

# 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 amendments to certain laws, as amended. This act regulates primarily domestic and cross-border funds transfers, the issue and use of electronic payment instruments, the establishment and operation of payment systems, oversight of payment systems, as well as complaints and redress procedures, and out-of-court settlements of disputes related to payments.

Other generally binding legal provisions that govern payment services include the following decrees:

- NBS Decree No. 9/2002 on the method of creating 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 an issuer of an electronic money payment instrument to the Národná banka Slovenska,
- NBS Decree No. 11/2002 on the report submitted by the operator of a payment system to the Národná banka Slovenska,
- NBS Decree No. 7/2003 laying down the structure of a bank identification code for the purposes 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 code also includes the following regulations of the European Parliament and of the Council (European Communities):

- Regulation No. 2560/2001 of 19 December 2001 on cross-border payments in euro, implementing the principle of equal fees – i.e. fees for cross-border payments up to EUR 50,000 within the European Union are equal to fees for analogous payments in euro made within a Member State,
- Regulation No. 1781/2006 of 15 November 2006 on information on the payer accompanying transfers of funds (effective as of 1. 1. 2007), the aim of which is the unified transposition of Special Recommendation VII within the European Union for transfers made within the European Union single market – i.e. for domestic transfers and transfers between Member States, as well as for transfers

between Member States of the European Union and third countries.

The Permanent of Court 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 2006 the Národná banka Slovenska approved the Slovak Banking Association's proposal not to pay any subscription fee in 2006 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 for 2006. The Národná banka Slovenska at the same time approved Addendum 2 to the Statute and Rules of Procedure of the Permanent Court of Arbitration.

### 6.2 The payment system of the Slovak Republic

As at the end of 2006, the Národná banka Slovenska operated the SIPS interbank payment system for 30 participants, of which 28 were direct participants and 2 third parties. Over the course of 2006 the number of direct participants increased through the addition of two branches of foreign banks operating in Slovakia on the basis of a single European passport.

In 2006 the SIPS interbank payment system did not undergo any changes to its basic functions.

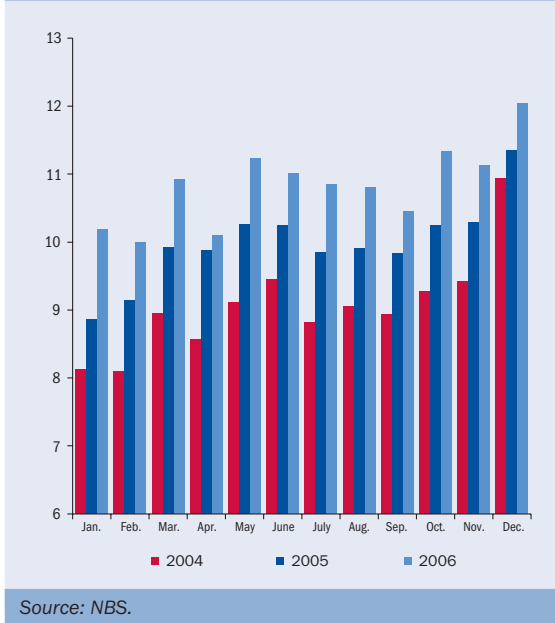
#### 6.2.1 Payment system in the SR and introduction of the euro

In connection with the introduction of the euro the Národná banka Slovenska in 2006 began preparing a new concept of the payment system solution in the SR.

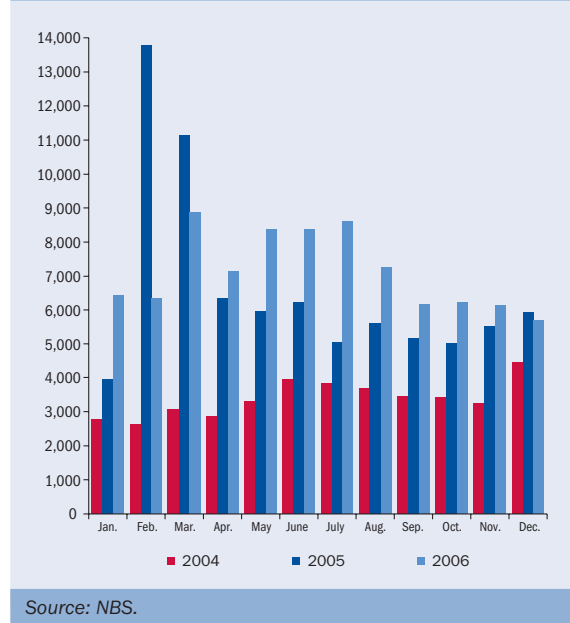
The basic elements of this concept are the implementation of the TARGET2 system for all real-time



**Chart 77 Number of transactions processed in SIPS (million)**



**Chart 78 Value of transactions processed in SIPS (SKK billion)**



payments (i.e. priority payments) and for holding banks' minimum reserves, and at the same time establishing a new SIPS interbank payment system (with the working title SIPS RETAIL) for processing payments for which immediate finality is not required (as a rule customer payments of a low value and with low priority). The system will work on the basis of net multilateral processing of payments and their settlement in the TARGET2 system. TARGET2 is a real-time gross settlement system provided by the central banks of the Eurosystem.

By the end of 2006 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 the Národná banka Slovenska and banks represented by the Slovak Banking Association as well as other participants of the SIPS interbank payment system.

### 6.2.2 Payments realised via SIPS

In 2006 a total of more than 130 million transactions were processed in the SIPS payment system. Against

2005 the number of transactions rose by 8.59%, confirming the stable growing trend of previous years.

Chart 77 and Table 40 show data on transactions made in the individual months of 2004 to 2006.

The value of transactions processed, too, recorded a growing trend in 2006. In total SIPS processed transactions in the value of more than SKK 85.6 trillion, which against 2005 represents a growth of 7.5%.

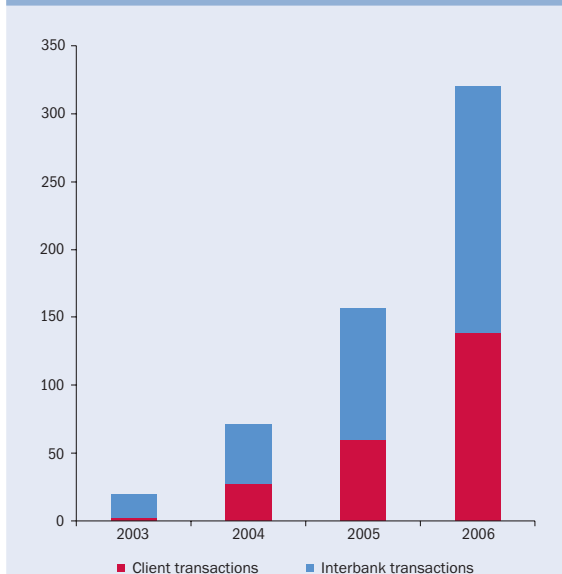
Chart 78 and Table 41 show the development of transactions processed in the individual months of 2006 in comparison with 2005 and 2004.

Since the beginning of 2003, when the NBS commenced operation of SIPS system, 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 in 2005 stood at 156,000, the figure for 2006 was more than 320,000 payments, representing once again, as in the preceding year, a growth of more than 100%. The development of the number of priority payments processed in SIPS is shown in Chart 79.

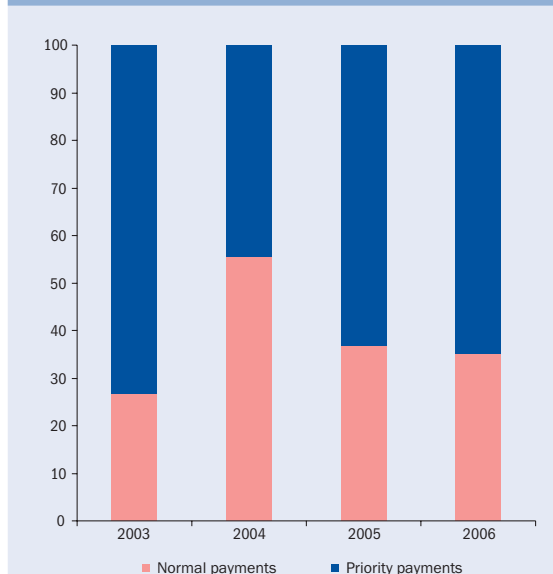
**Table 40 Number of transactions processed in SIPS (million)**

	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

Source: NBS.

**Chart 79 Number of priority payments processed (thous.)**


Source: NBS.

**Chart 80 Payment types by share in the value of processed transactions (%)**


Source: NBS.

Priority payments as a share of the total number of executed transactions, though, remained at only 0.25%, with normal payments forming the remaining 99.75% share. Whilst priority payments were low in number, their settlement value was in excess of SKK 55,491 billion, accounting for almost 65% of the value of all processed transactions. The shares of normal and priority payments in the total value of processed transactions over the years 2003 to 2006 are shown in Chart 80.

Information on the number and volume of transactions processed in the SIPS is published on the Národná banka Slovenska website and is updated daily at 15:50 hours.<sup>18</sup>

On bank holidays and weekends the payment system is closed and system maintenance is carried out. In 2006 there were 247 working days. On a daily basis, SIPS processed and settled an average of 501,000 payments in a total amount of almost SKK 346.66

billion, with an average value per transaction of approximately SKK 658,000.

To better understand this data, it can be said that over the course of roughly 4.5 working days, SIPS processed and settled payments with a cumulative value equivalent to Slovakia's gross domestic product for 2006.<sup>19</sup>

The 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 the NBS.

In 2006 SIPS participants who applied for intraday credit were provided with this credit in the total amo-

**Table 41 Value of transactions processed 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

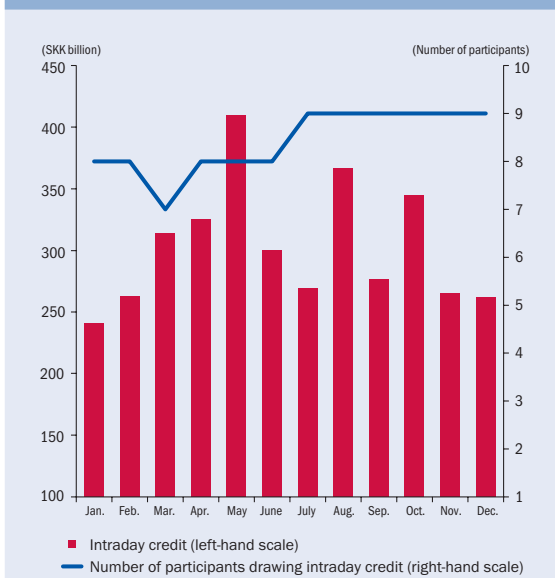
Source: NBS.

<sup>18</sup> www.nbs.sk – Payment systems / Statistical data.

<sup>19</sup> GDP for 2006 amounted to SKK 1,636.3 billion. (Source: Statistical Office of the SR).



**Chart 81 Intraday credit in 2006  
(SKK billion)**



Source: NBS.

unt of more than SKK 3,646 billion. The amount of intraday credit provided to participants is monitored on a weekly basis. Per week, the Národná banka Slovenska provided intraday credit in an average amount of SKK 69.887 billion.<sup>20</sup>

Chart 81 shows the amount of intraday credit provided in the individual months of 2006 and the number of SIPS participants who applied for this credit.

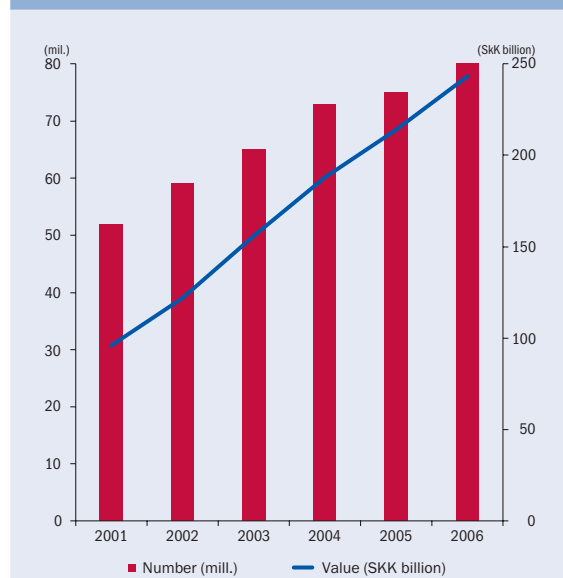
## 6.3 Payment instruments

Among the most used instruments for non-cash payments are transfers and electronic payments. The most used electronic payment instruments are remote access payment instruments – especially bank payment cards as well as electronic banking payment applications, which enable customers 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 2006, the number of active bank payment cards in circulation stood at 4,475,861, which represents an 11% increase in comparison with 2005. Of the total number, debit cards form 75% and credit cards 25%.

Banks are issuers of the following bank payment cards: VISA (VISA and VISA Electron) and MasterCard

**Chart 82 Number and value of ATM cash withdrawals**



Source: Slovak Bank Card Association.

Europe (MasterCard and Maestro), American Express and Diners Club.

Bank customers in Slovakia may use a network of 2,009 ATMs and 22,665 EFT POS payment terminals.

In 2006 bank payment card holders made more than 120 million transactions in a total amount of almost SKK 290 billion, which in comparison with 2005 represents an 11% increase in the number of transactions and a 17% increase in the value of transactions. Of all card transactions, debit-card transactions formed 94% of the number and 96% of the value, while credit-card transactions formed 6% of the number and 4% of the value.

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 2006 stood at 79.58 million and the total value was SKK 242.84 billion, representing a 10% rise in the number of withdrawals and a 13.5% increase in their value.

Chart 82 shows how the number and value of ATM cash withdrawals developed between 2001 and 2006.

In 2006, EFT POS terminals were used to make a total of 41.2 million payments with an overall value of SKK

<sup>20</sup> The amount of provided intraday credit is deemed to be the value of the securities (decreased by the haircut) that the NBS accepted from participants as collateral for the loan. 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.

58.02 billion, which in comparison with 2005 represents an increase of 29% in the number of payments and 38% in their value.

Chart 83 shows how the number and value of payments made via EFT POS terminals developed between 2001 and 2006.

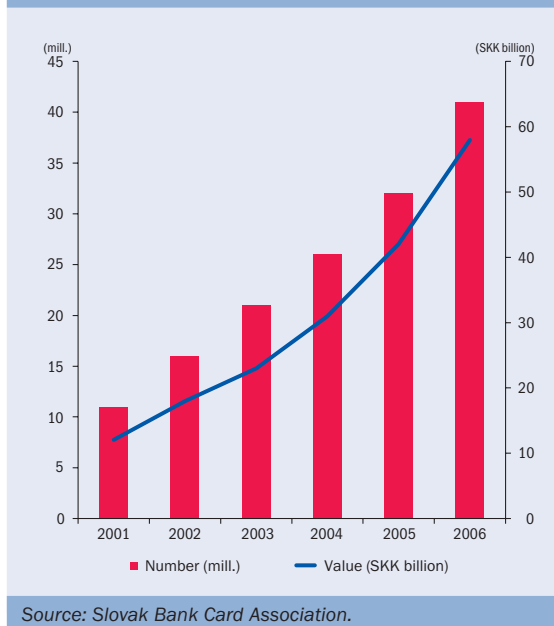
A trend within bank payment card acceptance is the marked growth in the number of EFT POS terminals in comparison with the increase in the number of ATMs. Over 2006 the number of EFT POS terminals rose by 19%, while the number of ATMs rose by 8%. Although ATM cash withdrawals still dominate, the trend is one of continuing and dynamic growth in card payment. Charts 84 and 85 give a percentage comparison of the number and value of withdrawals and payments.

## 6.4 Cooperation with the international financial institutions in the field of payment systems

### European Central Bank

Each year the Národná banka Slovenska is involved in the European Central Bank project for the collection of statistical payment system data for the purposes of preparing the so-called Blue Book. The data is published in an addendum to the table annex to the Blue Book, which contains statistical data from the EU Member and Accession States for the period of

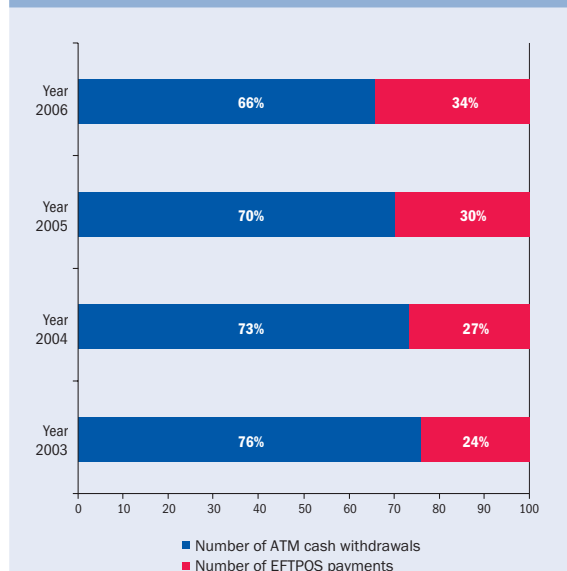
**Chart 83 Number and value of EFT POS payments**



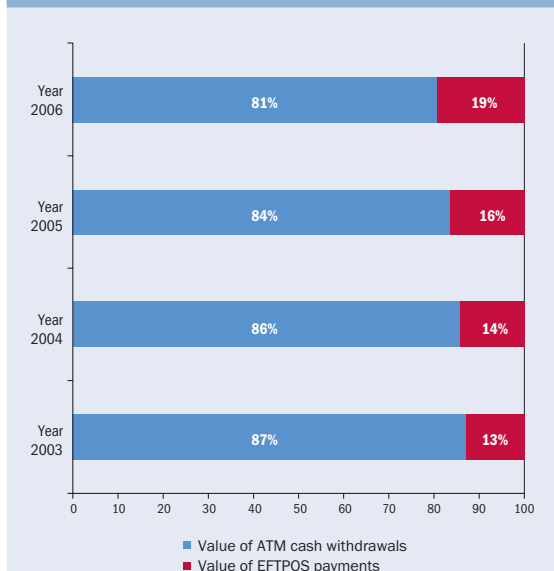
the past five years concerning payment systems and securities settlement systems.

Over the course of 2006 statistical data collection for the field of payment systems was conducted in a new manner, by means of the application program system STATUS (APS STATUS). Under NBS Decree No. 10/2005 of 13 December 2005 on the submission of statements for statistical purposes by banks and branches of foreign banks, the obligation is imposed on banks to send such data through APS STATUS.

**Chart 84 Number of ATM and EFT POS transactions (%)**



**Chart 85 Value of ATM and EFT POS transactions (%)**





In 2006 the European Central Bank updated the text of the Blue Book describing payment systems and securities settlement systems of the EU Member and Accession States. The Národná banka Slovenska captured the changes made since the last update in 2001, concerning primarily the payment system operated by the Národná banka Slovenska.

### **European Commission and Council of the European Union: legislative field**

In 2006 work continued on the wording of the Draft Directive of the European Parliament and of the Council on payment services in the internal market and amending Directives 97/7/EC, 2000/12/EC and 2002/65/EC (hereinafter “the Draft Directive on Payment Services in the Internal Market”).

The Slovak Republic’s position on the Draft Directive on Payment Services in the Internal Market was prepared by the Ministry of Finance in cooperation with the Národná banka Slovenska. This position in the form of an opinion and comments to the text of the Directive was sent in February 2006 as a basis for further negotiations at the Council of the European Union.

The aim of the Draft Directive on Payment Services in the Internal Market is to harmonise the legal framework for payment systems insofar as it concerns entities providing payment systems, the transparency of the conditions under which these services are provided, and the rights and obligations of providers and users of payment services.

### **European Payments Council: SEPA**

Introduction of the euro currency in 1999 and the completion of the cash changeover in 2002 laid the foundations for the road to the Single Euro Payments Area – SEPA. SEPA is considered a priority for the euro area. The aim is to create an area where it will be as simple and cheap to make payments as in the individual Member States. The reason behind the drive for changing over to SEPA was to facilitate free movement of goods and services, representing one of the basic pillars of the European Union. The creation of SEPA means primarily a changeover from national payment instruments – credit transfers, direct debits and payment cards – to European payment instruments. The basic requirement is that all payments made within the euro area are equal to domestic payments as regards their speed, security and cost. An efficient single market in the field of payment system services should increase competition, bring new business opportunities and strengthen specialisation and innovation.

The governing body for the field of creating SEPA is the European Payments Council (EPC). The basic mission of the EPC is to fulfil the strategy of achieving SEPA. In December 2004 the EPC plenary approved the “EPC Roadmap 2004-2010”. The roadmap defined SEPA in more detail and set milestones for the development and procedure of implementing European payment instruments. The roadmap gives priority on creating SEPA payments schemes for credit transfers, direct debits and debit cards. In December 2006 the European Payments Council approved and subsequently published the rules for SEPA credit transfers and direct debits – version 2.2. These rules represent the basic business standards intended for implementing the SEPA payment instruments.

New legislation in the field of payment services should support the creation of SEPA, remove legal barriers preventing the creation of pan-European payment services and infrastructure, improve conditions for competition between payment service providers and support customers’ confidence and their protection.

The Slovak banking sector is likewise preparing for compatibility with SEPA. Since implementing SEPA in Slovakia requires active preparation, a Subcommittee for SEPA was established in 2006, composed of representatives from the NBS, the Ministry of Finance of the SR and commercial banks. Over the year the Subcommittee drew up and in December approved the plan for putting SEPA in place entitled Implementation Plan of SEPA in the SR. The Implementation Plan will be revised on an ongoing basis and supplemented on the basis of new requirements and information. In practice this means that banks and branches of foreign banks in the SR will have to introduce new standards in current payment instruments (i.e. credit transfers, direct debits, payment cards) and adapt their information systems and software to SEPA requirements.

### **The Eurosystem and the creation of the next generation of the TARGET2 payment system**

In 2006 cooperation continued and deepened between representatives of central banks, the Eurosystem, the European System of Central Banks and also of future users in the development of the next generation of the TARGET2 payment system. TARGET2 will be legally structured as a multiplicity of RTGS systems, based on the Single Shared Platform (SSP). Each Eurosystem central bank will operate its own payment system, which will be part of the TARGET2 payment system.

In 2006 the ECB continued in publishing materials on the development of the TARGET2 system on its protected website intended for future system users. This concerned primarily the publication of the document





Communication on TARGET2 in July 2006, in which the Eurosystem confirmed the awaited launch of the TARGET2 system in November 2007, as well as all migration phases during which all Eurosystem central banks are to migrate over to the TARGET2 system. The document also published the new amended harmonised fee schedule for basic services and also all forms of future participation in the TARGET2 system so that future users can decide on the form of their participation in this system.

November 2006 saw the publication of the third report on the development of the TARGET2 system, which contained primarily the fee schedule for ancillary systems, liquidity transfers and home accounts, the definition of account groups, and information concerning testing and migration.

The current development indicates that the development of the TARGET2 system is proceeding according to plan and that the planned go-live of the TARGET2 system on 19 November 2007 will be achieved.

## 6.5 Preparations for the introduction of the euro

The highest directing and coordinating authority for the preparation of the euro changeover in Slovakia is the National Coordination Committee. Expert opinions on individual issues concerning the Slovak economy's transition to the euro are being prepared in working committees for the euro changeover. The banking sector falls within the remit of the Working Committee for Banks and the Financial Sector, the activity of which is coordinated by a representative of the Národná banka Slovenska, and its members are representatives of the Národná banka Slovenska, the Slovak Banking Association and individual associations of the financial sector. The Working Committee officially began its activity at the end of 2005.

In 2006 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. The Committee drew up comprehensive rules for the dual display of prices for the whole financial sector. The final wording of the rules was agreed at the December meeting of the Working Committee and published on the NBS website. The rules set the minimum scope of requirements which entities must fulfil.

In the field of cashless payments this concerns in particular the approval of the overall concept of the future development of the payment system in the Slovak Republic.

In the field of cash payments this concerned in particular determining the need for euro cash and defining the process of its acquisition from the NBS. The results will be detailed further in 2007.

At the meeting of the Working Committee for Banks and the Financial Sector a paper for the banking sector concerning Regulation No. 1781/2006 on information on the payer accompanying transfers of funds was presented. The aim of the paper was to provide information on the application of this Regulation in practice, primarily with regard to the regime of minimum data on a payer in domestic transfers and transfers between Member States, on the regime of complete data on a payer that is applied to transfers between Member States of the European Union and third countries, as well as information on other obligations and exceptions in executing transfers.

Within the Working Committee for Banks and the Financial Sector a Subcommittee for SEPA was established with the remit of preparing a master implementation plan for SEPA in the Slovak Republic.