



# PAYMENT SYSTEM





## 6 PAYMENT SYSTEM

### 6.1 LEGAL AND INSTITUTIONAL ASPECTS

At the European Union level, the principal legislation in the field of payment services is Directive 2007/64/EC of the European Parliament and of the Council of 13 November 2007 on payment services in the internal market amending Directives 97/7/EC, 2002/65/EC, 2005/60/EC and 2006/48/EC and repealing Directive 97/5/EC (hereinafter “the Payment Services Directive”).

The main aim of the Payment Services Directive is to establish a single payment market within the European Union (including the European Economic Area) by introducing a harmonised legal framework for an EU internal market in payment services.

During 2009, the process of transposing the Payment Services Directive into Slovak law was brought to a completion with the adoption of Act No. 492/2009 on Payment Services and on amendments to certain laws (hereinafter “the Payment Services Act”), which entered into force on 1 December 2009. From the original Act, the new Act adopted provisions of European law (on payment systems and electronic money institutions) as well as other provisions (for example, on the permanent court of arbitration).

The Payment Services Act governs mainly:

- a) the provision of payment services within the European Economic Area (“EEA”) in the currencies of the EEA member countries and within the scope of the Payment Services Directive (taking into account the principle of full harmonisation);
- b) the provision of other payment services within the scope of the minimum requirements for the provision of such services;
- c) conditions for establishing and operating payment systems;
- d) conditions for establishing and carrying on the business of payment institutions within the scope of the Payment Services Directive (taking into account the principle of full harmonisation);
- e) conditions for establishing and carrying on the business of electronic money institutions

- within the scope of the Directive on the taking up, pursuit and prudential supervision of the business of electronic money institutions;
- f) complaints, other submissions, and conditions for the out-of-court settlement of disputes in regard to the provision of payment services and to the issuance and use of electronic money; and
  - g) the supervision of payment system operators, the supervision of payment institutions, and the supervision of electronic money institutions.

Another regulation passed in 2009 was Decree No. 8/2009 of Národná banka Slovenska laying down the structure of a bank connection, the structure of an international bank account number, and details concerning the issuance of a converter of bank identifier codes.

The following Regulations (EC) of the European Parliament and of the Council have also been transposed into Slovak law:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No. 2560/2001; and
- Regulation (EC) No 1781/2006 on information on the payer accompanying transfers of funds.

The Permanent Court of Arbitration of the Slovak Banking Association was established with effect from 1 July 2003. Its registered office is in Bratislava and 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 2009, Národná banka Slovenska approved the Slovak Banking Association’s proposal not to pay any contribution in 2009 to the operation of the Permanent Court of Arbitration of the Slovak Banking Association, having regard to the court’s financial results and to the sufficiency of funding for the activities of the chamber for deciding disputes on payments. At the same time, Národná banka Slovenska approved Addendum No. 4 to the Statute of the Permanent Court of Arbitration.



## 6.2 PAYMENT SYSTEMS OF THE SLOVAK REPUBLIC

### 6.2.1 THE EURO SIPS PAYMENT SYSTEM

Národná banka Slovenska developed the EURO SIPS payment system as a new generation of the SIPS payment system, which had been operating successfully since 1 January 2003. The EURO SIPS system was launched into operation on 1 January 2009, simultaneously with the introduction of the euro. The euro changeover necessitated a conceptual change in Slovakia's interbank payment system.

With the introduction of the euro, EURO SIPS became the sole retail system for the processing of customer payments. Interbank payment transactions conducted since 1 January 2009 have been settled in TARGET2-SK, component of the trans-European payment system.

The original SIPS payment system was transformed into an ancillary system of TARGET2-SK. The expected targets in regard to the switch from SIPS, as the sole interbank payment system, to EURO SIPS, as an ancillary system of TARGET2-SK, were met in full. The new payment system:

- a) satisfies the requirements placed on TARGET2-SK ancillary systems;
- b) implements a functionality comparable to that of the original SIPS payment system;
- c) executes payment transactions in the euro currency;
- d) processes retail payment transactions and carries out their clearing;
- e) settles, in the TARGET2-SK payment system, the clearing results of domestic payment transactions;
- f) has maintained service prices at a level comparable to that of the original SIPS payment system.

On 31 December 2008, on schedule, EURO SIPS was successfully launched as an ancillary system of TARGET2-SK operating in the new euro currency. The processing of payment transactions in EURO SIPS takes place in two clearing cycles, and the results of the clearing cycles are financially settled in the TARGET2-SK. The rules on the functioning of the EURO SIPS system are laid down in the operating rules for EURO SIPS users and in the EURO SIPS Payment System Agreement,

which Národná banka Slovenska enters into with each participant.

The EURO SIPS payment system had 28 active participants during 2009; one participant terminated its active participation following its merger with another participant, and one new active participant was admitted to the payment system.

### EURO SIPS AND THE SEPA PROJECT

The use of a common legal tender – the euro – for cash circulation in euro area countries was the basis for creating a common area in which cashless payments, too, will be made in euros. The project behind this Single Euro Payments Area (SEPA) aims to remove any differentiation between national and cross-border payments and to harmonise standards, rules and procedures for the payment systems of all euro area countries.

A strategy for the implementation of SEPA payment instruments in Slovakia was approved during the course of 2009 and represented the fruit of mutual cooperation between Národná banka Slovenska, the Ministry of Finance of the SR and the banking sector.

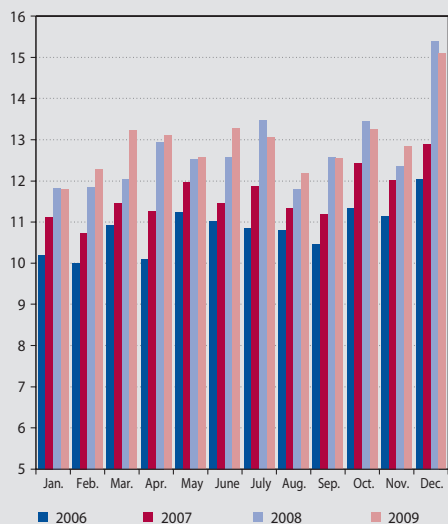
Under a decision taken by the NBS Bank Board in 2009, the EURO SIPS payment system will be converted into a "SEPA scheme compliant" payment system.

Once the SEPA rules and standards have been implemented, the EURO SIPS payment system will have to meet certain criteria. This will mean, in particular, that:

- a) data are transmitted between payment system participants without the need for additional modifications or changes;
- b) all transactions are processed in such a way that guarantees compliance with the stipulated timeframes for the execution of SEPA payments;
- c) all fees from the payment system's participants are paid directly to the payment system operator (fees cannot be collected through deduction from a SEPA payment transaction);
- d) the payment system is compatible with SEPA rules, SEPA standards, and respective technical requirements;



**Chart 49 Comparison of the number of transactions processed in SIPS between 2006 and 2008 and in EURO SIPS in 2009 (millions)**



Source: NBS.

The aim of Národná banka Slovenska is that the EURO SIPS payment system will be fully compatible with SEPA standards and rules.

### 6.2.2 PAYMENTS EXECUTED IN EURO SIPS

A total of almost 155,237,573 transactions were executed in the EURO SIPS system in 2009. Despite the migration of large-value interbank transactions to the TARGET2-SK system, that figure represented an increase of almost 2% year-on-year. The number of transactions executed in each month of the years 2006 to 2009 are compared in Chart 49.

The transactions executed in the EURO SIPS system in 2009 had a total value of €154.6 billion. The value of transactions executed in each month of the years 2006 to 2009 are compared in Chart 49.

Since the developments in 2009 had a greater degree of transparency, we can produce Chart 51 showing the value of transactions executed in the system for each month of 2009.

- e) the transparency of access criteria and the operating rules is ensured;
- f) the system complies with the European Central Bank's applicable oversight standard for retail payment systems.

### 6.2.3 TARGET2 PAYMENT SYSTEM

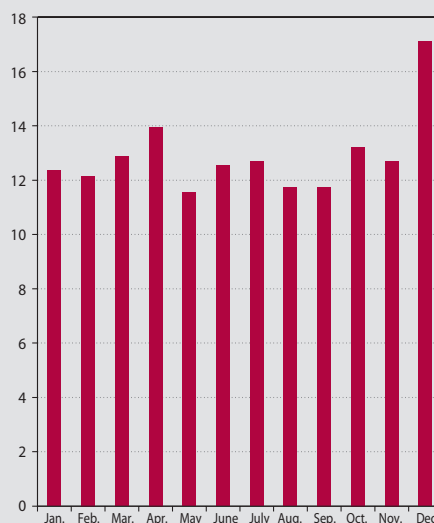
The date on which Slovakia joined the euro area was also the date on which it became connected to the TARGET2 payment system. The process of

**Chart 50 Comparison of the value of transactions processed in SIPS between 2006 and 2008 and in EURO SIPS in 2009 (EUR billions)**



Source: NBS.

**Chart 51 Value of transactions processed in EURO SIPS in 2009 (EUR billions)**



Zdroj: NBS.



## PAYMENT SYSTEM

preparing Slovakia's payment infrastructure for the changeover had lasted nearly four years and culminated on this day. The TARGET2-SK system had its first day of regular operation on 2 January 2009, and thereby expanded participation in the TARGET2 system to include the 27 direct participants and three ancillary systems from Slovakia. The system's launch into live operation went without a hitch, reflecting the careful preparations made for the transition and the system testing that had been undertaken with the whole banking community during 2008. Over the first operational days of TARGET2-SK, the system's services were actively used by all of its participants as well as by the ancillary systems. During the system's first year of operation (2009), there were no incidents on the side of either the system or its participants that would jeopardise the smooth processing of payments or interrupt the system's operation.

The successful launch of the TARGET2-SK payment system did not, however, spell the end of Národná banka Slovenska's tasks in this regard. On the contrary, its tasks increased. Apart from having responsibilities for the system's daily operation, for providing its participants with consultation and business support, and for carrying out regular testing of contingency procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing and implementation of software upgrades for the Single Shared Platform (SSP) that forms the technical basis of the TARGET2 system.

It is through new releases of this software that new functionalities and modifications (approved by the Eurosystem at the request of the system's participants) are implemented in the SSP, and that bugs identified in the previous versions are removed. The SSP is upgraded every November, but in 2009 it also underwent a special upgrading in May. The purpose in this case was to remove technical restrictions on using the liquidity of a single participant who is at the same time a participant of several ancillary systems. The software implemented in November introduced a new SWIFT standard.

During 2009, Národná banka Slovenska organised periodic working meetings with representatives of the TARGET2-SK participants. These meetings are opportunities to consult over proposals

for, and prepared modifications to, the TARGET2 system, to coordinate testing of new SSP releases with participants, to evaluate the day-to-day operation, and to communicate other relevant information to the TARGET2-SK participants.

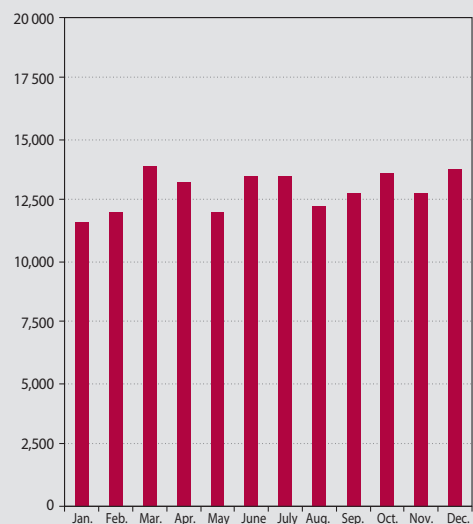
In regard to new releases of the SSP software, Národná banka Slovenska made two amendments to NBS Decision No. 10/2008 on settlement procedures for TARGET2-SK ancillary systems and one amendment to NBS Decision No. 9/2008 on conditions for participation in TARGET2-SK. It was clear by the end of 2009 that these Decisions would be amended again at the beginning of 2010 in order to bring them into line with the new Act No. 492/2009 Coll. on payment services and on amendments to certain laws, which entered into force on 1 December 2009.

### 6.2.4 PAYMENTS EXECUTED IN TARGET2-SK

A total of 30 participants were connected to the TARGET2-SK payment system in 2009. Of that number, 27 were direct participants (including Národná banka Slovenska) and three were ancillary systems – EURO SIPS, the central securities depository Centrálny depozitár cenných papierov SR, a.s. (CDCP), and First Data Slovakia, a.s.

The number of participants and their relative share changed twice during 2009; firstly, when a new participant was connected to the system

Chart 52 Number of payments processed in TARGET2-SK in 2009



Source: NBS.



	Number of operational days	Number of payments	Value of payments (EUR)	Daily average number of payments	Daily average value of payments (EUR)
January	21	11,589	163,862,869,611.41	552	7,802,993,791.02
February	20	11,976	90,349,936,029.94	599	4,517,496,801.50
March	22	13,953	69,790,809,426.75	634	3,172,309,519.40
April	20	13,267	66,169,761,156.99	663	3,308,488,057.85
May	20	11,980	62,640,117,866.01	599	3,132,005,893.30
June	22	13,553	67,183,256,058.70	616	3,053,784,366.30
July	23	13,473	59,952,612,123.91	586	2,606,635,309.74
August	21	12,257	58,959,295,986.12	584	2,807,585,523.15
September	22	12,784	59,279,776,068.27	581	2,694,535,275.83
October	22	13,653	62,974,780,977.29	621	2,862,490,044.42
November	21	12,844	54,938,677,476.71	612	2,616,127,498.89
December	22	13,708	65,533,920,823.94	623	2,978,814,582.91
<b>Average</b>	-	-	-	<b>606</b>	<b>3,443,889,896.90</b>
<b>Total</b>	<b>256</b>	<b>155,037</b>	<b>881,635,813,606.04</b>	-	-

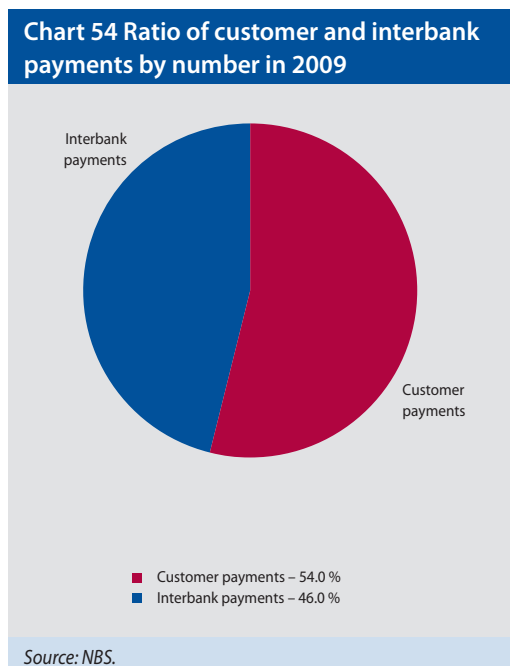
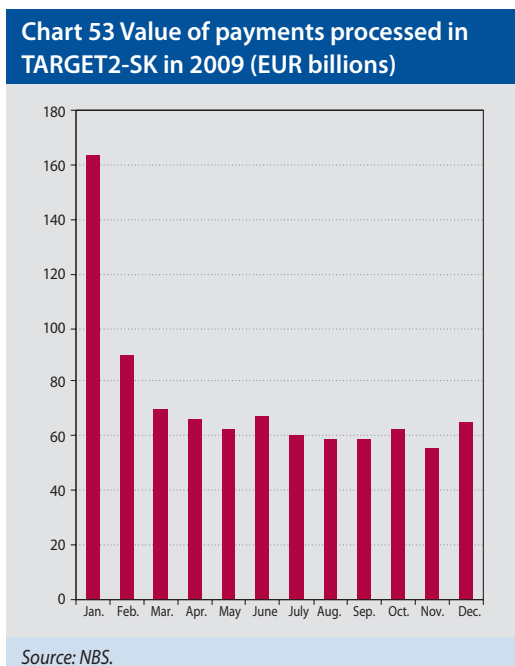
Zdroj: NBS.

on 1 April, and, secondly, when two participants merged on 1 June, thereby bringing the number of participants back to the level at which it began the year.

A total of more than 155 000 transactions with an overall value of almost €881.6 billion were

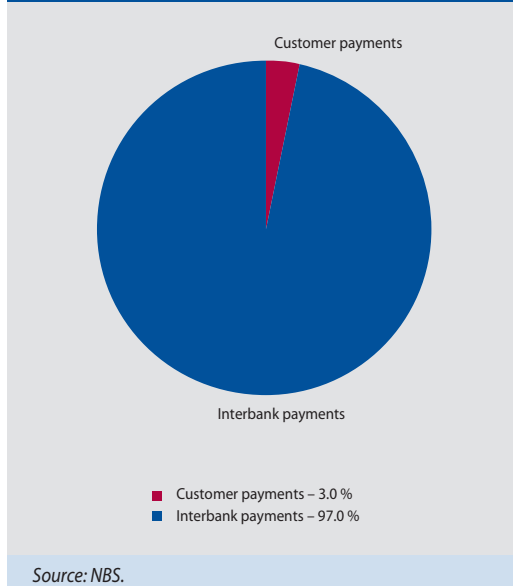
executed in the TARGET2-SK payment system in 2009. Developments in the number of transactions executed in each month of the year are shown in Table 36 and Chart 52.

In 2009, TARGET2-SK had 256 operational days. On a daily basis, the average number of payment





**Chart 55 Ratio of customer and interbank payments by value in 2009**



transactions processed in the system was 606 with an average overall value of almost €3 444 million. The average daily values are shown in more detail in Table 36 and Chart 53.

Charts 54 and 55 show interbank payments and customer payments as a proportion of the payments processed in 2009. In terms of the number of payments, customer payments have the slightly higher share (54:46), while in value terms, the ratio between interbank payments and customer payments is 97:3.

### 6.2.5 PAYMENT CARDS

The number of payment in cards in circulation at the end of 2009 stood at 5.08 million, representing a 3% drop from the previous year (5.255 million).

As at 31 December 2009, a network of 2,310 ATMs and 35,438 POS terminals was available to bank customers in the territory of Slovakia.

In 2009, cardholders made more than 178 million transactions with a total value of over €13 billion. ATM withdrawals numbered almost 87 million and had a total value of nearly €10 billion. The number of payments made through POS terminals reached 84 million; their total value amounted to more than €3 billion and the average value

of one payment fell by €6.30 in comparison with 2008, to €37.61.

Although the number and value of payments made through POS terminals rose sharply in 2009, almost 51% of all payment card transactions were in the form of ATM cash withdrawals. But while the number of ATM withdrawals still exceeds the number of POS terminal transactions, the difference between them narrowed year-on-year. Trends also indicate that higher amounts are being withdrawn from ATMs, since the average value of one withdrawal increased by €2.61 in comparison with 2008.

Whereas the number of card payments rose substantially in 2009 (by 30.1% year-on-year), cash withdrawals fell by 3.3%. Likewise, the value of card payments climbed by 11% year-on-year, while the total value of cash withdrawals declined by one percent.<sup>17</sup>

## 6.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF PAYMENT SYSTEMS

### ASSESSMENT OF THE CDCP SECURITIES SETTLEMENT SYSTEM – MONITORING OF COMPLIANCE WITH RECOMMENDATIONS

In connection with the adoption of the single currency in Slovakia, the securities settlement system (SSS) operated by the central securities depository – Centrálny depozitár cenných papierov (CDCP) – was assessed against Standards for the use of EU securities settlement systems in ESCB credit operations. The ECB produced the final assessment report in December 2008, and, wrapping up the assessment process, it sent recommendations to CDCP that CDCP was expected to meet them during the course of 2009. CDCP was included in the list of eligible securities settlement systems for Eurosystem credit operations. The results of the assessment were announced in a press release (published on the ECB's website).

Towards the end of 2009, NBS carried out final monitoring of the CDCP's compliance with the ECB recommendations, and thereby confirmed that CDCP satisfied all the recommendations. The results of the monitoring were communicated to the ECB, as well as to Banca d'Italia as second assessor. Banca d'Italia confirmed that CDCP was fully compliant with the ECB's recommendations,

<sup>17</sup> Source: Slovak Banking Association.





and the results of the monitoring of the recommendations' implementation were subsequently confirmed by the ECB, too. In the first quarter of 2010, the final report is due to be submitted to the ECB's Governing Council for approval.

#### EUROPEAN PAYMENTS COUNCIL – SEPA

Following the successful introduction of the euro for cash payments, the SEPA project represents another step towards establishing an integrated European payment services market by ending the differentiation between the national and cross-border payments. It will eliminate the fragmentation of the European payment services market and open the door for innovative payment instruments, for example, internet and mobile payments, electronic invoicing, etc. If the SEPA vision is implemented, every citizen, retailer and enterprise will make payments in any of the countries in the SEPA area from a single bank account, using the same payment instruments, just as easily and securely as they now make domestic payments.

In 2009, the migration plan of the Slovak banking sector entitled "Introduction of SEPA in the Slovak Republic – Implementation Plan" was updated to version 2.3, and it will serve as a reference point for all parties involved in the migration process. Apart from the organisational structure and legal framework, the additions to the document include the communication strategy and the summary of the tasks and responsibilities falling to each of the participants in the implementation process, as well as a timeframe for their fulfilment.

Following the launch of the SEPA Credit Transfer (SCT) Scheme in January 2008, the SEPA Direct Debit (SDD) Scheme was launched at the European level on 2 November 2009. The new scheme is expected to replace the national direct debit schemes of Member States over the coming period. No specific date for the completion of migration has yet been set either for the SCT Scheme or the SDD Scheme. More than 2,600 European banks adhered to the new scheme immediately after its launch.

New versions of the SEPA Direct Debit Rulebooks were approved by the Plenary Meeting of the European Payments Council (EPC) at the end of October 2009, and were subsequently published

on the EPC website. The versions in question were The SEPA Core Direct Debit Scheme Rulebook version 4.0 and The SEPA Business to Business Direct Debit Scheme Rulebook version 2.0. At the same time, an updated version of the SEPA Credit Transfer Scheme Rulebook version 4.0 was also published. The SEPA Cards Framework has been recently updated to version 2.1 and came out towards the end of December together with the document SEPA Cards Standardisation Volume – Book of Requirements version 4.0.

Based on the recommendations of the Economic and Financial Affairs (ECOFIN) Council adopted at its meeting of 2 December 2009, the European Commission began preparing an impact assessment of setting a "SEPA migration end-date" (SMED). Depending on the results of this assessment, final decision could be taken on the issuance of a regulatory measure stipulating a final date for migration to SEPA payment instruments. After that point, it will not be possible to use payment instruments in national formats anymore. Regarding the SCT Scheme, the Slovak banking sector voluntarily chose the year 2012 as the end-date for the migration to SEPA credit transfers at the interbank level. As for the SEPA direct debits, no end-date has been set yet.

The European Central Bank is continuously monitoring the progress of SEPA migration through so-called SEPA indicators. Attention is currently focused on the indicator of SEPA credit transfers, which represents SEPA credit transfers as a share of the total number of credit transfers executed at the euro area level and at the national level of all member countries. The indicator of SEPA credit transfers in the euro area as a whole is based on statistical data of the payment infrastructures that process payments in the euro area. The ECB updates this data once a month and publishes it on the ECB website. At the end of 2009 the SEPA credit transfers as a share of total credit transfers in the euro area represented 6.2%.<sup>18</sup>

The highest governing and coordination authority for the SEPA project in the Slovak Republic is the SEPA Committee, which brings together both providers and users of payment services. On 4 June 2009, the Committee's members held a joint meeting at which they approved the Rules of Procedure for the SEPA Subcommittee, which was in the process of being established. An up-

<sup>18</sup> Source: European Central Bank.



dated version of the SEPA Implementation Plan was also approved.

#### **SEPA SUBCOMMITTEE**

The SEPA Subcommittee was established as a working body to deal effectively with outstanding issues related to the SEPA project, and to provide detailed solutions to individual tasks arising from the Implementation Plan. Under its Rules of Procedure, the SEPA Subcommittee consists of representatives of Národná banka Slovenska, the Slovak Banking Association, the Slovak Ministry of Finance, the Slovak State Treasury, and commercial banks.

#### **THE EUROSISTEM, TARGET2 SECURITIES**

Work on the TARGET2-Securities (T2S) project continued in 2009. The purpose of T2S is to make the settlement of securities transactions as secure and efficient as possible. T2S will be a technical platform allowing securities transactions to be settled in central bank money within the euro area / EU / EEA. Although these settlements will be carried out mainly in the euro currency, settlement in a non-euro currency will also be technically possible.

The T2S Advisory Group (AG) continued its activities in 2009. The T2S AG gives advice on the T2S project to the ECB's decision-making bodies, and Národná banka Slovenska is represented on it. In Slovakia, the National User Group (NUG-SK) has been established to support the development and implementation of T2S. It creates a forum for involving national market participants in the

work on the T2S project. The NUG-SK held its first meeting in March 2009, and its members include representatives of NBS, Centrálny depozitár cených papierov, the Slovak Finance Ministry, the Slovak Banking Association, and the Slovak Association of Securities Dealers.

The Eurosystem and representatives of central securities depositories (CSDs) signed a Memorandum of Understanding (MoU) in July 2009 in order to formalise the current understanding of the Eurosystem and the CSDs regarding certain mutual contributions to the T2S project and the scope and negotiations of the future agreement between the Eurosystem and individual CSDs in relation to T2S services. Drafting of the Framework Agreement for the development and operational phase began in 2009.

In July 2009, the ECB Governing Council approved an amended version of the User Requirements Document (URD), which then served as the basis for drafting the General Functional Specifications (GFS). Work continued through the year on further amendments to the URD in response to market requirements, as did work on the legal documents dealing with contractual relations in respect of the T2S platform. In 2009, the Eurosystem addressed also other issues related to the T2S project, including price structure, interdependencies between T2S, T2 and CCBM2, management, user requirements, testing, and migration. All relevant information may be found on the ECB website in the English language.