

Payment System



6 Payment System

6.1 Legal and institutional aspects

The payment system in the Slovak Republic is governed primarily by Act No. 510/2002 Coll. on the Payment System and on amending and supplementing certain acts as amended (the Act on the Payment System).

The Act on the Payment System was amended by Act No. 659/2007 Coll. on the introduction of euro in the Slovak Republic and on amending and supplementing certain acts, as amended, in 2007. Within this indirect amendment to the Act on the Payment System, among other things, the constant symbol will be cancelled as a compulsory element of transfer orders for domestic transfers, from the date of introduction of euro in the Slovak Republic.

In the course of 2007, work on a direct amendment to the Act on the Payment System began. This amendment to the Act is based on the National Euro Changeover Plan in the Slovak Republic and is related to changes in the SIPS domestic payment system and to connecting to the TARGET2 payment system as of the date of introduction of euro in the Slovak Republic.

With effect from 1 January 2007, also Regulation 1781/2006 of the European Parliament and of the Council of 15 November 2006 on information on the payer accompanying transfers of funds became a part of Slovak legislation.

In the course of 2007, Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services on the internal market (Directive on payment services) was adopted, amending and supplementing Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC.

The aim of this Directive on payment services is to create a single payment market within the Community by introducing a harmonised legal framework; the intention is to eliminate borders in the internal market when providing payment services.

The scope of the Directive on payment services is limited to payments in euro or in national currencies

of the Member States executed on the territory of the Community. This Directive regulates, inter alia, also the transparency of conditions for the provision of payment services, the rights and obligations relating to the provision and use of payment services, as well as the out-of-court settlement of disputes.

By reason of increased economic competition in the payment services market, the Directive defines the conditions for the origination and business of a new category of payment services providers – so called payment institutions, which, in addition to the banks and branch offices of foreign banks, will be allowed to provide payment services (i.e. they will be allowed to execute payment transactions and settlement).

The Directive on payment services will be transposed into the Slovak legal code by adopting a new generally binding legal Act with the expected effect from 1 November 2009.

The Permanent Court of Arbitration of the Slovak Banking Association was established with effect from 1 July 2003 and has its registered office in Bratislava; at present, it has two chambers:

- a) the chamber for deciding disputes on payments,
- b) the chamber for deciding disputes arising from other commercial or civil relations, which commenced operation on 1 January 2004.

In 2007, Národná banka Slovenska approved the Slovak Banking Association's proposal not to pay any contribution in 2007 for the activity of the Permanent Court of Arbitration of the Slovak Banking Association with regard to the economic results of this court and the sufficient funds for the activity of the chamber for deciding disputes on payments. At the same time, Národná banka Slovenska approved Addendum 3 to the Rules of Procedure of the Permanent Court of Arbitration.

Strategic work on dealing with the change in the payment infrastructure of the Slovak Republic in relation to the integration into the euro area

In the course of 2007, the work on defining a new form of payment infrastructure in the SR after accession to the euro area intensified.



The basis of this infrastructure will be operation of the TARGET2-SK payment system, through which all payments will be processed at the real time, and the holding of funds by participants on their current accounts maintained in this system will be deemed to be the fulfilment of the compulsory minimum reserves.

Another important element of the new infrastructure will be a new retail payment system, EUROSIPS, which will be established by transformation from the current SIPS system. It will be a domestic multilateral clearing system with the final settlement on RTGS accounts in the TARGET2 system. EUROSIPS will be a so called ancillary system to the TARGET2.

TARGET2 is a real-time gross settlement system provided by the central banks of the Eurosystem. The use of this system is mandatory for all central banks of the countries that have adopted euro as their currency. The basis of TARGET2 is a single shared technical platform ensuring a harmonised access to this system for all participants within the Eurosystem. From the legal point of view, however, TARGET2 is structured as a multiplicity of payment systems. The TARGET2 component system operated by Národná banka Slovenska will be named as TARGET2-SK.

In February, the basic features of the future TARGET2-SK payment system were presented, and also of the EUROSIPS retail payment system. In April, participants in the interbank payment system confirmed to Národná banka Slovenska in writing that they would become direct participants in the TARGET2-SK system and also that they would use the services of the EUROSIPS system.

At the beginning of the year, the specification of requirements was prepared for the functions of the new EUROSIPS system, and in May 2007, Národná banka Slovenska opened an internal project for the implementation of the EUROSIPS system. In addition to the development of this system itself, the aim of this project is also testing of the functions so that within the testing of connection of the participants to the TARGET2-SK also the functions of the EUROSIPS system are tested as of an ancillary system of TARGET2-SK.

6.2 The payment system of the Slovak Republic

As at the end of 2007, Národná banka Slovenska operated the SIPS interbank payment system for 32 participants, of which 30 were direct participants and 2 third parties. Over the course of 2007 the number of direct participants increased through the addition of two branches of foreign banks operating in the Slovak Republic on the basis of a single banking passport.

In 2007, the SIPS interbank payment system did not undergo any changes to its basic functions.

6.2.1 Concept of the payment system in the SR in relation to the introduction of euro

In connection with the preparation of introduction of the TARGET2 system, Národná banka Slovenska began preparing the transformation of the present SIPS system to the new retail payment system, EUROSIPS. Within the accession to the euro area, this system will be implemented as a domestic multilateral system of net settlement for retail payments. The system will not require immediate finality, since it will process customer payments of a low value and with low priority (interbank payments of a high value will be directed to the TARGET2 system). Received payments will be processed during the clearing day on technical accounts continuously, and the final settlement of payments will occur twice a day on RTGS accounts in the TARGET2 system. The transfer of data between the EUROSIPS and TARGET2 systems will be executed by transfer of information in the defined structure via the SWIFT-Net network. The operator of the EUROSIPS payment system will be Národná banka Slovenska.

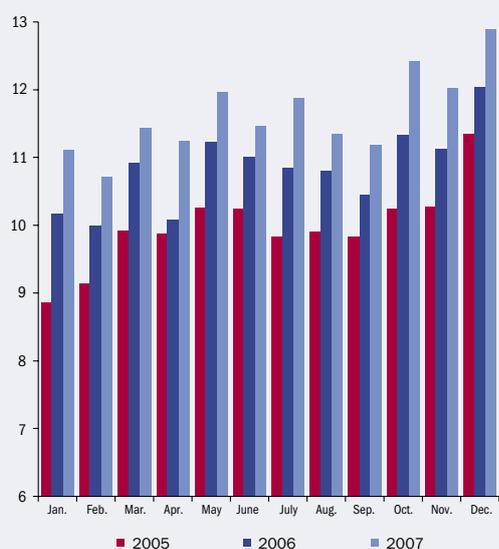
In the course of 2007, the new conception of the payment system in the SR had been presented several times to SIPS interbank payment system participants, being the result of consensus reached between Národná banka Slovenska and banks represented by the Slovak Banking Association as well as other participants of the SIPS interbank payment system.

Table 34 Number of transactions made in SIPS

(million)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2004	8.12	8.09	8.94	8.57	9.11	9.46	8.81	9.06	8.94	9.27	9.42	10.93
2005	8.86	9.14	9.91	9.88	10.25	10.24	9.84	9.91	9.83	10.24	10.28	11.34
2006	10.18	9.99	10.92	10.09	11.23	11.01	10.85	10.80	10.45	11.34	11.13	12.04
2007	11.12	10.72	11.45	11.26	11.97	11.46	11.87	11.35	11.19	12.42	12.02	12.89

Source: NBS.

Chart 46 Number of transactions made in SIPS (million)


Source: NBS.

Chart 47 Value of transactions made in SIPS (SKK billion)


Source: NBS.

6.2.2 Payments realised via SIPS

During 2007 a total of almost 140 million transactions were processed in the SIPS payment system. Against 2006 the number of transactions rose by 7.47% for the same period, confirming the stable growing trend of previous years.

Chart 46 and Table 34 show data on transactions made in the individual months of 2007 in comparison with the previous years.

Unlike the previous years, in 2007, in comparison with 2006, the total volume of transactions processed decreased by 7.1 percentage points. Thus the growing trend from the previous years, which in the total value of transactions processed represented an annual increase of 40–50% on average, turned around. In 2007, SIPS processed transactions only in the value of almost SKK 79 545 billion. After analyses of the average value of the transfers of client and interbank payments we may conclude that the stabilisation of the national currency could have a significant impact on the decrease in the

value of payments. A significant growth of the value of payments in February 2005 indicated its direct connection with the occurrence of sterilisation operations (Chart 47). Growth rate of the value of payments in year-to-year indicators (in particular, dynamics of growth of the value of priority payments) was considerable until 2007, when a stabilisation occurred (the value of priority payments dropped by 3% in comparison with 2006).

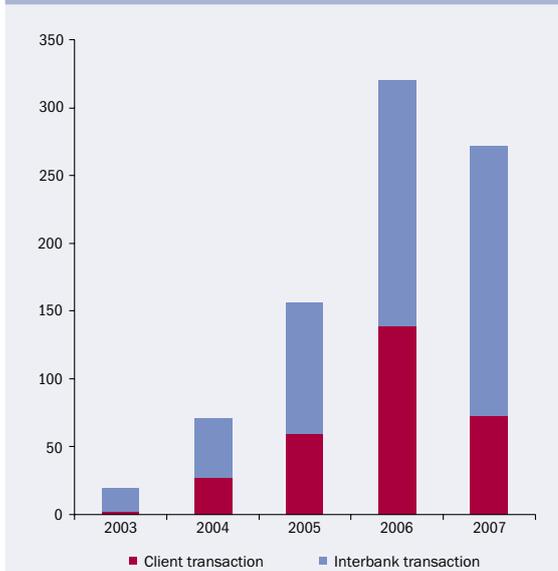
Chart 47 and Table 35 show data on the values of transactions made in the individual months of 2007 in comparison with the previous years.

Since the beginning of 2003, when NBS commenced operation of SIPS system, the number of priority payments reached a significant growth, year-to-year by almost 100%, whereas in 2007, a drop of the number of priority payments was recorded by more than 20%. The fastest growth from among all types of transactions was recorded in customer and interbank priority payment orders. Whereas the total number of priority payments processed and settled stood at 275,000, the figure in the previous year

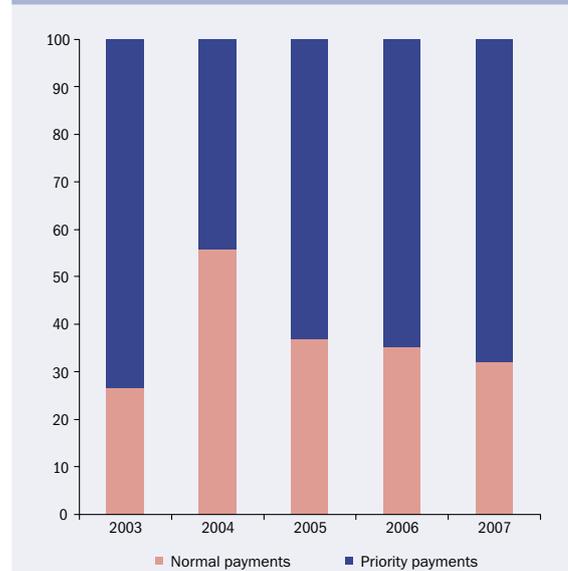
Table 35 Value of transactions made in SIPS (SKK billion)

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2004	2.77	2.62	3.05	2.86	3.30	3.95	3.84	3.70	3.46	3.43	3.25	4.46
2005	3.95	13.78	11.12	6.35	5.98	6.22	5.04	5.60	5.14	5.00	5.53	5.93
2006	6.43	6.36	8.88	7.15	8.37	8.38	8.61	7.25	6.17	6.21	6.13	5.69
2007	7.46	5.45	9.97	7.34	6.87	6.10	5.85	6.69	5.44	6.47	5.95	5.95

Source: NBS.

**Chart 48 Number of priority payments (thousands)**

Source: NBS.

Chart 49 Shares of payments in the value of transactions (%)

Source: NBS.

was more than 320,000. However, their share in the total number of transactions made did not change considerably – it represents almost 0.2%, while in 2006, the figure was 0.25%, which is actually related to a minimum representation in the total number of payments. The development of the number of priority payments processed in SIPS is shown in Chart 48.

A decreasing value was recorded also in the value of priority payments, though only by almost three per cent (to SKK 53,959 billion). In comparison with the previous year, however, this is a significant change, as in the years 2004-2006 also the value of priority payments recorded almost a triple growth. Chart 49 shows the shares of normal and priority payments from the total value of transactions processed in 2003-2007, and their ratio has not changed markedly in 2007 compared to the previous year.

Information on the number and volume of transactions processed in the SIPS is published on Národná banka Slovenska¹⁶ website and is updated daily at 15:50 hours.

On bank holidays and weekends the payment system is closed and system maintenance is carried out. In 2007 there were 250 working days. On a daily basis, SIPS processed and settled an average of 532,000 payments in a total amount of almost SKK 318.18

billion, with an average value per transaction of approximately SKK 598,000.

To better understand this data, it can be said that over the course of roughly 5.82 working days, SIPS processed and settled payments with a cumulative value equivalent to Slovakia's gross domestic product for 2007¹⁷.

Národná banka Slovenska provides intraday credit to those participants of the interbank payment system who are required to hold minimum reserves. Intraday credit is offered as an overdraft facility on financial reserve accounts, with a maximum overdraft limit. The intraday credit is payable within one operating day and must be fully collateralized, i.e. by the relevant amount of securities listed in the central register of short-term securities maintained by NBS.

In 2007, SIPS participants who applied for intraday credit were provided with this credit in the total amount of more than SKK 3,442 billion. The amount of intraday credit provided to participants is monitored on a weekly basis. Per week, Národná banka Slovenska provided intraday credit¹⁸ in an average amount of SKK 66.092 billion.

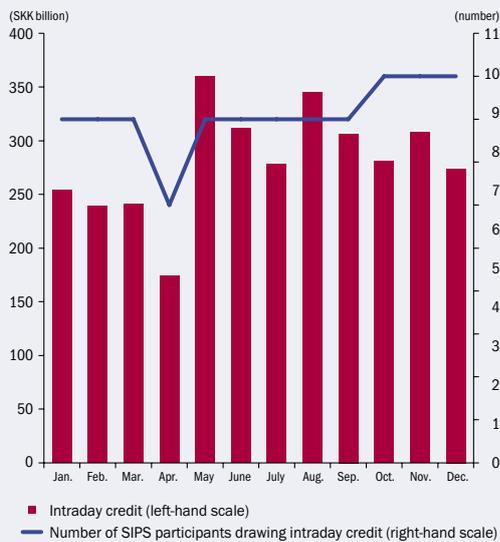
Chart 50 shows the amount of intraday credit provided in the individual months of 2007 and the number of SIPS participants who applied for this credit.

¹⁶ www.nbs.sk – Payment systems / Statistical data.

¹⁷ GDP for 2007 amounted to SKK 1,851.8 billion (Source: Statistical Office of the SR).

¹⁸ The amount of provided intraday credit is deemed to be the value of the securities (decreased by the haircut) that NBS accepted from participants as collateral for the intraday credit. This is the maximum limit up to which participants may draw down intraday credit. At present, actual drawing of credit is not subject to statistical tracking.

**Chart 50 Intraday credit in 2007
(SKK billion)**



Source: NBS.

6.2.3 Payment cards

In 2007, the number of payments cards issued increased by 6% almost to 4.75 million. Of the total, debit payment cards represent almost 76% and credit payment cards 24%.

As of 31 December 2007, bank clients on the territory of the Slovak Republic could utilize the network of 2,166 ATMs and 25,826 EFT POS payment terminals.

In 2007, the domestic payment card holders made almost 115 million transactions in the total amount of more than SKK 334 billion, and of this figure almost 121 million transactions were made on the territory of the Slovak Republic in the total amount of SKK 322 billion, and more than 4 million in the total amount of SKK 12 billion were made outside the SR. Card holders from abroad made 13 million transactions in the total amount of more than SKK 29, billion on the territory of the Slovak Republic.

6.3 Cooperation with the international financial institutions in the field of payment systems

European Payments Council – SEPA

The Single Euro Payments Area (SEPA) will be area where the consumers, companies and other economic entities will be able to send and receive

payments in euro – whether within one country or between individual countries – on the same conditions, rights and obligations regardless of where they are located. The governing and coordinating body of SEPA on the European level is the European Payments Council, in which the Slovak Banking Association is a member. The SEPA project covers two basic payment instruments – credit transfer and direct debit, and also defines the common framework for card payments.

In 2007 the SEPA project entered the implementation phase in the euro area countries. This phase dealt mainly with preparation for the introduction of new payment instruments, standards and infrastructures of SEPA. Over the course of the year, 28 January 2008 was set as the date of commencement for the use of SEPA credit transfer, and 1 November 2009 was defined as the launch of SEPA direct debit. SEPA direct debit will be introduced later due to technical and legal reasons. Emphasis on the implementation of SEPA payment instruments is laid at the beginning of the project on the euro area countries, and then the SEPA project will be implemented in the entire SEPA area, which will finally consist of 27 EU Member States and Island, Norway, Liechtenstein and Switzerland.

In June, the European Payments Council adopted version 2.3 of Scheme Rulebook for SEPA Credit Transfer, and the same version for SEPA direct debit. The said versions create a basis for the implementation of SEPA credit transfer and direct debit. At the same time, for the versions 2.3, the relevant implementation guidelines were approved, for both payment instruments.

The SEPA project is supported by the European Commission, the European Central Bank, the national central banks, as well as by the European banks. One of the main reasons of general supporting the SEPA is the fact that it will bring new benefits for both the consumers and companies making payments in euro.

The Slovak banking sector is likewise preparing for compatibility with SEPA. In March, the General Plan for Implementation of SEPA – Implementation of SEPA in the SR was approved by the Bank Board of National Bank of Slovakia and then by the Ministry of Finance of the SR. The objective of this Plan is, on one hand, to confirm the obligation of the banking sector to implement SEPA in Slovakia, and to express and point out the main aspects of the changeover to SEPA, on the other hand. The first version of the Plan will be updated and supplemented with a time schedule, including the deadlines and responsibilities, and with a communication strategy depending on the current status of operations and the information and documents available in the course of the SEPA development. In 2007 the Committee for SEPA was



established by the Slovak Banking Association, which is the governing body for the SEPA implementation in the Slovak Republic. It is composed of the representatives of Národná banka Slovenska, the Ministry of Finance of the SR, the Slovak Banking Association, commercial banks, the State Treasury, Slovenská pošta, and of the representatives of employers and consumers.

The Eurosystem, ESCB and the preparation of a new generation of the TARGET2 payment system

Also in 2007, the representatives of NBS participated in the working groups and committees established within the ESCB system and working at the European Central Bank. In 2007 cooperation continued between representatives of central banks of the Eurosystem, the European System of Central Banks and also of future users in the development of a new generation of the TARGET2 payment system. The result of cooperation of the said entities was also continued development of the TARGET2 payment system. On its protected website intended for future TARGET2 users, the ECB continued in publishing materials on the development of the TARGET2 system. In June 2007, the fourth report was released on the development of TARGET2 intended for the public, which contained information concerning remaining pricing and financing issues, interaction with the securities settlement systems and the final version of the General functional specifications of the SSP Single Shared Platform. Moreover, it contained information on the process of testing and migration activities of banking communities of individual countries of the ESCB system. Shortly before launching the TARGET2 operation, in October 2007 the ECB published the fifth report on the development of the TARGET2 system. The purpose of this document was to update the information on the process of development of TARGET2 and to confirm the readiness of the ESCB system for the launch of the first migration phase to the new payment system, TARGET2, which was successfully launched on 19 November 2007. At the same time, it confirmed the readiness of the two remaining migration phases, which are to be performed in 2008.

TARGET2-SK – component of the TARGET2 payment system

In relation to connection to the TARGET2 system, Národná banka Slovenska is obliged to perform several tasks such as e.g. active participation in the operation of the TARGET2-SK system – the national component of the TARGET2 system, coordination of the access process to the TARGET2 system, active participation in the legislative process, and the provision of services relative to the connection to the TARGET2-SK system.

Following a decision of the Bank Board of NBS of December 2006, in January 2007 NBS announced by letter of the Governor to the ECB President the scope of the use of the SSP Single Shared Platform services, which is the basic infrastructure of the TARGET2 (i.e. which optional modules of the platform NBS undertakes to use).

In August, a meeting of representatives of the Payment Systems Department and of representatives of the European Central Bank was held in Národná banka Slovenska, the aim of which were consultations regarding the coordination of the access process of Národná banka Slovenska and of the banking community to the TARGET2 system. Possible methods for implementation of the ECB Guideline on TARGET2 were discussed on the meeting, the “migration“ profile of Slovakia and of the EUROSIPS ancillary system to the TARGET2 system, a general schedule for registration and testing of participants of the banking sector of the SR, and other issues.

In September, Národná banka Slovenska presented, to participants of the interbank payment system, a schedule of steps related to the preparation of connection, registration of participants into the SWIFT services, registration of participants in the testing environment of the Single Shared Platform and the performance of the testing itself. These registrations and also the four testing phases should be performed in the next year with an expected duration of 9 months.

In October, the migration profile of NBS and of the Slovak banking community was published on the protected website of ECB intended for future TARGET2 users, for the first time, and also the migration profiles of the subsidiary systems of EUROSIPS and of the Central Securities Depository of the Slovak Republic.

In connection with the preparation of legal regulations, Národná banka Slovenska participated in the correction of a translation of the Slovak version of ECB Guideline on TARGET2, which was published in the Official Journal of the European Union on 8 September 2007.

6.4 Preparation for the introduction of euro

The highest directing and coordinating authority for the preparation of euro changeover in Slovakia is the National Coordination Committee. Expert opinions on individual issues concerning the Slovak economy's transition to euro are being prepared in working committees for euro changeover. The banking sector falls within the remit of the Working Committee for Banks and the Financial Sector, the activity of which is co-



ordinated by a representative of Národná banka Slovenska, and its members consists of representatives of Národná banka Slovenska, the Ministry of Finance of the SR, Slovenská pošta, the State Treasury, the Slovak Banking Association and individual associations of the financial sector. The Working Committee officially began its activity at the end of 2005.

In 2007, negotiations of the Working Committee for Banks and the Financial Sector focused primarily on solving tasks resulting from the National Euro Changeover Plan for the field of payment systems. In addition to this, the Committee participated in updating of the National Plan.

In the field of cashless payment systems this concerned in particular the preparation of an amendment to the Act on the Payment System, the so called Euro Amendment, which is related directly to the process of euro introduction, changes in the SIPS system and connection to the TARGET2 payment system.

In the field of cash payment systems this concerned in particular a more exact identification of the need

of cash and its procurement from NBS, as well as the provision of euro cash in the form of so called starter kits to inhabitants.

At the meeting of the Working Committee for Banks and the Financial Sector also the Regulation of Národná banka Slovenska was the subject of discussion, which lays down certain rules of the dual display and other rules for the conversion of certain prices, payments and other values for the sphere of the financial market and for the services of financial institutions in the sphere of the banking sector, the capital market, the insurance sector and pension saving.

Within the Working Committee for Banks and the Financial Sector a Subcommittee for Banks and a Subcommittee for Insurance Companies was established. Within the Working Subcommittee for Banks, a strategy for the introduction of euro for cash circulation in the SR was adopted. Moreover, the Subcommittee for SEPA was cancelled, since a separate Committee for SEPA was established within the remit of the Slovak Banking Association.