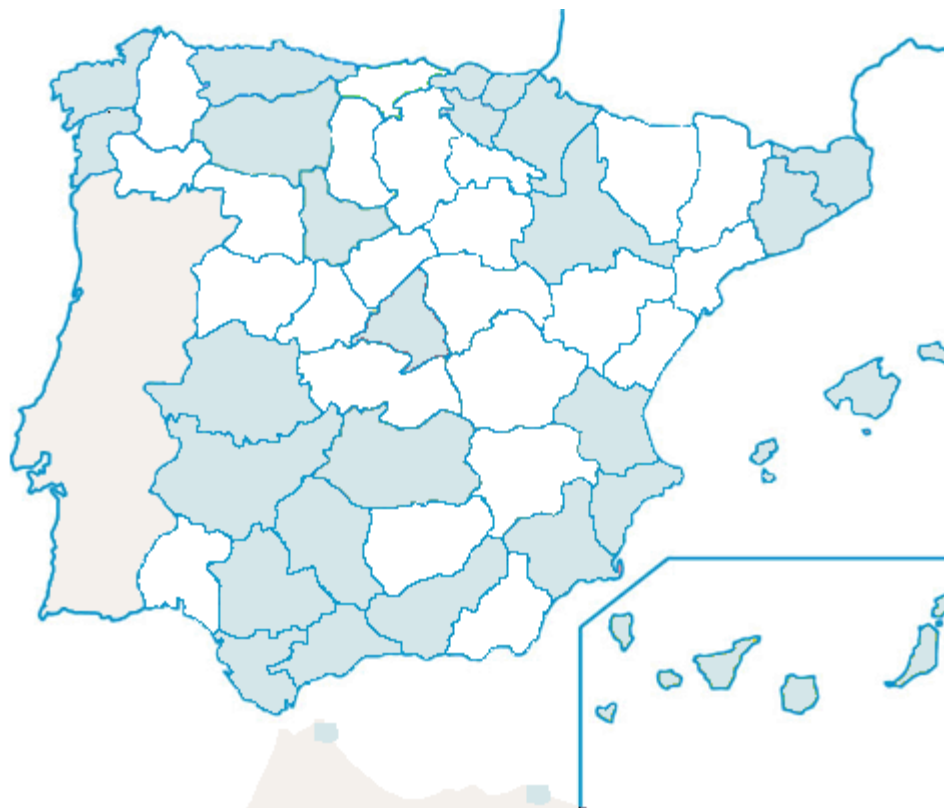


# Decision to close down Central Bank Branches

It was decided to discontinue the following 13 branches of the Central Bank of Spain:

Albacete  
Almería  
Burgos  
Huelva  
Huesca  
Jaén  
Logroño  
Orense  
Salamanca  
Santander  
Tarragona  
Toledo  
Zamora

● Year 2003

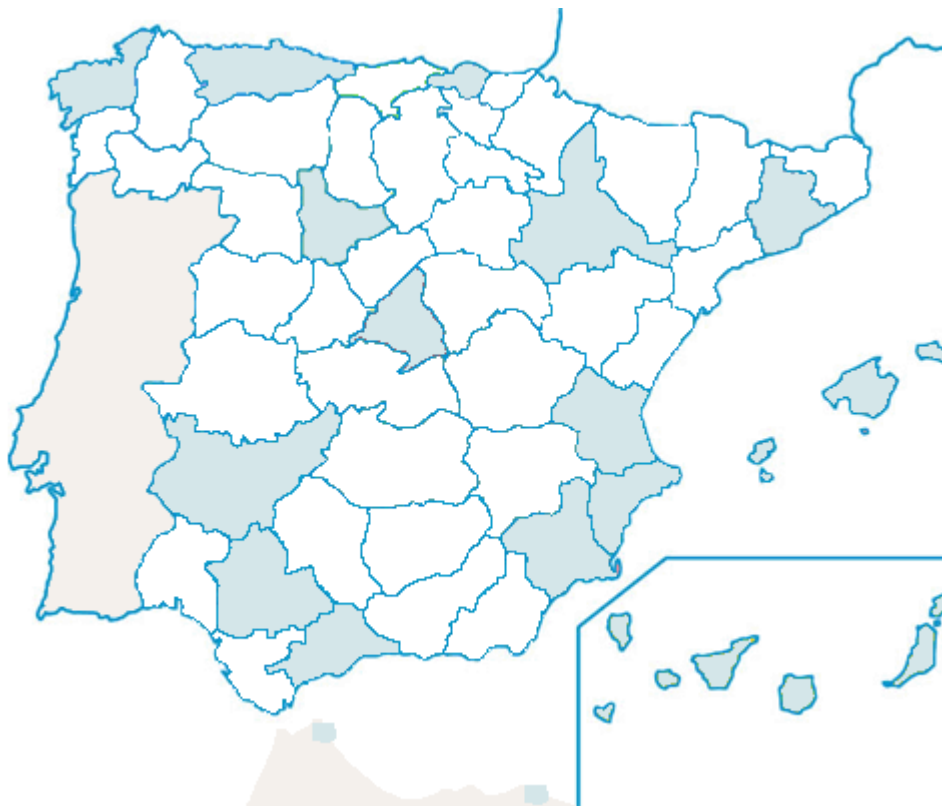


# Decision to close down Central Bank Branches

It was decided the discontinuing of the following 11 branches of the Central Bank of Spain:

Cáceres  
Cádiz  
Ciudad Real  
Córdoba  
Gerona  
Granada  
León  
Pamplona  
Pontevedra  
Guipúzcoa  
Álava

● Year 2004



## The Shuttle Service

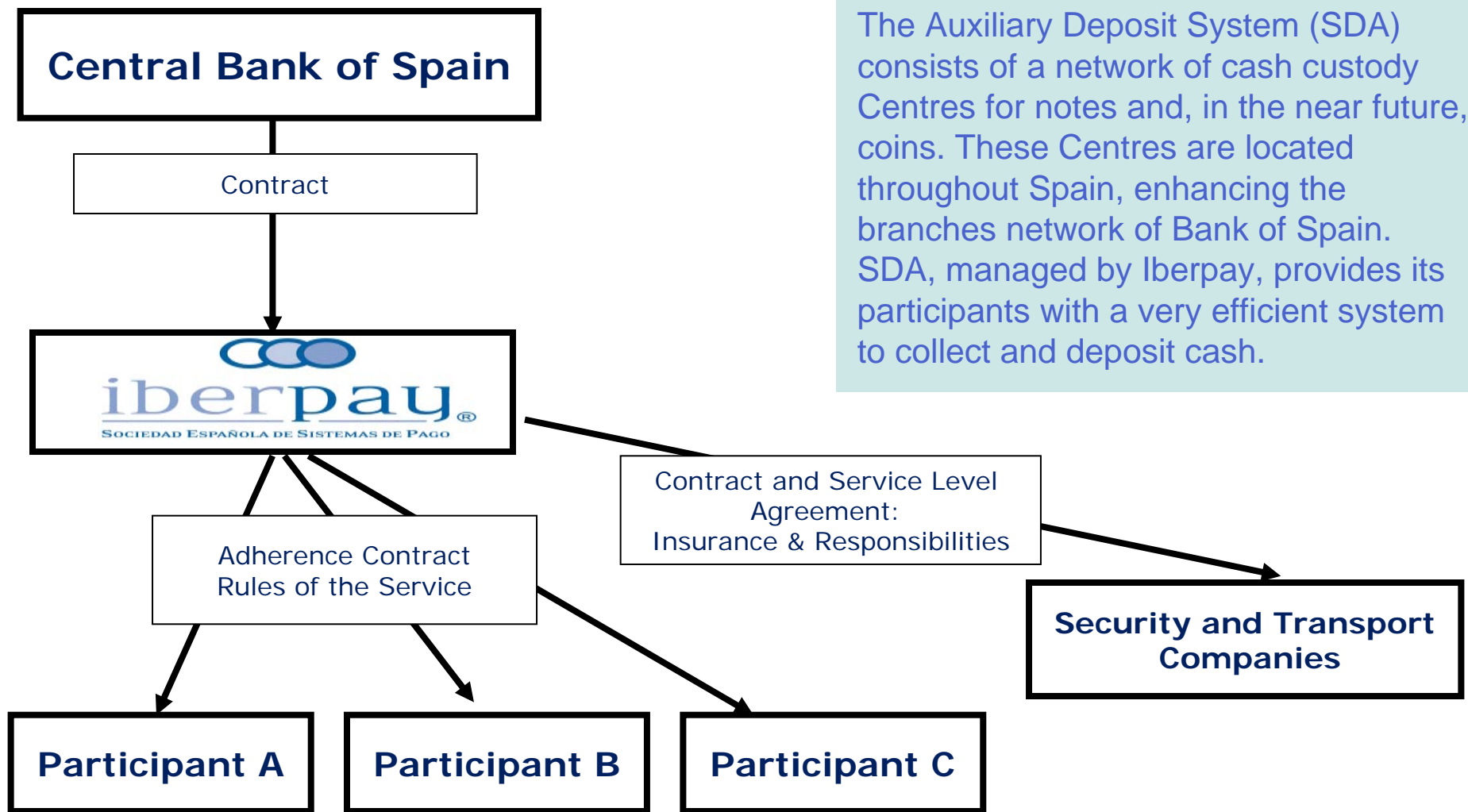
- **Organised by the banks in close collaboration with the Security and Transport Companies**
  - Daily service from the closest branch of the Central Bank
  - Individual management of cash for each bank
  - Costs shared by participants in the Service in proportion to the notes and coins transported
  - Number of shuttle services reduced to two-three a week in certain provinces
  - Procedure to compensate the deficit of notes in one bank with the surplus of other
- **Too high costs, too high risks**
- **The quality of the banknotes decreased quickly**
- **Low satisfaction among parties involved: Credit institutions and Security and Transport companies**



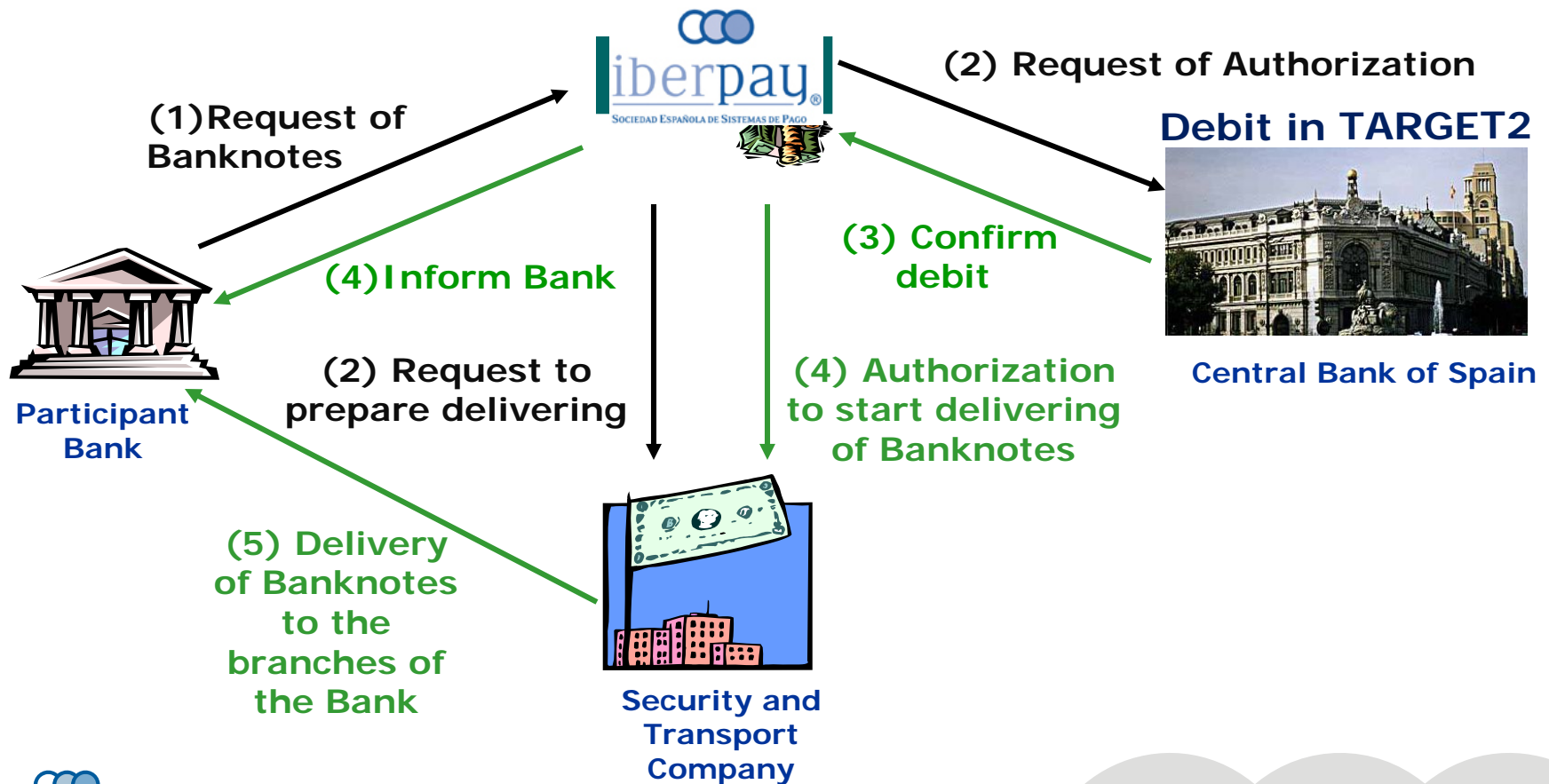
## The Auxiliary Deposit Service

- **Organised by the Central Bank of Spain in close collaboration with the banks**
- **The banks organised themselves around Iberpay (and CECA)**
- **System based on:**
  - Notes owned by the Central Bank
  - Notes deposited in the Security and Transport premises
  - Only in the provinces without branches of the Central Bank
  - Immediate settlement in TARGET
  - Two separated circuits for incoming and outgoing notes: No recycling
  - Legal agreement between Iberpay and the Central Bank, Iberpay and Security Companies and Iberpay and banks
- **Guaranteed by insurance companies and by participant banks**
- **The quality of the notes increased quickly**
- **High satisfaction among stakeholders**

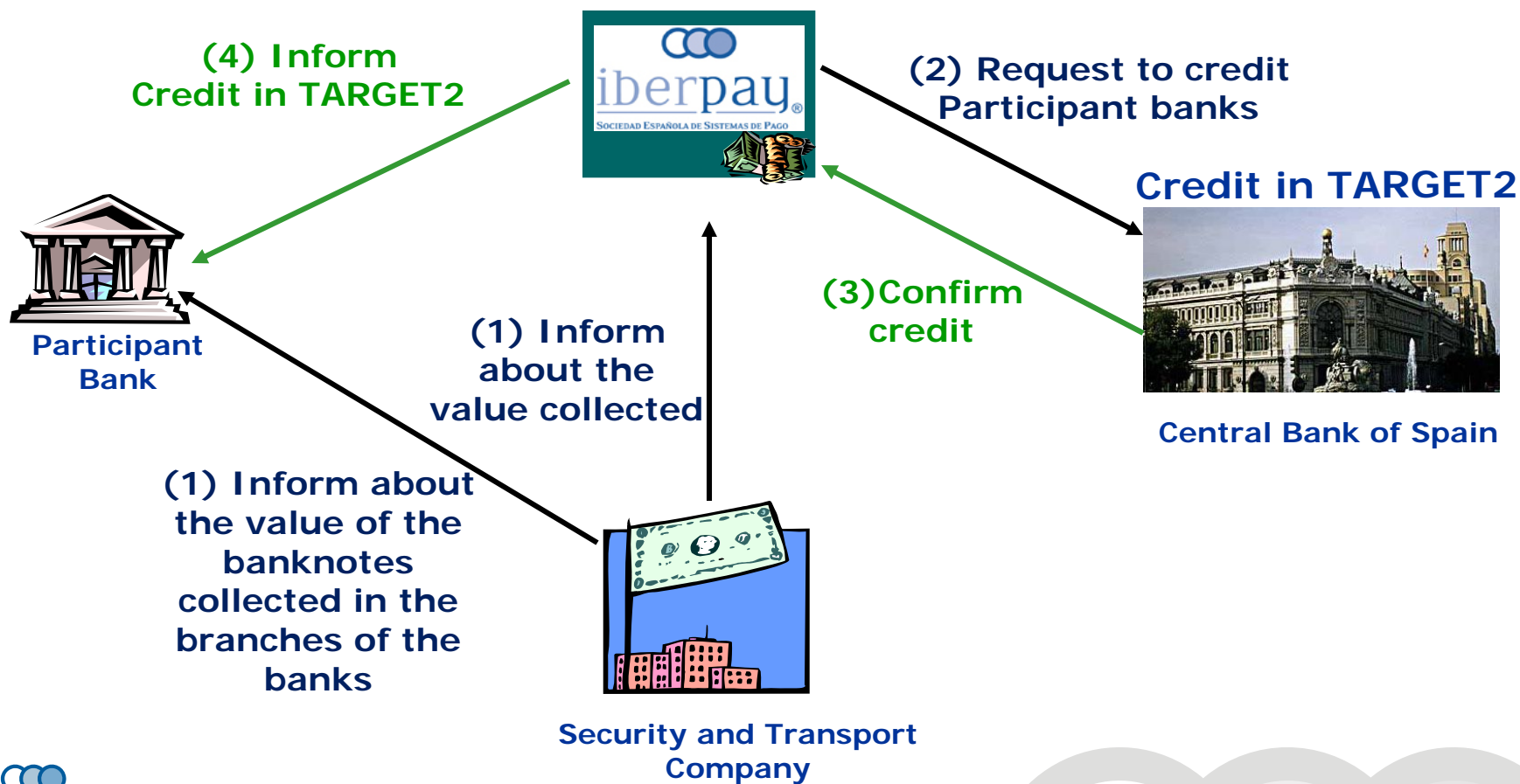
# Legal Relations between parties involved



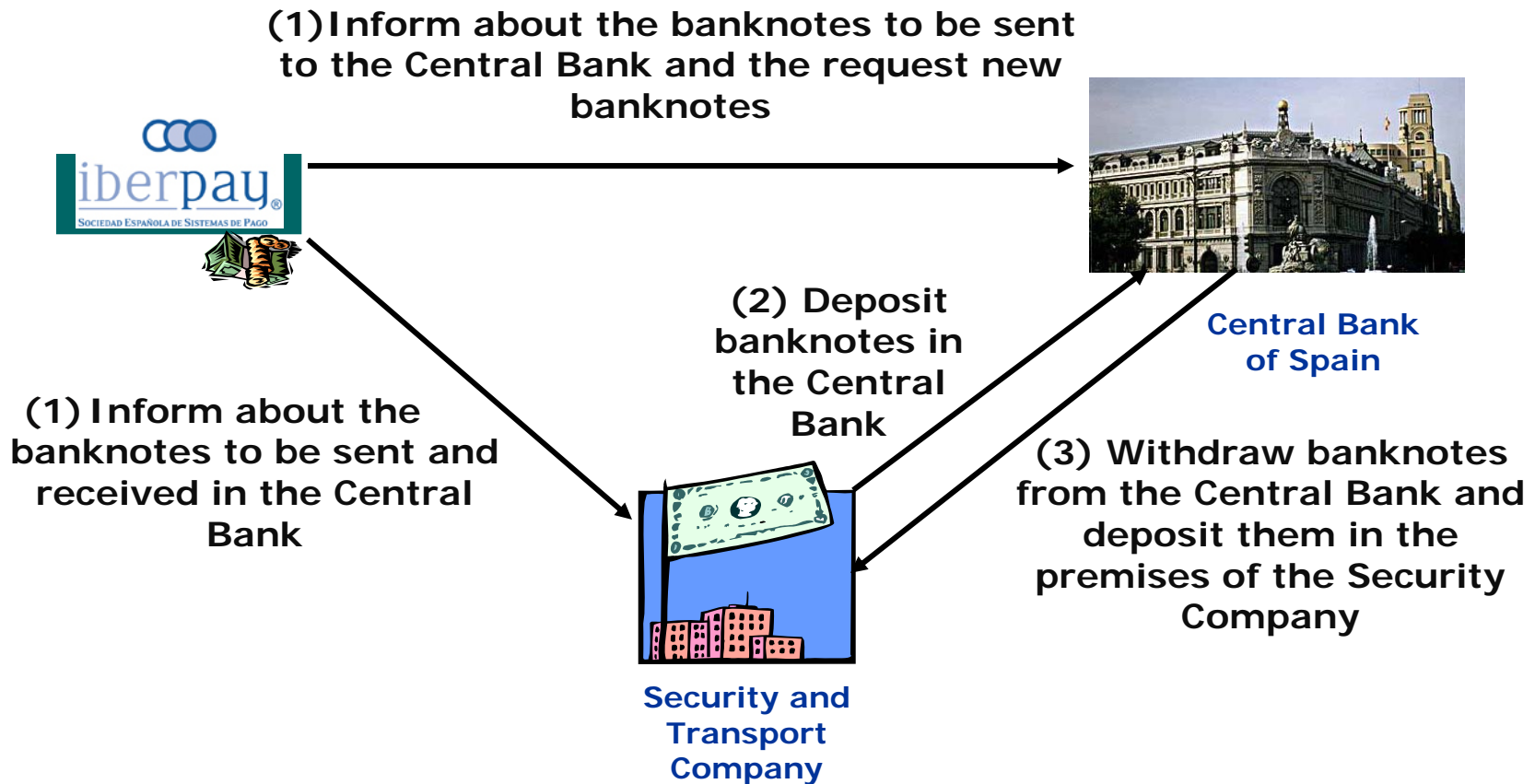
## Request of Banknotes by the Participants



## Deposit of Notes by the Participants



## How to feed the Auxiliary Deposit

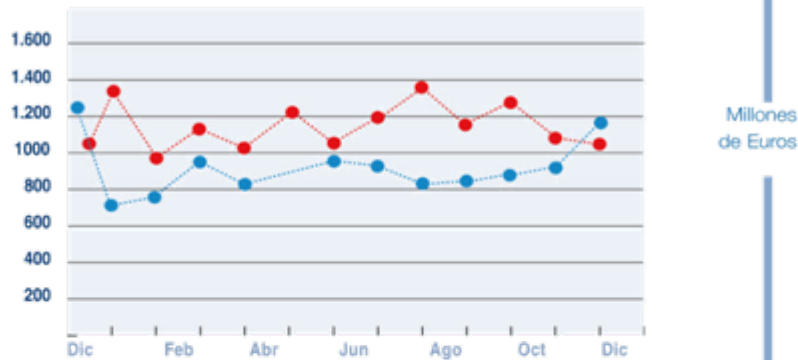


# The Auxiliary Deposit Service: Some figures

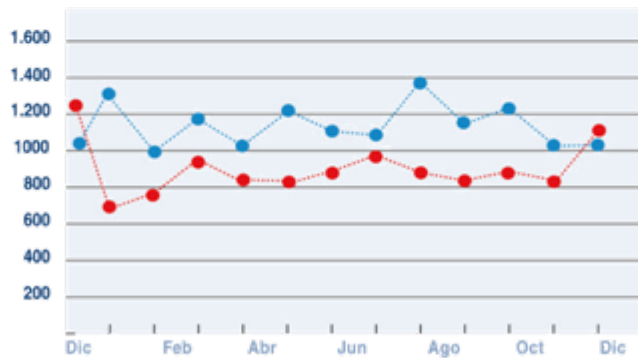
## Year 2007

### SISTEMA DE DEPÓSITOS AUXILIARES

#### Ingresos - Pagos



#### Entradas - Salidas



Ingresos Entradas ● Pagos Salidas ●



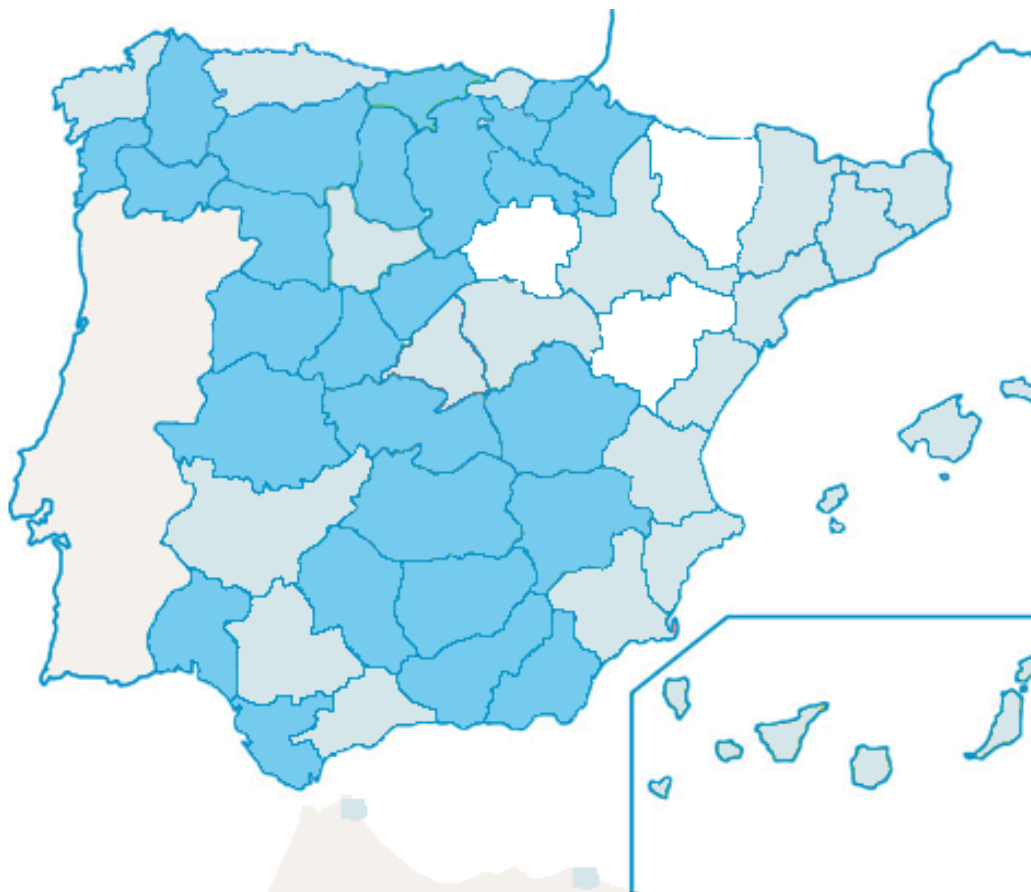
- 30 Operative Centres
- 34 Banks Participating
- 3 Security Companies (Prosegur, Loomis, Grupo Norte)

# The Auxiliary Deposit Service: Current Geographic Scope

Iberpay offers the Auxiliary Deposit Service in the following provinces:

Ávila, Albacete,  
Almería, Burgos,  
Cáceres, Cádiz,  
Ciudad Real,  
Córdoba, Cuenca,  
Granada, Guipúzcoa,  
Huelva, Jaén,  
León, Logroño,  
Lugo, Orense,  
Palencia, Pamplona,  
Pontevedra,  
Salamanca,  
Santander,  
Segovia, Toledo,  
Vigo, Vitoria.

 From 2005 until 2008



# The Auxiliary Deposit Service: Extension of the Scope

The Central Bank of Spain has recently informed about their intention to authorise the enlargement of the Auxiliary Deposit Service to the provinces with a Central Bank Branch in operation.

No authorisation will be given so far in the following four provinces:

Madrid  
Barcelona  
Valencia  
Sevilla

● 2009 Onwards





## Pending Issues

- **Extend the service to Coins**
- **Extend the geographical scope of the Service to the provinces with a branch of the Central Bank of Spain**
- **Possible replacement and consolidation of the Security and Transport premises**
- **Increase pressure to reduce costs**
- **Use of this service to comply with the Framework for recycling banknotes in Spain**
- **Extend the use of this service to other EU countries?**
- **New Cash Transport Regulation?**



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