

Payments System



5. Payments System

5.1. Payments system in the Slovak Republic

5.1.1. Legal aspects

Act No. 510/2002 Coll. on the payment system

On 1 January 2004 Act No. 604/2003 Coll. amending Act No. 510/2002 Coll. on the payment system and on the amendment of certain other laws (the Act on the Payment System) entered into effect.

The aim of this amendment to the Act on the Payment System is primarily to ensure approximation to Directive No. 2000/46/EC of the European Parliament and of the Council on the taking up, pursuit of and prudential supervision of electronic money institutions. To this end the amendment to the Act on the Payment System governs the requirements and conditions for the authorising, taking up, organisation, management and pursuit of business and business documentation, as well as the basic obligations of electronic money institutions.

Electronic money institutions represent a specific category of non-banking legal persons licensed by the National Bank of Slovakia for electronic money activity, i.e. a licence exclusively for the issuance and administration of electronic money and electronic money payment instruments must be granted. The issuance of electronic money does indeed contain several risks (e.g. that of creating electronic cash without the corresponding counter value and the risk of alteration to the payment values in the electronic money payment instrument). With regard to these risks it is necessary that the activity and pursuit of the business of electronic money institutions are supervised and regulated by the NBS in a corresponding and adequate manner.

On the basis of Directive 2000/46/EC, the amendment to the Act on the Payment System lays down that one of the basic requirements prescribed by the act for granting an authorisation for electronic money activity for electronic money institutions is the requirement of a minimum financial deposit into the registered capital of the electronic money institution of at least EUR 1,000,000.

Related provisions were also amended, concerning the definition of a client, the basic conditions for performing payment orders, correction settlement, complaints, and the arbitration court.

Provisions concerning the technical structure of the particulars of bank account and account number creation and the issuance and registration of the list of identification codes in the form of a conversion table were deleted and replaced by more suitable implementing regulations, issued on the basis of the empowering provision added to Article 75(2)(c) and (d) of the Act on the Payment System.

This amendment adds a new provision concerning personal data as a response to the Personal Data Protection Act and a provision on the transposition of legal acts of the European Union into the legal code of the Slovak Republic.

On 1 May 2004 certain provisions of the Act on the Payment System, bound to the effect of the Treaty of Accession of the Slovak Republic to the European Union, also took effect. These are provisions concerning cross-border transfers, the right of the authorised holder of a bank payment card to request from the issuer the return of funds drawn in the case of its abuse by a person other than the authorised holder, the notification obligation of parties to payment systems and also of the National Bank of Slovakia.

IBAN format

On 1 January 2004 provisions of Articles 1 and 2 of Decree No. 7/2003 of 12 December 2003 ("Decree No. 7/2003") laying down the structure of the particulars of an bank account for the purpose of domestic transfers, the structure of the international bank account number for the purpose of cross-border transfers and details on issuing the identification codes conversion table took effect.

The National Bank of Slovakia drew up Decree No. 7/2003 in connection to Regulation (EC) No. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro, which became a part of the Slovak legal code



on the date of the Slovak Republic's accession to the European Union (1 May 2004). In this Decree the National Bank of Slovakia laid down the format of the domestic account number and the account number in the IBAN format. The account number in the IBAN format is based on the European banking standard IBAN, issued by the European Committee for Banking Standards (ECBS).¹⁵ The part concerning the IBAN format (provisions of Article 3 of Decree No. 7/2003) took effect only on the date of Slovakia's accession to the European Union. The National Bank of Slovakia had this account number format registered at the ECBS.

The obligation to state the account number in IBAN format is given by the rule of law, i.e. by regulation, only in the case of payments in euro. The use of the IBAN-format account number in other currencies is appropriate for automating cross-border payment systems; nevertheless, such use is not obligatory and depends on the technical capabilities of individual banks.

The National Bank of Slovakia published on its website www.nbs.sk (in the "Payment systems" section, IBAN) information on the use of the IBAN-format account number and the calculation and control of the IBAN account number. This calculation is only of an informative nature, since the bank, administering the particular account, is obliged to notify its client of the IBAN account number and the manner of its use in the payments system.

At the same time the National Bank of Slovakia has provided cooperation to companies dealing with the creation of an algorithm for the recalculation of the account number into the IBAN format. This cooperation is comprised of recommendations relating to the manner of use of the algorithm (MOD 97-10), as well as the provision of the respective standards according to which the account number recalculation algorithm can be set and incorporated into the company's software.

5.1.2. Institutional aspects

The amendment to the Act on the Payment System also specified the provisions on the Arbitration Court of the Association of Banks, which was constituted on 1 July 2003, and this with regard to the provisions of the applicable Act No. 244/2002 Coll. on arbitration proceedings so that it is unequivocally clear that the standing arbitration court, compulsorily established pursuant to the Act on the Payment System, can in an arbitration proceeding (along with ruling on disputes from the payments system) also rule on

other disputes. The compulsory contributions paid by executive institutions and issuers of electronic means of payment for the activity of the permanent arbitration court serve only for the activity of the arbitration court in ruling on disputes ensuing from the payments system (i.e. not for the activity of the arbitration court in ruling on other disputes).

5.1.3. Internal market of the European Union

In 2002 the European Payments Council supported by the European banking community declared its vision of creating a Single Euro Payments Area (SEPA) by 2010, in which payments from one Member State to another will be as fast, efficient and cheap as payments within one country. Fulfilling this vision places considerable demands on the payment systems sector, which is currently undergoing deep-rooted legislative and technical changes.

Regulation (EC) No. 2560/2001 of the European Parliament and of the Council on cross-border payments in euro provides new legal regulation of cross-border payments in euro in the framework of the European Community. Its aim is to introduce the principle of equal charges for cross-border payments up to the amount of EUR 12,500 as for corresponding payments in euro made within a Member State. With effect as of 1 January 2006 the amount of EUR 12,500 shall be increased to EUR 50,000.

Regulation (EC) No. 2560/2001 on cross-border payments in euro lays down an obligation for institutions to inform the client of the amount of the charge for cross-border payments and for the payments made within the Member State. The purpose of the new legal regulation is also to facilitate the performance of cross-border payments by means of international standards, in particular account numbers in the IBAN format and the Bank Identifier Code (BIC). This Regulation lays down an obligation for institutions to state the account number in the international format IBAN and BIC on clients' account statements and cancels the obligation of regular national notifications of cross-border payments up to the amount of EUR 12,500 for the purpose of balance-of-payment statistics.

The realisation of Regulation (EC) No. 2560/2001 is enabled by the STEP2 system, operated by the Euro Banking Association Clearing house. This is the first pan-European automated clearing house. The requirement of the European Central Bank was to fulfil the resolutions of the European Payments Council by the financial institutions of the new EU Member States, by the end of 2004. This resolution lays down an obliga-

¹⁵ ECBS publication "Register of European account number" is available on the ECBS website and from 12 January 2005 onwards it also contains the IBAN format of the account number applicable in the Slovak Republic.

tion for financial institutions to receive payments sent via the STEP2 system. Likewise, banks and branches of foreign banks in the Slovak Republic were to declare this capability not later than by the end of 2004. The banking sector of the Slovak Republic decided to accede to the STEP2 indirectly, by means of direct participants to the system.

The European Commission is preparing a new legal framework for payments, which will also significantly influence the future form of the Slovak legislation. The National Bank of Slovakia participated in this field in 2004 as a member of the working group of the European Commission. The draft future European legislation has the form of a European Commission Directive on payment services in the Internal Market and of a Regulation of the European Parliament and of the Council on payer's information accompanying credit transfers and transfers sent by money remitters.

The aim of the draft Commission Directive is to harmonise the legal codes of Member States in the field of the provision of payment services in the internal European Union market. Another aim is to improve client protection and increase the efficiency and safety of payments by removing any technical and legal barriers. The draft regulates the rights and obligations of providers and users of payment services. The proposed legal regulation does not cover cash payment services and cheques, which are excluded from this draft. Through adopting the new Commission Directive on payment services in the Internal Market, certain European Communities legal regulations, implemented in the Act on the Payment System, is repealed. Adopting the draft Directive shall require an amendment to the current legal regulation of the payments in the Slovak Republic, i.e. amendment to the Act on the Payment System.

The main purpose of the Regulation of the European Parliament and of the Council on payer's information, accompanying credit transfers and transfers sent by money remitters, is to implement the special recommendation of the FATF (Financial Action Task Force on Money Laundering and Terrorist Financing, Recommendation No. VII) and to ensure the availability of information on the payer to the respective institutions in the fight against the terrorist financing. This Regulation shall become a part of the Slovak legal code without the need for its transposition.

5.2. The Interbank Payment System SIPS

In 2004 the National Bank of Slovakia continued to operate the SIPS payment system. The rules of this system are laid down in Act on the Payment System and by a contract on the SIPS payment system, con-

cluded between the NBS and each participant in the payment system.

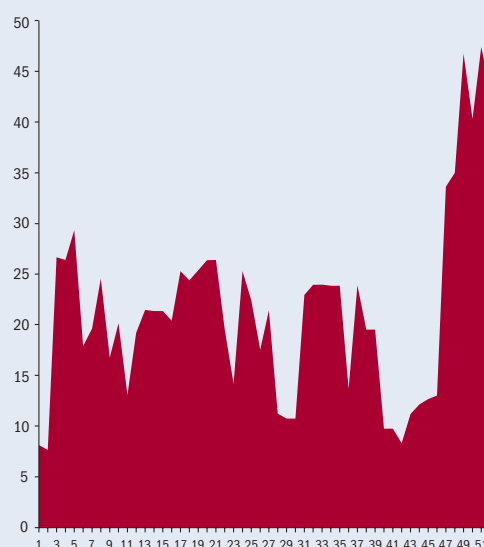
A condition for entering and participation in SIPS is the concluding of a contract on the SIPS payment system according to Article 48 (2) and according to related provisions of the Act on the Payment System, between the NBS and the applicant. The NBS concludes the same contract on the payment system with each applicant. The contract is concluded in the Slovak language. The text of this contract is published on the NBS website. The contract contains, among others, a specification of the structure and formats of payment orders, the time schedule of the SIPS operation and the table of fees.

All changes concerning participants (incorporation of a new participant, changes in participation, exclusion of a participant, etc.) are reflected in the conversion table containing the identification codes for domestic payments. The number of active participants of the SIPS interbank payment system rose by three, to a total of 28.

The NBS expanded the functionality of the SIPS by real time gross settlement. Following their settlement in the SIPS, these payments are final and irrevocable. After the payment settlement, the SIPS sends to the relevant participant a notification on the realisation of the payment and an output clearing file intended for settlement of the payment in the accounting system of the SIPS's participant.

The provision of intraday credit contributed to the smoothness of the interbank payment system for

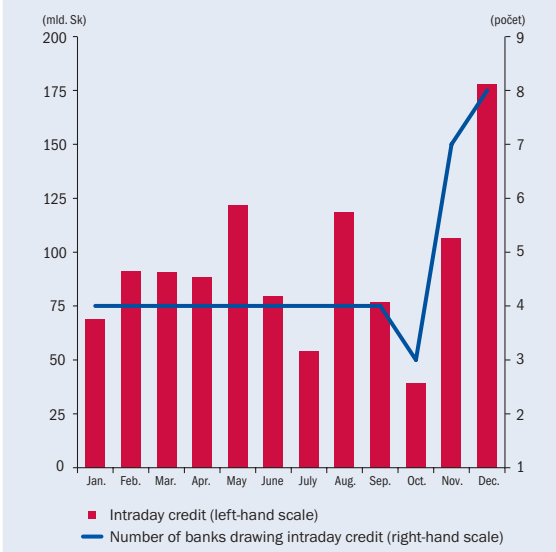
Chart 42 Volume of intraday credit provided in 2004 (weekly values) (SKK billions)



Source: NBS.

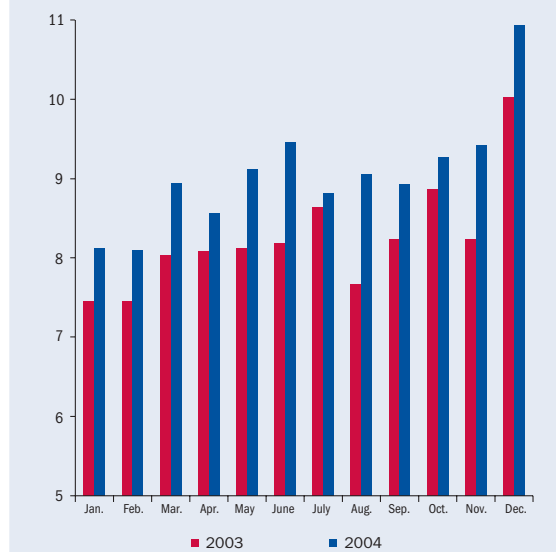


Chart 43 Volume of intraday credit provided in 2004



Source: NBS.

Chart 44 Number of transactions processed in the SIPS system (millions)



Source: NBS.

those participants who are obliged to create the mandatory minimum reserves. The intraday credit is provided in the form of the option of overdrawing funds in the clearing account, by setting a maximum debit balance. The intraday credit is payable only in the framework of one operating day and must be fully secured by a collateral, i.e. by a sufficient number of securities in the relevant value which are registered in the central short-term securities register administered by the NBS. At present the maximum overdraft position of a participant, on the basis of its request, is set manually by the NBS operator.

The participants who applied for intraday credit were provided such credit in the total amount of almost SKK 1,113 billion. The volume of intraday credit provided to participants is monitored on a weekly basis. The National Bank of Slovakia weekly provided intraday credit at an average volume of SKK 21,397 million. Chart 42 shows the weekly development of the volume of intraday credit provided in 2004.

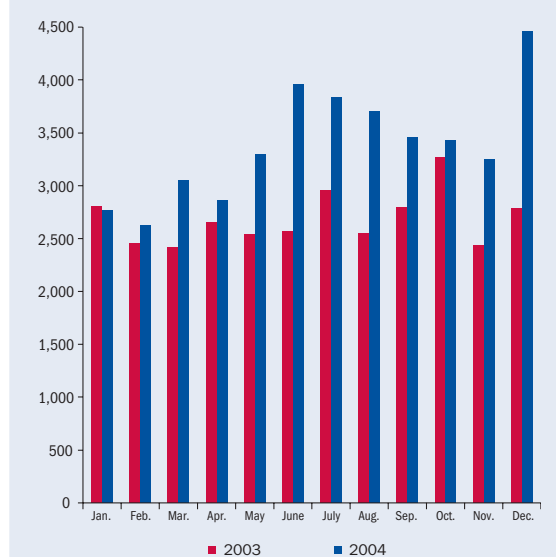
Chart 43 shows the volume of intraday credit provided on a monthly basis in 2004 and the number of participants to the SIPS who drew this credit.

In order to increase the security of data transfer in the interbank payment system in the case of a non-standard situation, the possibility of emergency data transfer of the payment system has been introduced. This solution ensures the full integrity and protection of emergency data transfers. Emergency data transfer was successfully tested in December 2004 in cooperation with SIPS participants.

Over the course of 2004 almost 109 million transactions were processed in SIPS, representing an increase on 2003 of 9.83%. Chart 44 provides a comparison of the number of transactions processed in SIPS on a monthly basis in 2003 and 2004.

The total value of transactions processed in 2004 represents more than SKK 40,692 billion. The year-on-year trend of growth is also confirmed by the value of processed transactions. Compared to 2003 their

Chart 45 Volume of transactions processed in the SIPS system (SKK billions)



Source: NBS.

value grew by 26.18%. Chart 45 compares the volume of transactions processed in SIPS on a monthly basis in 2003 and 2004.

Of the total number of processed transactions, priority payments formed 0.065%, where however the value cleared by them represented about SKK 18,000 billion, which is more than 44% of the volume of all payments processed. The average value of one priority payment was SKK 254 million. Normal payments represented more than 99% of the number and approximately 55% of the value of transactions processed. The average value of one normal payment was SKK 209,000.

Information on the number and volume of transactions processed in SIPS is published on the website of the National Bank of Slovakia, with a daily update at 3:50 P.M.

At bank holidays and weekends the payment system is closed and its maintenance takes place. In 2004 there were 252 working days. SIPS processed and cleared an average 431,000 payments in a total volume of more than SKK 161 billion daily. To better understand this data, we can say that over the space of approximately 8 working days SIPS processes and clears payments totalling the accumulated value of the Slovak Republic's gross domestic product in 2004.

5.3. Payment instruments

Some of the most used instruments of the non-cash payments are credit transfers and electronic payment instruments. Of the electronic payment instruments the most used are remote access payment instruments, meaning in particular bank payment cards and last but not least the payment applications of electronic banking, which enable a bank's clients to draw funds from their bank account by means of electronic communication media (e.g. internet banking, home banking or telephone applications).

At 31 December 2004 a total of 3,630,309 bank payment cards were in circulation, where most of them were debit bank payment cards – 80.3% (2.91 million), credit bank payment cards formed 19.5% (707,000) and charge cards 0.2% (fewer than 9,000). Compared to the previous year, 2004 saw a 51% growth in credit bank payment cards and an 20% increase in the issuance of bank payment cards.

Almost 80% of the total number of bank payment cards in circulation are international bank payment cards, 20% are domestic bank payment cards. Banks are issuers of the following bank payments cards: VISA (VISA and VISA Electron) and MasterCard Europe

(MasterCard and Maestro), American Express, Diners Club and ZBK, the domestic bank payment card.

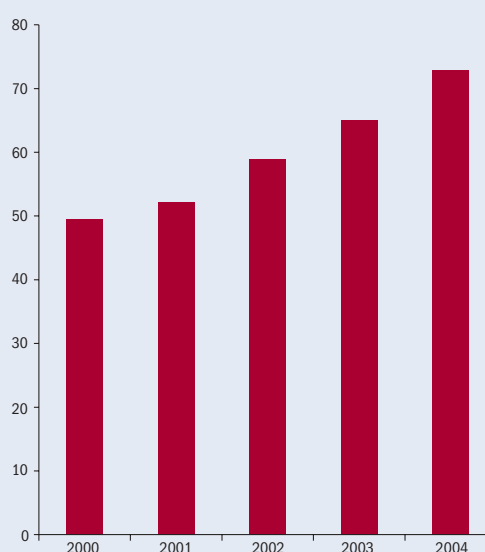
Within the Slovak Republic bank clients can use a network of 1,700 ATMs and 19,644 payment terminals, of which 16,272 are electronic payment terminals ("EFT POS", Electronic Fund Transfer Point Of Sale) and 3,372 payment terminals for mechanical data reading.

Bank payment card holders in 2004 made more than 98 million transactions in a total value of SKK 210 million. Besides traditional transactions, such as cash withdrawals and card payments, holders can also use their payment cards for making other payment operations (e.g. inputting a payment order).

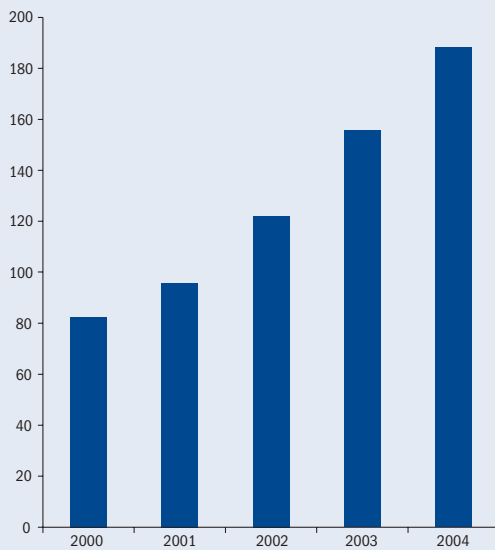
Bank payment card holders can use all the 1,700 ATMs for cash withdrawal, 1,698 ATMs for checking their account balance, 37 ATMs for cash deposit, 941 ATMs for inputting a domestic transfer, and 1,491 ATMs for recharging prepaid programmes provided by mobile telephone operators.

In 2004, a total of 72,853 000 cash withdrawals were made in a total value of SKK 188,322 million. Using ATMs enabling cash deposit, a total of 4,267 deposits were made, in a total value of SKK 34 million. A total of 276,000 payment orders were made by means of ATMs enabling the input of domestic payment orders, where these transactions totalled SKK 1.1 billion. At ATMs enabling the recharging of mobile telephone prepaid programmes a total of 6.9 million recharges totalling SKK 1.8 billion were made.

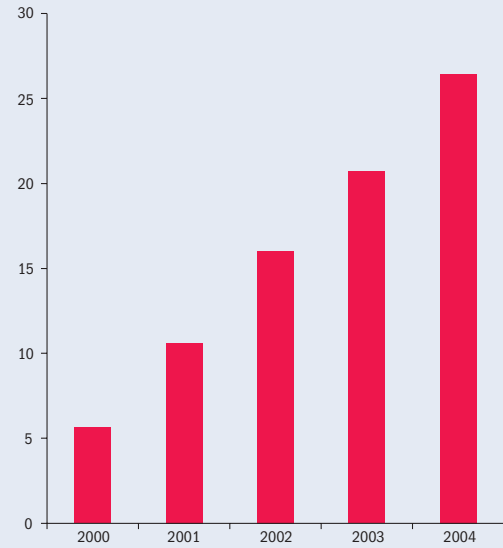
Chart 46 Number of ATM cash withdrawals (millions)



Source: ZBK SR.

**Chart 47 Volume of ATM cash withdrawals (SKK billions)**

Source: ZBK SR.

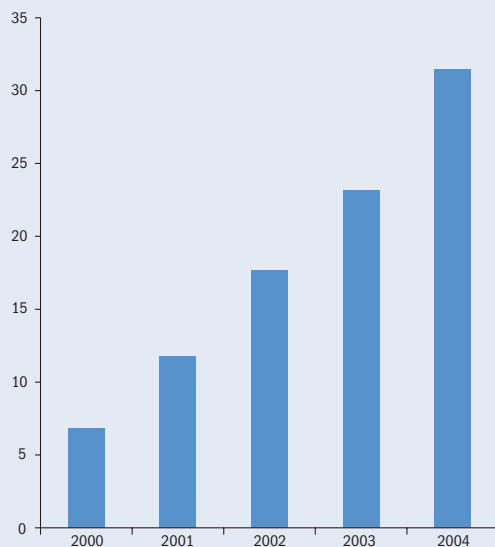
Chart 48 Number of EFT POS payments (millions)

Source: ZBK SR.

Charts 46 and 47 compare the development of the number and volume of cash withdrawals via ATMs over the period 2000 – 2004.

In 2004, EFT POS payments numbered 26,437,000; the total value was SKK 31,448 million.

Charts 48 and 49 compare the development of the number and volume of EFT POS payments in the period of 2000 – 2004.

Chart 49 Value of EFT POS payments (SKK billions)

Source: ZBK SR.

The trend in the development of bank payment card acceptance is the gradual growth in the number of EFT POS terminals, compared to the growth of ATMs, which in a year-on-year comparison means an 18% increase in the number of EFT POS terminals and a 13% increase in the number of ATMs.

Out of the total number of withdrawals and payments, cash withdrawals from ATMs continue to prevail (73% in 2004 compared to 76% in 2003) over payments (27% in 2004 compared to 24% in 2003). In 2004 the value of cash withdrawals from ATMs represented 86% of the total value of withdrawals and payments, against 87% in 2003, and the value of payments in 2004 was 14% against 13% in 2003.

5.4. Cooperation with international institutions

In 2004 the National Bank of Slovakia continued to develop its cooperation with international institutions, in particular with the European Central Bank and the European Commission, in the field of the payments system. This cooperation took the form of the participation of NBS's delegates – experts in the field of the payments system – in working groups established at these institutions.

In 2004, the activity of working groups established at the European Central Bank for the field of payment systems and securities settlement systems was focused primarily on the following activities:



- the project of building up a new generation of the TARGET system – TARGET2 – preparatory works for the future connection to TARGET 2,
- the project (termed the Data Project) for statistical data collection from the Member States' payments systems in a new manner from the methodological and technical aspects,
- the preparation of a new set of user standards for the securities settlement systems, which shall replace the currently valid standards issued by the European Monetary Institute in January 1998; these shall also cover certain recommendations for the securities settlement systems issued by the Bank for International Settlements (CPSS-IOSCO recommendations),
- ensuring the fulfilment of the ECB's requirement on the fulfilment of the Resolution of the European Payments Council by financial institutions, i.e. the ability of the new EU Member States to receive payments sent via the STEP2 system – guidance of central banks in the matter of ensuring input places for the banking sector,
- oversight of the payment systems and securities settlement systems,
- assessing working versions of new legal standards in the field of the payments system – unification of the Member States' approaches to certain disputed fields.

Development of the new generation of the TARGET system – TARGET2

The project of building up a new generation of the TARGET system – TARGET2 has become one of the main projects solved in the European Central Bank. Over the course of 2004 new functionalities of the system and proposals of the 3CB (a group of three central banks - Banca d'Italia, Deutsche Bundesbank and Banque de France) were drawn up, which develops the technical platform, the Single Shared Platform – (SSP), on which the new system is to be based.

In the first half of 2004 work on the General Functional Specifications got underway, and was completed by approval of the "Single Shared Platform-General Functional Specifications" document by the Governing Council of the ECB.

In the second half of 2004 work on the TARGET2 projects reached the project stage, in which the future system's functionalities are dealt with in further detail. At the close of the year the "Third Progress Report on TARGET2" document, concerning the substantial questions for the decision of the ESCB central banks in the matter of connection to the SSP following its completion was passed. In connection to the approval

of this document, the Governing Council of the ECB challenged the ESCB governors to bindingly confirm in writing by 14 January 2005 the decision on the connection or non-connection to this platform.

At the end of 2004 there was a realistic presumption that all ESCB governors would express their commitment to connect to the SSP and the TARGET2 would become a single-platform system.

Statistical data collection of the payments system

Since its establishment, the European Central Bank has collected statistical data on the payments system, which it publishes in the Blue Book. This publication is published both for the EU countries as well as for the accession countries.

In 2003 the European Central Bank decided to improve data collection in this field and began work on the Data Project, which deals with the creation of a statistical database for the payments system, located at the European Central Bank. Central banks will be able to directly enter this database according to given access rights, which can be later delegated to other data providers.

Work on the mentioned project also began during 2004. Data entry will begin in 2005; at the same time, it will represent the testing of the new method of statistical data transfer on the payments system to the ECB (technical method set by the ECB – GES-MES/TS).

Securities settlement systems

The currently valid user standards of the European Monetary Institute of 1998 are to be changed by a new set of user standards, which on the one hand will be based on the applicable standards for the securities settlement systems, and on the other hand will adapt the globally valid recommendations of the Bank for International Settlements CPSS-IOSCO to the conditions of the European environment.

Work in defining individual standards was completed in September 2004, when the Governing Council of the European Central Bank and the Committee of European Securities Regulators (CESR) approved the "Standards for Clearing and Settlement Systems in the European Union" document (known as ESCB-CESR User Standards). These standards will become binding only following preparation and approval of the methodology for evaluating securities settlement systems, which will be based on the mentioned standards. The



National Bank of Slovakia already participates, via its delegate in the working group, in the preparation of the above methodology. The date for completing work on this methodology is October 2005.

Relation to the European Commission

The last but not the least important area of co-operation of the National Bank of Slovakia with international

institutions was the possibility to actively participate in discussions of the working group preparing the draft new legal standard for the EU countries - Commission Directive on payment services in the framework of the internal market (Part 1.3). In this way, the National Bank of Slovakia for the first time had the opportunity, through its delegates in the working group established at the European Commission, to offer its comments and proposals in respect of the prepared draft Directive.