

4 PAYMENT SERVICES AND PAYMENT SYSTEMS

4.1 PAYMENT SERVICES

The law governing most aspects of payment services and payment systems in Slovakia is Act No 492/2009 on payment services ('the Payment Services Act'), which transposes into Slovak law the EU's two Payment Services Directives: Directive 2007/64/EC (PSD) and Directive (EU) 2015/2366 (PSD2). The amendment to the Payment Services Act which transposes PSD2 was completed in 2017 and entered into force on 13 January 2018. At the EU level, a number of implementing acts and guidelines required by PSD2 were drafted in 2017 and will enter into force in 2018.

Slovak law in the area of payment services also includes the following directly applicable EU Regulations:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001;
- Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009;
- Regulation (EU) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006; and
- Regulation (EU) No 2015/751 on interchange fees for card-based transactions.

Further components of the legal framework include Decree No 8/2009 of Národná banka Slovenska laying down the structure of domestic and international bank account numbers and details about the issuance of an identifier code converter, and Decree No 6/2013 of Národná banka Slovenska on direct debit payee identifiers and the register of direct debit payee identifiers.

In 2017 Národná banka Slovenska approved a proposal of the Slovak Banking Association (SBA) that banks should not pay any contribution for that year to the operation of the SBA's

Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), in view of the Court's financial results and the sufficiency of existing funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to Payment Services.

4.2 PAYMENT SYSTEMS IN SLOVAKIA

4.2.1 TARGET2 AND TARGET2-SK

Since 2009 Národná banka Slovenska has been operating the TARGET2 component system known as TARGET2-SK (T2-SK). T2-SK functioned smoothly in 2017, free of any serious incidents that might have disrupted the system's operation or processing of payments, or otherwise adversely affected its participants.

Národná banka Slovenska is also involved in coordinating the development, modification, testing, and implementation of software releases for the Single Shared Platform (SSP) that forms the technical infrastructure of TARGET2. New software releases, approved by the Eurosystem in response to the requirements of the system's users, bring enhanced functionalities and modifications to the SSP and also rectify any deficiencies identified in the previous version. One of the most significant developments in Slovakia's TARGET2 environment took place in 2017, when the central security depository Centrálny depozitár cenných papierov SR (CDCP) and its members migrated to TARGET2-Securities (T2S). T2S is a technical platform ensuring smooth settlement of cross-border securities transactions via participants' securities accounts held at one or more central securities depositories and their dedicated cash accounts (DCAs) held at one or more national central banks. DCAs are used solely for the settlement in central bank money of the cash leg of the securities transactions.

The migration of central securities depositories (CSDs) to T2S took place in five waves. The Slovak



CDCP and its members were part of the fourth migration wave that was successfully completed in February 2017, with NBS itself becoming connected to the system at this time. In October 2017 another Slovak CSD, Národný centrálny depozitár cenných papierov (NCDPC), also migrated successfully to T2S, receiving in the process from NBS the same cooperation that CDCP had received.

On 22 September the ECB's Governing Council adopted a new version of the TARGET2 Guideline, introducing amendments related to new TARGET2 functionalities. On the basis of these amendments, NBS adopted and published the following decisions:

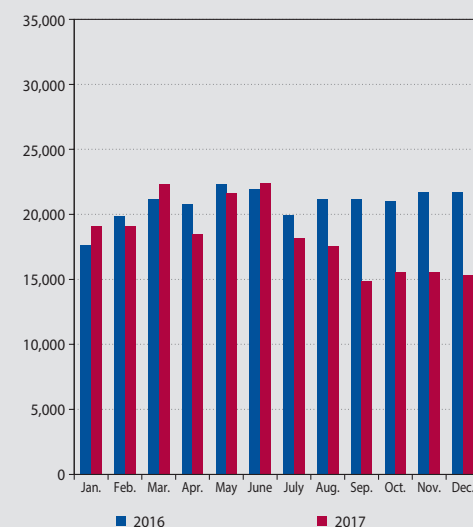
- Decision No 13/2017 of 24 October 2017 amending Decision No 7/2015 on conditions for opening and administering PM accounts in TARGET2-SK;
- Decision No 14/2017 of 24 October 2017 amending Decision 8/2015 on conditions for opening and administering dedicated cash accounts in TARGET2-SK;
- Decision No 12/2017 of 24 October 2017 amending Decision 4/2010 on settlement procedures for TARGET2-SK ancillary systems, as amended.

4.2.2 PAYMENTS PROCESSED BY TARGET2-SK

T2-SK had 34 participants at the end of 2017, including 30 direct participants and the following four ancillary systems: the Slovak Interbank Payment System, the company First Data Slovakia, s.r.o., and two CSDs — CDCP and NCDPC). The composition of the T2-SK participants saw a number of changes in 2017. ZUNO BANK AG ended its participation in T2-SK in 2017, as did Sberbank Slovensko following its acquisition by Prima banka Slovensko, while the Czech central bank, Česká národní banka, became a new direct participant in the system.

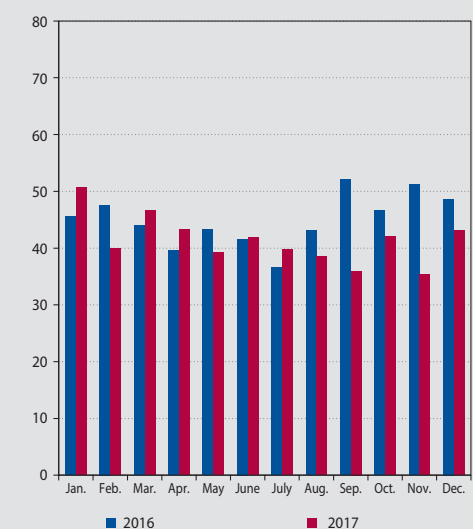
In 2017 T2-SK processed more than 220,000 transactions with a total value of around €500 billion. Compared with 2016, T2-SK traffic fell in number by more than 12% (by over 30,000 transactions) and fell in value by 8% (more than €43 billion). T2-SK had 255 operating days in 2017, and its average daily traffic by number and value was 863 transactions and almost €2 billion.

Chart 23 Number of transactions processed by T2-SK in 2016 and 2017



Source: NBS.

Chart 24 Value of transactions processed by T2-SK in 2016 and 2017 (EUR billions)



Source: NBS.

Looking at the payment traffic in 2017 broken down into customer and interbank transactions, customer payments had the higher share by number (71:29), while interbank payments predominated in terms of value (8:92).

Chart 25 Number of payments sent by T2-SK participants in 2017 broken down by destination

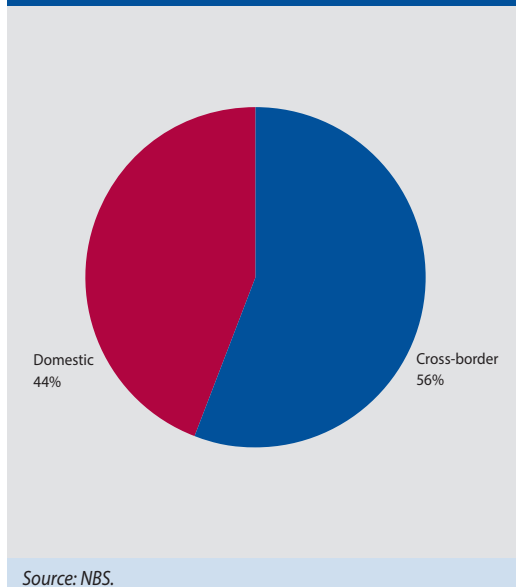
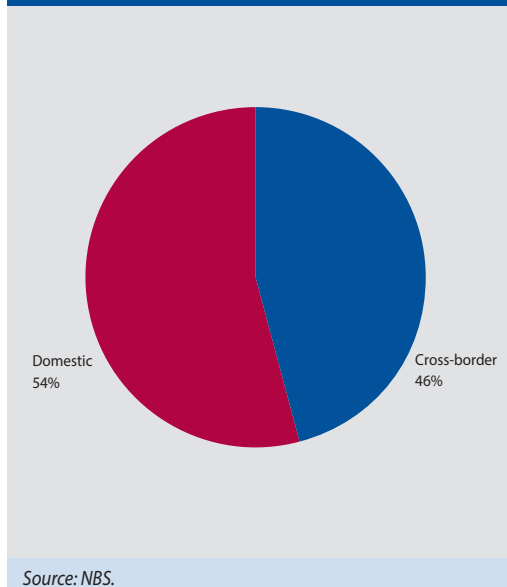


Chart 26 Value of payments sent by T2-SK participants in 2017 broken down by destination



A total of 24 EU national central banks were connected to TARGET2 by the end of 2017. Of the total number of payments sent by T2-SK participants in 2017, 44% were domestic and 56% were cross-border. Domestic payments accounted for 54% of the total value of payments, and cross-border payments for 46%.

4.2.3 THE SLOVAK INTERBANK PAYMENT SYSTEM (SIPS)

The Slovak Interbank Payment System (SIPS) is a retail payment system used for the processing and clearing of payments in euro. These comprise mostly SEPA credit transfers and SEPA direct debits, both domestic and cross-border. Cross-border SEPA credit transfers and SEPA direct debits are processed by STEP2, a pan-European automated clearing house in which NBS is a direct participant.

SIPS processes and clears payments through multiple clearing cycles on each business day. After participants' payments are cleared in SIPS, which is a T2-SK ancillary system, the resulting cash positions undergo final settlement in T2-SK. SIPS functioned smoothly in 2015, free of any incident that might have

disrupted the processing and clearing of payments or operation of the system.

On 1 November 2017 Národná banka Slovenska launched a new version of SIPS that simplified the system's technical architecture. It did this by replacing the servers operated by individual SIPS participants with a single communication server operated by NBS. NBS also issued a decision on this changeover: Decision No 9/2017 of 26 September 2017 amending Decision 7/2012 on settlement procedures for TARGET2-SK ancillary systems, as amended.

NBS maintains a register of creditor identifiers (CIs) for SEPA direct debits (SDDs). Each SDD payee, whether a natural or legal person, has a unique CI. The number of active SDD payees registered with NBS was almost 470 at the end of 2017.

4.2.4 PAYMENTS PROCESSED BY SIPS

SIPS STATISTICS

In the list of SIPS participants there were two changes in 2017. ZUNO BANK AG, a foreign bank branch, ended its participation in the system, as

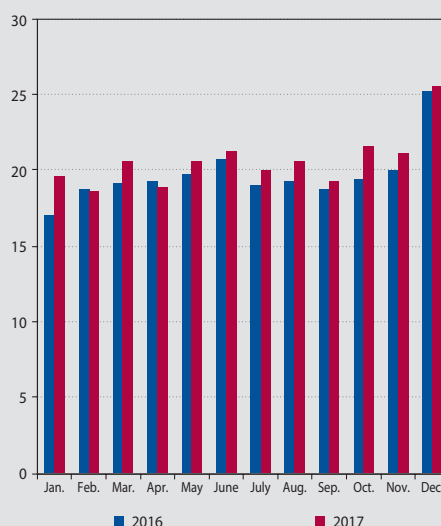


Chart 27 Number of transactions processed by SIPS in 2016 and 2017 (millions)



Source: NBS.

Chart 28 Value of transactions processed by SIPS in 2016 and 2017 (EUR billions)



Source: NBS.

did Sberbank Slovensko following its acquisition by Prima banka Slovensko. At the end of 2017 SIPS had 24 direct participants.

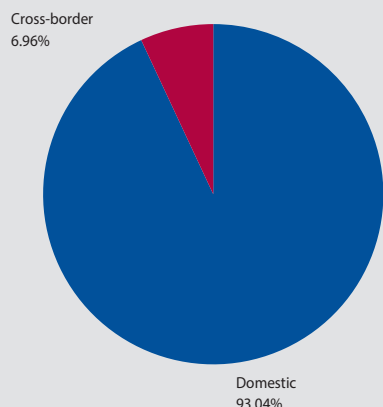
SIPS processed 227.932 million transactions in 2017 with a total value of €247.339 billion. As in

the previous year, both the number and value of transactions increased by around 5%.

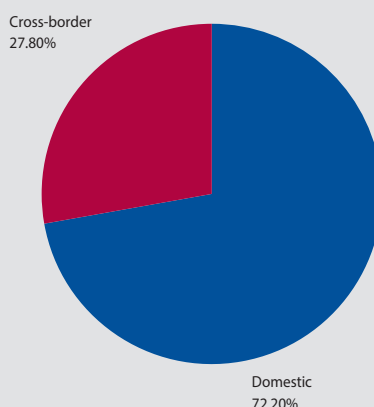
Domestic transactions accounted for almost 93.04% of the total number of SIPS-processed transactions in 2017 and almost 28% of their

Chart 29 Number and value of SIPS-processed transactions in 2017 broken down by domestic and cross-border payments

Number of transactions



Value of transactions



Source: NBS.

value, while cross-border transactions, cleared through the pan-European STEP2 system, accounted for almost 7% of the number. Domestic transactions thus amounted more than 72% of the total value of transactions.

4.2.5 PAYMENT CARDS¹⁹

Valid payment cards issued by banks in Slovakia numbered 5,183,232 at the end of 2017, which was more than 6% fewer year on year. The decline stemmed from developments in other products of certain banks. Almost half a billion (481,298,151) transactions were conducted with these cards in 2017 and their total value was more than 24 billion. Both the number and value of the transactions increased year on year, by almost 15% and 10%, respectively.

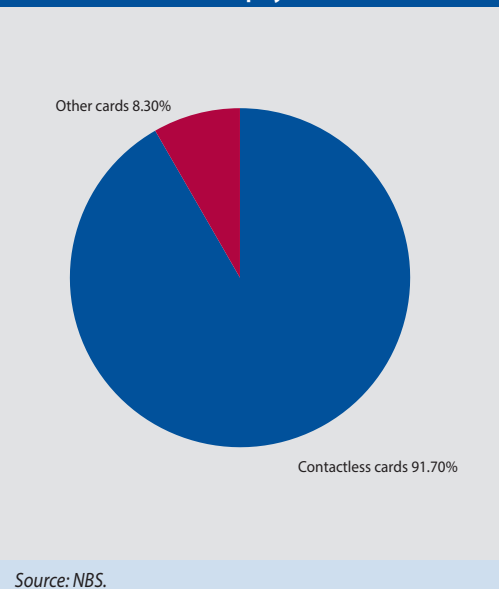
CONTACTLESS PAYMENT CARDS

Contactless payments made with bank-issued cards have increased sharply in Slovakia in recent years. The number of contactless bank payment cards in circulation continued to increase in 2017. By the year-end, 92% of bank payment cards had contactless functionality. The share of contactless payments in the total number of bank card payments maintained its rising trend in 2017 and exceeded 50% for the first time. Their share of the total value of bank card payments increased from just under 10% in 2016 to 19.42% in 2017. A total of 245,178,157 contactless bank card payments were made in 2017 with a total value of €4.69 billion, which in year-on-year terms represented an increase in number of almost 56% and an increase in value of more than 120%.

ATMs AND POS TERMINALS

There were 2,726 automated teller machines (ATMs) in Slovakia at the end of 2017, thirty-nine fewer than at the end of 2016. The number of ATM transactions increased by 1.5% year on year, and their total value rose by 5.5%. The number of POS terminals in operation in Slovakia at the year-end stood at 49,161. POS transactions in 2017 increased year on year in both number and value: by 16.56% to 293.65 million, and by more than 12% to €7.02 billion.

Chart 30 Contactless payment cards as a share of total bank payment cards in 2017



4.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE PAYMENT SYSTEMS FIELD

ASSESSMENT OF SECURITIES SETTLEMENT SYSTEMS (SSSs) AND LINKS BETWEEN SSSs

The Eurosystem currently assesses the eligibility of SSSs and links for use in Eurosystem credit operations on the basis of the “Framework for the assessment of securities settlement systems and links to determine their eligibility for use in Eurosystem credit operations” (‘User Assessment Framework’ or ‘UAF’). The assessments are made against the CPSS-IOSCO Principles for Financial Market Infrastructures and against the User Addendum requirements defined in the UAF. The Eurosystem assesses SSSs and links between SSSs operated by central securities depositories (CSDs) in order to settle its credit operations based on adequate collateral. A positive result from the assessment allows the respective SSS or link to be considered eligible for use in Eurosystem credit operations.

In September 2017 the ECB’s Governing Council approved the SSS operated by Slovakia’s Národný centrálny depozitár cenných papierov (NCD-CP) as eligible for use in Eurosystem credit opera-

¹⁹ The data were provided by banks and foreign bank branches.



tions. At the same time, the Governing Council approved the eligibility of NCDP for access to T2S. The other Slovak CSD, Centrálny depozitár cenných papierov SR, had migrated to T2S in February 2017.

The Governing Council also decided in September 2017 to phase out the current method of assessing SSSs and links between SSSs in view of the entry into force of provisions of Regulation (EU) 909/2014. The Regulation lays down common requirements for the settlement of financial instruments transactions in the European Union. From 2018 the assessment of SSSs and links for eligibility in Eurosystem operations will be carried out in accordance with the new methodology.

TARGET2-SECURITIES AND OTHER EUROSYSTEM PROJECTS

The TARGET2-Securities (T2S) system operated reliably in 2017. By the end of 2016 a total of 12 CSDs were operating on T2S, and that figure increased in 2017 as other CSDs migrated to T2S under the T2S Framework Agreement signed with the Eurosystem. In February 2017 the following CSDs joined T2S: Clearstream Banking (Germany), OeKB (Austria), LuxCSD (Luxembourg), KELER (Hungary), KDD (Slovenia), and CDCP (Slovakia). September saw a further two migrations: Iberclear (Spain) and Nasdaq CSD (a common CSD for Estonia, Latvia and Lithuania). With Slovakia's NCDP joining the system in October, the number of CSDs connected to T2S at the end of 2017 stood at 21.

For the years ahead, the Eurosystem has adopted a strategy of developing market in-

frastructures, with particular focus on instant payments, on the consolidation of TARGET2 and T2S services, and on a Eurosystem Collateral Management System (ECMS). This strategy, called "Vision 2020", aims to harmonise and deepen the integration of the European market, to make cost savings by means of technical consolidation, and to introduce new services for European financial markets.

As part of this strategy, the Governing Council has approved the development of three projects.

- a) The first project relates to the SEPA Instant Credit Transfer scheme, which was launched in November 2017 and enables cash transfers in real-time, 24/7/365. To support the development of instant payments, the Eurosystem is now working on a pan-European instant payment settlement service in central bank money: the TARGET instant payment settlement (TIPS) service. TIPS, which is being developed by Eurosystem central banks in cooperation with the European banking industry, is due to be launched in November 2018.
- b) The second project, T2-T2S consolidation, is primarily intended to save costs through the technical consolidation of the two systems. The consolidated system is expected to begin operation in November 2021.
- c) The third project, the ECMS, will establish a harmonised system for collateral operations across the Eurosystem. Its launch is planned for November 2022.

Národná banka Slovenska, as a member of the Eurosystem, is involved in all of these projects.

5 STATISTICS

Národná banka Slovenska (NBS) develops, collects, compiles and disseminates a wide range of statistics which support the monetary policy of the euro area, the stability of the financial system in Slovakia, other tasks of the European System of Central Banks (ESCB), and various tasks of the European Systemic Risk Board

(ESRB), Bank for International Settlements (BIS) and other international institutions. Based on data reported by financial and non-financial agents, the statistics serve internal users at NBS and are also used by financial market participants, public sector entities, the media, and the general public.