

Payment System



6 Payment System

6.1 The payment system in the Slovak Republic

6.1.1 Legal aspects

The payment system in the Slovak Republic is governed by Act No. 510/2002 Coll. on the payment system and on amendments and supplements to certain laws, as amended (hereinafter “the Payment System Act”).

The Payment System Act primarily regulates domestic and cross-border funds transfers, the issue and use of electronic payment instruments, the establishment and operation of payment systems, the oversight of payment systems, and also complaints and redress procedures or out-of-court settlements of disputes related to the payments.

Other generally binding legal provisions that govern the payment services include the following decrees of the National Bank of Slovakia:

- NBS Decree No. 9/2002 on the method for creating the constant symbols used in the payment system and on the structure and list of these symbols,
- NBS Decree No. 10/2002 on the report submitted by the issuer of an electronic money payment instrument to the National Bank of Slovakia,
- NBS Decree No. 11/2002 on the report submitted by the operator of a payment system to the National Bank of Slovakia,
- NBS Decree No. 7/2003, laying down the structure of a bank identification code for the purpose of domestic transfers, the structure of an international bank account number for the purposes of cross-border transfers and details on the issue of the identification codes conversion table.

The Slovak legal system also includes Regulation No. 2560/2001 of the European Parliament and of the Council of 19 December 2001 on cross-border payments in euro.

6.1.2 Institutional aspects

The Permanent Court of Arbitration (PCA) of the Association of Banks was established with effect from 1

July 2003 and has its registered office in Bratislava; at present it consists of 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 November 2005, the NBS approved a new Statute and Rules of Procedure for the PCA of the Association of Banks.

6.1.3 Internal market of the European Union

European law concerning payment systems

On 1 December 2005, the European Commission adopted draft proposal for a Directive of the European Parliament and Council on payment services in the internal market and amending Directives 97/7/EC, 2000/12/EC and 2002/65/EC (hereinafter “the proposed Directive”).

The proposed Directive is based on the aim of the European Commission to create a single payment market for the entire EU, one in which a large number of transactions and increased competition result in lower costs for payment system services.

The aim of the proposed Directive is to harmonize the legal framework for payment services insofar as it concerns entities providing payment services, the transparency of the conditions under which these services are provided, and the rights and obligations of providers of payment services and users of payments services.

The proposed Directive should provide for the creation of conditions in which the potential of the single market may be exploited more efficiently, and should provide legislative support to the establishment of the Single Euro Payments Area (SEPA).

At present, the legal framework for payments in the EU is regulated by legal norms such as:

- Commission Recommendation 97/489/EC, which ensures the protection of clients using electronic instruments, such as payment cards, to verify payments;



- Directive 97/5/EC of the European Parliament and of the Council, which facilitates cross-border transfers in regard to the introduction of common requirements for the protection of clients;
- Regulation No. 2560/2001 of the European Parliament and of the Council on cross-border payments in euro (hereinafter the "Regulation on cross-border payments in euro"), which removed price differences between cross-border and national payments.

The Regulation on cross-border payments in euro introduces the principle of equal charges. This principle applies to cross-border charges for payments up to the amount of EUR 12,500, and from 1 January 2006, up to the amount of EUR 50,000. Charges for cross-border payments up to the amount of EUR 50,000 should be the same as charges for analogous payments in euros made within the Member State.

By means of such legal norms (especially the Regulation on cross-border payments in euro), it has become easier and cheaper to make many kinds of payments in euros in the internal market, and these norms have "launched" an initiative whose end goal is the creation of SEPA. The aforementioned legislation, in particular Recommendation 97/489/EC and Directive 97/5/EC are to be superseded by the prepared Directive on payment services in the internal market.

European Payments Council

In 2002, the European Payments Council with the support of the European banking community set out a vision to create the SEPA area by 2010.

The creation of SEPA primarily involves the transition from national payment instruments – credit transfers, direct debits and payment cards – to pan-European payment instruments. The European Payments Council is focused first of all on the creation of SEPA payment rules for credit transfers, direct debits and debit cards. During 2005, the European Payments Council submitted for comments proposals on SEPA Credit Transfer Scheme Rulebook and on SEPA Direct Debit Scheme Rulebook, the aim of which is to create common rules – i.e. equal conditions for making transfers. The European Payments Council in the meantime approved the SEPA Cards Framework, which should create equal conditions for the acceptance of payment cards.

The Slovak Association of Banks became a member of the European Payments Council on 1 January 2005 and undertook to comply with the Council's Charter, under which the Council's remit and operation are defined. The rights and obligations laid

down by the Charter apply only to members of the European Payments Council, therefore they apply to the Association of Banks but not to the Association's member banks.

The European Payments Council issues its decisions in the form of resolutions, among which are:

- the Credeuro Convention, which sets the maximum period for cross-border transfers within the EU at 3 days;
- the Interbank Convention on Payments, which makes it possible to credit the entire amount of the transfer to the beneficiary's account;
- the Resolution on the PEACH (Pan-European Automated Clearing House), which defines the PEACH systems (the first of which is STEP2),
- the Resolution on receiver capability within the PEACH framework.

The Regulation on cross-border payments in euro has been implemented through the STEP2 system operated by the company Euro Banking Association Clearing (through the first pan-European automated clearing house, i.e. PEACH).

The Resolution on receiver capability within the PEACH framework imposes an obligation on financial institutions to be at least able to receive payments sent through STEP2. The banking sector in the Slovak Republic is connected to STEP2 indirectly through direct participants in the system, and thus the conditions of the resolution are met.

6.1.4 National Euro Changeover Plan

In regard to Slovakia's planned entry into the euro area, the Slovak Government approved in July 2005 the National Euro Changeover Plan for the Slovak Republic. This plan sets out the individual steps that have to be taken in order to ensure smooth adoption of the euro.

The highest authority for managing and coordinating the preparation of the euro changeover in Slovakia is the National Coordination Committee. Expert opinions on individual issues concerning the transition of the Slovak economy to the euro are prepared by working committees. The banking sector falls within the remit of the Working Committee for Banks and the Financial Sector, under the coordination of an NBS representative.

In 2005, this committee discussed issues concerning the future decision on the use of the bank account number in the IBAN format in the domestic payment system, and also issues regarding the introduction of the SWIFT format in the SIPS interbank payment system.

6.2 The Interbank Payment System SIPS

By the end of 2005, the National Bank of Slovakia was operating the interbank payments system SIPS for 28 participants, including 26 direct participants and 2 third parties. The number of direct participants increased during 2005 with the addition of two branches of foreign banks operating in Slovakia on the basis of a "single passport".

SIPS did not undergo any changes to its basic functions in 2005, and the NBS continued the system's operation with the objective of making the processing and settlement of interbank payments increasingly secure and smooth.

6.2.1 Contingency Testing

At the end of 2005, the NBS planned and successfully conducted contingency testing of transmission of data. This compulsory testing involved all the payment system participants and was conducted in accordance with a schedule laid down in advance. The aim of the testing was to verify the technical, personnel and organizational preparedness of SIPS participants in regard to the use of emergency data transmission. This applies where data cannot be delivered through the standard electronic route owing to, for example, a failure of a participant's software or the NBS's software, or a failure of the data transmission infrastructure (the data network NBS UNIVERZAL-NET® or the provider's telecommunications equipment, and so on).

SIPS participants are required to perform a contingency testing at least one time per year, under the Contract on the SIPS payment system that the NBS concludes with each participant in the payment system. The first testing was led by the NBS, and further testing will be conducted on an individual basis under the Contract between the participant and the NBS. The procedures for using contingency testing are laid down in the SIPS operating manual.

6.2.2 Outlook for 2006

Preparatory work on expanding the functionality of the SIPS system continued in 2005. This involved preparation of the project for the automated provision of intraday credit and the management of hold queues of priority payments, which are to be implemented during the course of 2006. This project is also addressing the capacity of SIPS to execute requests related to monetary interventions, possibly arising from the Slovak koruna's entry into ERM II in November 2005.

The aims of the SIPS functionality expansion project include the implementation of technological changes that should increase security and reliability as regards the transition of the SIPS operation from the main technological centre to the backup technological centre. Another aim is to increase the system's capacity for processing and transmitting data on priority payments, as well as potentially to modify the time schedule for the operation of the interbank payment system.

6.2.3 Payments made through SIPS

In 2005, the SIPS payment system processed a total of almost 120 million transactions. The number of transactions increased by 10.12% in comparison with the same period in 2004, confirming the stable rising trend from previous years.

Table 35 shows the number of transactions processed in individual months of 2005 and the corresponding data for 2004 and 2003.

The value of processed transactions reported exceptional growth in 2005. Whereas the value of transactions processed in the previous year amounted to SKK 40,692 billion, the value in 2005 reached almost SKK 80,000 billion, representing nearly a twofold increase.

The growth in transaction value largely reflects activity on the interbank money market and the conduct of monetary policy by the NBS (foreign exchange interventions, open market operations).

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2003	7.45	7.45	8.03	8.08	8.11	8.19	8.65	7.67	8.24	8.87	8.23	10.03
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

Source: NBS.



Chart 53 Number of transactions processed in SIPS (million)

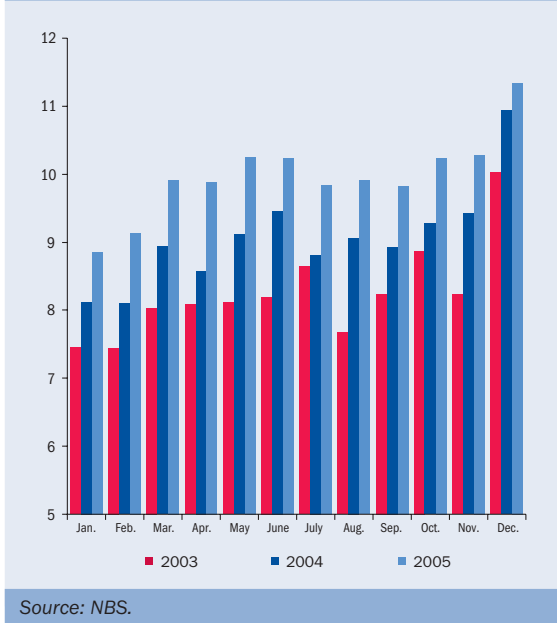


Chart 54 Value of transactions processed in SIPS (SKK billion)

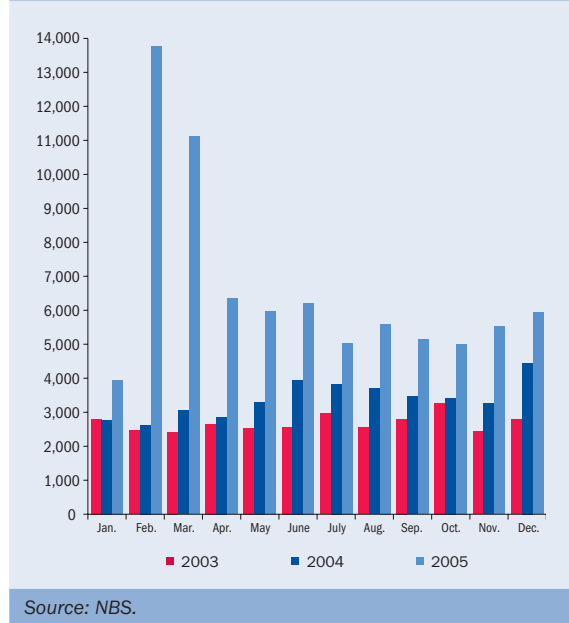


Table 38 shows the value of transactions processed in individual months of 2005 and the corresponding data for 2004 and 2003.

In comparison with the previous year, there was a substantial change as regards the utilization of priority payments. From among all types of transactions, client and interbank priority payment orders recorded the greatest dynamics. Whereas the total number of priority payments processed in 2004 stood at 71,000, the number in 2005 reached more than 156,000, representing an increase of 120%.

Priority payments as a share of the total number of executed transactions continued to stand at only 0.13%. Normal payments accounted for the rest. Although priority payments were very low in number, their settlement value was in excess of SKK 50,334 billion, accounting for more than 63% of the value of all processed payments. The ratio of the value of normal payments to the value of priority payments swung in favour of priority payments from 56:44 in

2004 to 37:63 in 2005 (see Chart 55).

Information on the number and volume of transactions processed in SIPS is published on the NBS website and is updated on a daily basis at 15.50.²⁴

During bank holidays and weekends the payment system is closed and system maintenance is carried out. There were 250 working days in 2005. Per day, SIPS processed and settled an average of 479,000 payments in a total amount of almost SKK 319 billion and with an average value per transaction of approximately SKK 665,000.

To better understand this data, it can be said that over the course of roughly 4.5 days, SIPS processes and settles payments with a cumulative value equivalent to Slovakia's GDP for 2005.²⁵

The National Bank of Slovakia provides intraday credit to those SIPS participants who are required to hold minimum reserves. Intraday credit is offered as an

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.
2003	2.80	2.46	2.42	2.65	2.54	2.57	2.96	2.55	2.80	3.27	2.44	2.79
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

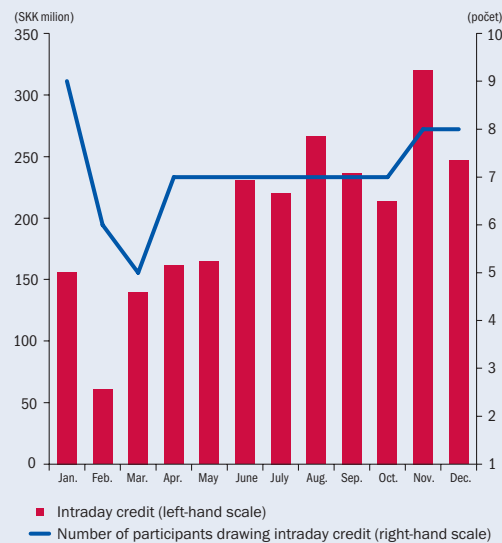
Source: NBS.

²⁴ www.nbs.sk – Payment systems/Statistical data.

²⁵ The GDP for 2005 amounted to SKK 1,439.8 billion. Source: Statistical Office of the Slovak Republic (www.statistics.sk).

Chart 55 Payment types by share of value (%)


Source: NBS.

Chart 56 Intraday credit in 2005 (SKK billion)


Source: NBS.

overdraft facility on the financial reserves account, with a maximum overdraft limit. The credit is payable within one operating day and must be fully secured with collateral, i.e. with the relevant amount of securities which are recorded in the Central Register of Short-Term Securities maintained by the NBS.

In 2005, SIPS participants who applied for intraday credit were provided such credit in the total amount of more than SKK 2,417 billion. The amount of intraday credit provided to participants is monitored on a weekly basis. Per week, the National Bank of Slovakia provided intraday credit in an average amount of SKK 46.484 billion.²⁶

Chart 56 shows the amount of intraday credit provided in individual months of 2005 and the number of SIPS participants who applied for this credit.

6.3 Payment instruments

Among the most used instruments of the non-cash payments are credit transfers and electronic payment instruments. The most used electronic payment instruments are remote access payment instruments – especially bank payment cards as well as electronic banking payment applications, which enable clients to draw funds from a bank account by means of electronic communication media (for example, internet banking, home banking or telephone applications).

As at 31 December 2005, the number of active bank payment cards in circulation stood at 4,036,867, which represents an increase of 11% in comparison with 2004.

Banks are issuers of the following bank payment cards: VISA (VISA and VISA Electron) and MasterCard Europe (MasterCard and Maestro), American Express, Diners Club, and ZBK domestic bank payment cards.

Bank clients in Slovakia may use a network of 1,855 ATMs and 18,981 EFTPOS payment terminals.

In 2005, bank payment card holders made more than 108 million card transactions in a total amount of more than SKK 247 billion. In comparison with 2004, the number of transactions increased by 9% and the value of transactions by 18%.

Payment cards may be used not only for traditional transactions such as cash withdrawal or payment, but also for other payment transactions (e.g. making a transfer order).

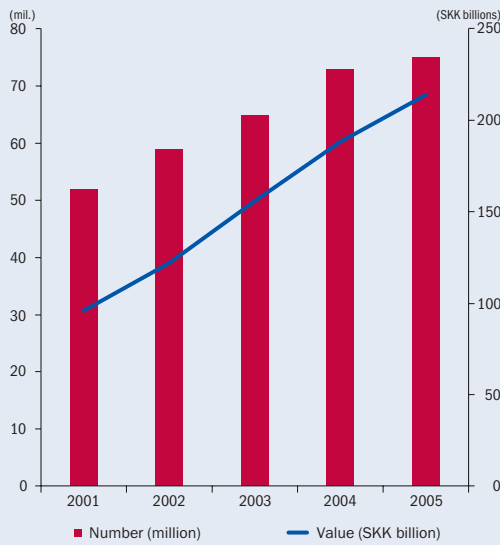
The number of ATM cash withdrawals made in 2005 stood at 72.29 million and their total value was SKK 213.89 billion. This represents a 3% rise in the number of withdrawals and a 14% increase in the value.

Chart 57 shows how the number and value of ATM cash withdrawals developed between 2001 and 2005.

²⁶ The amount of provided intraday credit is deemed to be the value of the securities (decreased by haircut) that the NBS accepted from participants as collateral for the credit. This is the maximum limit up to which participants may draw down the intraday credit. The actual drawing of the credit is not at present subject to statistical tracking.

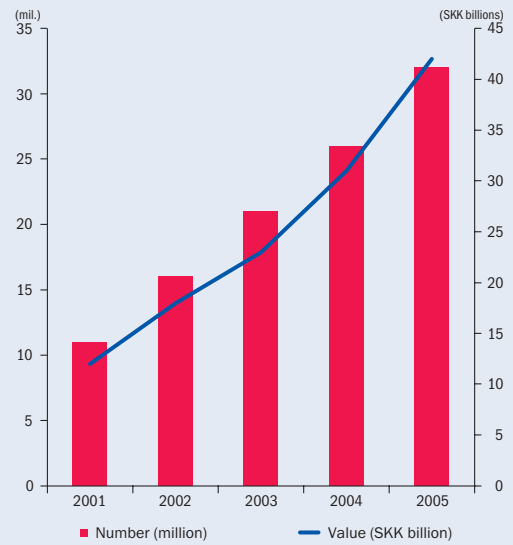


Chart 57 Number and value of ATM cash withdrawals



Source: ZBK SR.

Chart 58 Number and value of EFT POS payments



Source: ZBK SR.

In 2005, EFTPOS terminals were used to make a total of 31.97 million payments with an overall value of SKK 42,063 billion, which in comparison with 2004 represents an increase of 21% in the number of payments and 34% in the value.

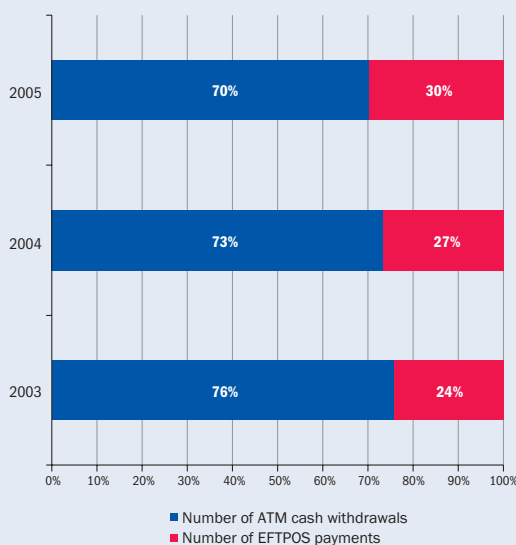
number and value of EFTPOS payments during the period 2001 to 2005.

Although ATM cash withdrawals still predominate, there is a gradually rising trend in payment by cards compared with cash withdrawals.

A trend within bank payment card acceptance is the marked growth in the number of EFTPOS terminals in comparison with the increase in the number of ATMs. In 2005, the former rose by 17% year-on-year and the latter by 9%. Chart 58 shows the development in the

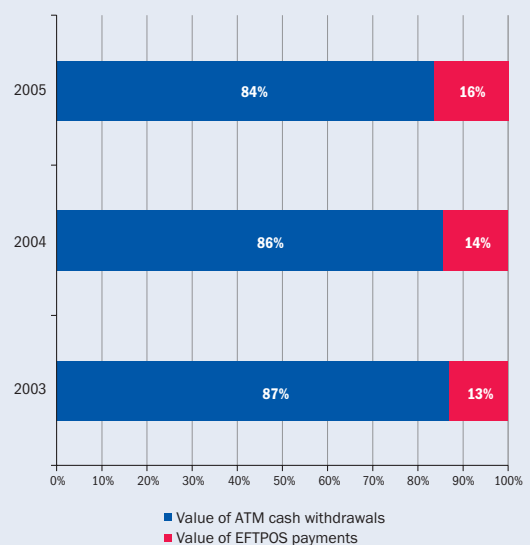
Charts 59 and 60 provide a percentage comparison of the number and value of withdrawals and EFTPOS payments.

Chart 59 Number of ATM and EFT POS transactions (%)



Source: ZBK SR.

Chart 60 ATM and EFTPOS transactions by value (%)



Source: ZBK SR.

6.4 Cooperation with international institutions since accession to the European Union

In the field of payment systems, the National Bank of Slovakia was represented on the respective working committee and working groups of the European System of Central Banks and on the working group of the European Commission in 2005.

At the European Commission, the NBS participated in the drafting of legislation concerning payment services, namely, the proposed Directive on payment services in the internal market and a Proposal for a Regulation of the European Parliament and of the Council on information on the payer accompanying transfers of funds. The aim of the proposed Regulation is to transpose Special Recommendation VII issued by the FATF (Financial Action Task Force on Money Laundering and Terrorist Financing).²⁷

During the course of 2005, the European Commission produced an evaluation report on the implementation of Directive 98/26/EC on settlement finality in payment and securities settlement systems, basing it on information sent by EU Member States. The documents the Commission received from Slovakia for the evaluation report were elaborated by the National Bank of Slovakia.

The European Commission also published a report on the implementation of Regulation 2560/2001 on cross-border payments in euro. The documents it received from Slovakia for the production of this report were elaborated by the National Bank of Slovakia in cooperation with the Association of Banks of the Slovak Republic.

The National Bank of Slovakia contributes to the project of the European Central Bank concerning the collection of payment system statistical data for the ECB Blue Book. Work on the content and structure of the data was carried out during 2005. The database will comprise statistical data covering the past five years, and primarily data on payment instruments and terminals (e.g. payment cards, transactions through terminals, and transactions using non-cash payment instruments – credit transfers, direct debits, chequ-

es). In 2006, the database should be expanded to include data on securities.

The National Bank of Slovakia has introduced the collection of payment system statistical data through a new method – the application programme system STATUS (APS STATUS). Under NBS Decree No. 10/2005 of 13 December 2005, concerning the submission of statements for statistical purposes by banks and the branches of foreign banks, an obligation is imposed on banks to send such data through APS STATUS, beginning with data for 2005.

During 2005, a Working Group of the European System of Central Banks and the Committee of European Securities Regulators (ESCB-CESR) was developing a methodology on standards for securities clearing and settlement in the European Union (known as the ESCB-CESR User Standards). The standards were approved in October 2004 by the Governing Council of the European Central Bank and the CESR for the purposes of evaluating securities settlement systems. The National Bank of Slovakia is represented on this Working Group as well.

Work on the TARGET2 payment system project took place in 2005. Central bank governors were invited to confirm by the middle of January 2005 their future participation or non-participation in the Single Shared Platform (SSP) and to state which non-mandatory modules their central banks planned to use in the future. At the beginning of the year the NBS expressed its agreement with the connection to the prepared SSP, given that the connection is to be made not later than the euro changeover. Also in January 2005, all the other countries expressed agreement with connection to the SSP.

In February 2005, the Eurosystem published on the internet the “First Progress Report on TARGET2”, which focused on issues related to the TARGET2 services – financing and pricing structure.

In October 2005, the “Second Progress report on TARGET2” was published. This report provides information on the planned operational commencement of the SPP, on the approved migration strategy of April 2005 and on the composition of migration groups. The second report also elaborates on the pricing strategy for the TARGET2 core services, the liquidity pooling service and the ancillary system settlement.

²⁷ The FATF is an international body that was established by the G-7 Summit held in Paris in 1987; it is regarded as a rule-making authority for issues of money laundering and terrorist financing.