



PAYMENT SERVICES AND PAYMENT SYSTEMS



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5.1 PAYMENT SERVICES

Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market has been transposed into Slovak law by 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on amendments to certain laws (hereinafter “the Payment Services Act”), which entered into force on 1 December 2009 and repealed Act No. 510/2002 Coll. on the payment system as amended.

The Payment Services Act governs mainly the following matters: the provision of payment services; conditions for establishing and operating payment systems; conditions for establishing and carrying on the business of payment institutions and electronic money institutions; 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 the supervision of payment system operators, the supervision of payment institutions and the supervision of electronic money institutions.

The transposition of Directive 2009/44/EC of the European Parliament and of the Council of 6 May 2009 (amending Directive 98/26/EC on settlement finality in payment and securities settlement systems and Directive 2002/47/EC on financial collateral arrangements as regards linked systems and credit claims) began in 2010 with the drafting of a law amending the Securities Act and the Payment Services Act. The purpose of the transposition was to define a linked system (interoperability).

Slovak law in the area of payment services also includes 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) and the following Regulations of the European Parliament and of the Council:

- 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.

In 2010, Národná banka Slovenska approved the proposal of the Slovak Banking Association (SBA) not to pay any contribution for that year to the operation of the SBA’s Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), having regard to the Court’s financial results and to the sufficiency of funding for the activities of the Court’s Chamber for the Arbitration of Disputes Related to the Provision of Payment Services.

Národná banka Slovenska last year granted the company First Data Slovakia s.r.o. an authorisation to operate a payment system, in accordance with Section 45(3)(c) of the Payment Services Act.

5.2 PAYMENT SYSTEMS OF THE SLOVAK REPUBLIC

5.2.1 TARGET2 AND TARGET2-SK

Upon joining the euro area on 1 January 2009, Slovakia became connected to the TARGET2 payment system and Národná banka Slovenska began to operate its component of this system – TARGET2-SK. The second year of the TARGET2-SK system’s operation can be judged to have been successful and free of problems. No incidents were recorded, either by the system’s operator or participants, such that would threaten the smooth processing of payments or disrupt the system’s operation.

Apart from being responsible for the system’s daily operation, for providing its participants with consultation and business support, and for carrying out regular testing of recovery procedures, Národná banka Slovenska is involved in coordinating the development, modification, testing and implementation of software updates 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 version are removed. A significant change introduced during the regular annual release of the SSP in 2010 was to make the TARGET2 system accessible through the Internet, and not only through the SWIFT network as had been the case up to then.

During 2010, 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 March 2010, Národná banka Slovenska issued Decision No. 3/2010 on conditions for participation in TARGET2-SK and Decision No. 4/2010 on ancillary system settlement procedures in TARGET2-SK, which replaced decisions that had been in force since 2008. In connection with the new release of the SSP software, these two decisions were again amended in November 2010.

5.2.2 PAYMENTS EXECUTED IN TARGET2-SK

A total of 33 participants were connected to the TARGET2-SK payment system in 2010. Of that

number, 30 were direct participants (including Národná banka Slovenska) and three were ancillary systems – EURO SIPS, the Centrálny depozitár cenných papierov SR, a.s. (CDCP), and First Data Slovakia, a.s. The number of direct participants increased by two.

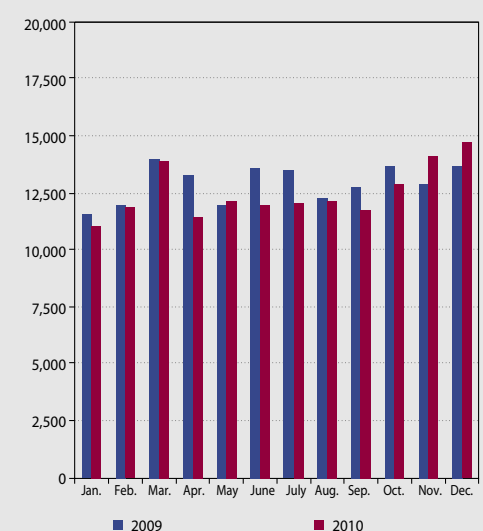
Almost 150,000 transactions with an overall value of more than €682.2 billion were settled in the TARGET2-SK payment system in 2010. Compared to the previous year, the volume of transactions slightly decreased by 3.4% (or 5,000 transactions) and the value of transactions fell by almost 22.6% (or €199 billion). The monthly development of the volume and value of executed transactions in 2009 and 2010 is shown in Charts 32 and 33.

In 2010, TARGET2-SK had 258 operational days. On a daily basis, the average volume of payment transactions processed in the system was 581 with an average overall value of almost €2,644 million.

As for the payments processed in 2010 and their breakdown into customer and interbank transactions, customer payments have the slightly higher share by volume (54:46) while interbank payments have the overwhelmingly larger share by value (97:3).

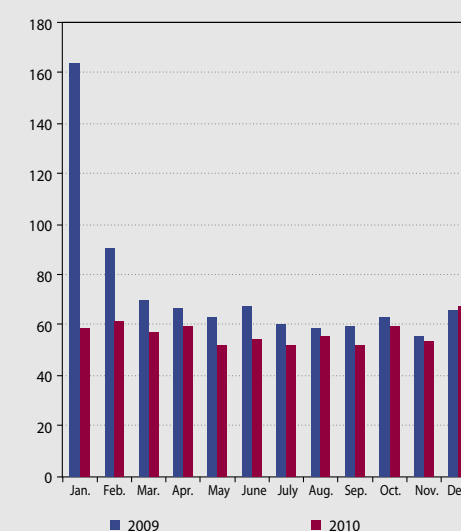
Bulgaria and its banking community joined TARGET2 in 2010, bringing to 23 the total number

Chart 32 Volume of payments processed in TARGET2-SK



Source: NBS.

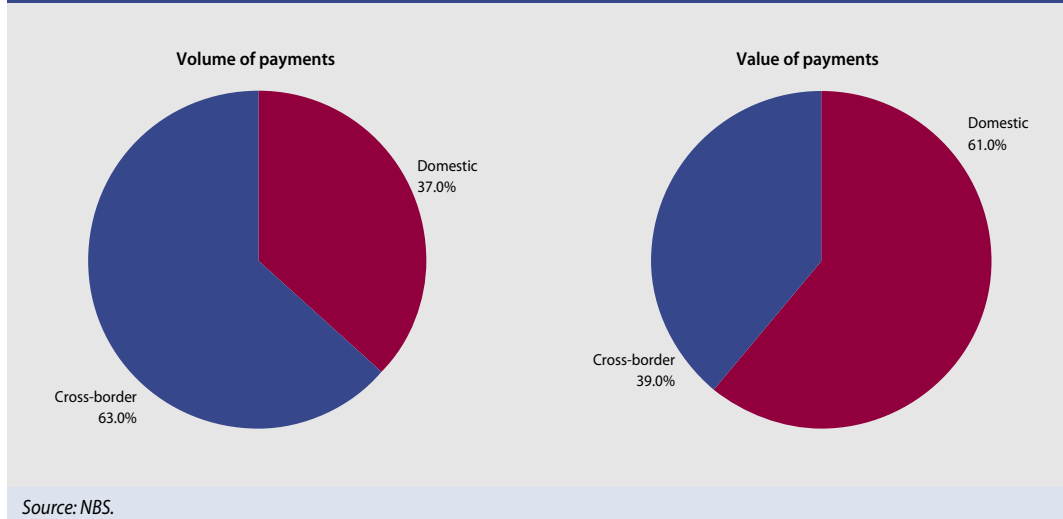
Chart 33 Value of payments processed in TARGET2-SK (EUR billions)



Source: NBS.



Chart 34 Breakdown of domestic and cross-border payments made by TARGET2-SK participants in 2010



of EU Member States that are now connected to the payment system. Of the total volume of payments made by TARGET2-SK participants in 2010, 37% were domestic transactions and 63% of payments were cross-border. As regards the value of such payments, however, the ratio is almost exactly the opposite. Chart 34 shows the breakdown of domestic and cross-border payments.

5.2.3 THE EURO SIPS PAYMENT SYSTEM

EURO SIPS is a retail payment system designed for the processing and clearing of customer payments in euro, and, at the same time, it is an ancillary system using the trans-European TARGET2-SK payment system. The processing of payment transactions in EURO SIPS takes place in clearing cycles, the results of which cycles are financially settled in TARGET2-SK.

Since 1 January 2009, interbank transactions have been processed and settled exclusively in TARGET2-SK.

The EURO SIPS payment system will be made compatible with the Single European Payments Area (SEPA) in connection with the implementation of SEPA payment instruments in Slovakia. The modification of EURO SIPS will be carried out in accordance with a strategy approved by the NBS Bank Board, according to which the EURO SIPS is expected to be SEPA-scheme compliant by the end of 2012.

During 2010, Národná banka Slovenska assessed the EURO SIPS payment system in compliance with a Eurosystem requirement for countries entering the euro area. In the assessment, the adherence to the "Core Principles" was applied, and, as a result, the EURO SIPS system was considered to be in full compliance with the required principles.

5.2.4 PAYMENTS EXECUTED IN EURO SIPS

In 2010, the number of participants in the EURO SIPS retail payment system increased from 28 to 30. A total of 162,796 thousand transactions were executed in EURO SIPS in 2010, which corresponds to a trend increase of almost 5% over recent years. The value of the processed transactions came to €164,590.1 million and therefore also maintained its growth curve (at 6.5%). Charts 35 and 36 show the volume and value of transactions executed in EURO SIPS during each month of 2010 and in comparison with the corresponding periods of 2009.

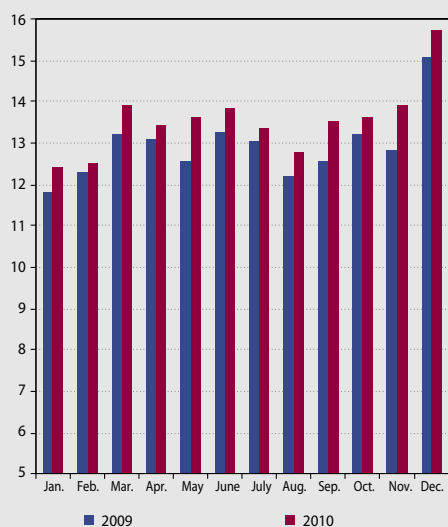
5.2.5 PAYMENT CARDS

The number of bank payment cards in circulation fell to 4.98 million in 2010, down by almost 2 percent from the previous year (5.08 million). Of that total number, debit cards accounted for 4.18 million and credit cards for 0.8 million.

As at 31 December 2010 there were 2,363 ATMs and 37,459 POS terminals in the territory of Slovakia. Whereas the number of bank payment

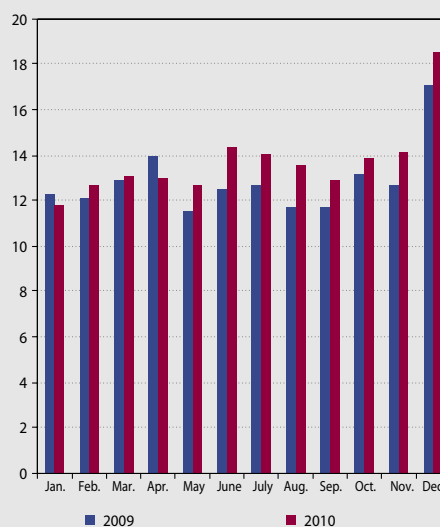


Chart 35 Volume of transactions executed in EURO SIPS (millions)



Source: NBS.

Chart 36 Value of transactions executed in EURO SIPS (EUR billions)



Source: NBS.

cards declined in comparison with the previous year, the number of ATMs increased by 2.2% (from 2,310 in 2009) and the number of POS terminals rose by 5.7% (35,438 in 2009).

5.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE FIELD OF PAYMENT SYSTEMS

ASSESSMENT OF THE CDCP SECURITIES SETTLEMENT SYSTEM – APPROVAL OF THE REPORT ON MONITORING OF COMPLIANCE WITH RECOMMENDATIONS

With Slovakia having adopted the single European currency, the European Central Bank assessed the securities settlement system (SSS) operated by the central securities depository – Centrálny depozitár cenných papierov (CDCP) – against the Eurosystem's *Standards for the use of EU securities settlement systems in ESCB credit operations*. With the approval of the ECB Governing Council, CDCP was considered "compliant" with the Standards and was included in the list of SSSs eligible for use in the collateralisation of Eurosystem credit operations. The CDCP also received several recommendations from the ECB, and its fulfilment of them was monitored at the end of 2009. The report on the monitoring was approved by the Governing Council in March 2010. The next assessment of the SSS is due to be carried out in 2011.

THE SINGLE EUROPEAN PAYMENTS AREA (SEPA) – THE ECB AND EUROPEAN PAYMENTS COUNCIL

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. The realisation of the SEPA project will mean that payments could be made 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 domestic payments are made today.

In October 2010, the European Central Bank published the 7th SEPA Progress Report on the ECB website. Like previous reports, it brings information on milestones achieved in the SEPA project (launch of the SEPA direct debit scheme), problem areas (the slow pace of migration – as at the end of 2010, SEPA credit transfers represented around 10% of total credit transfers), and a list of tasks that will have to be accomplished in order to ensure a smooth transition to the SEPA schemes. In June 2010, the first meeting was held of the SEPA Council – a new European governance body for facilitating SEPA migration. The issues addressed at the meeting included the setting of end-dates for SEPA migration, so-called SEPA Migration End-Dates (SMED) and the future of SEPA payment cards. Since 1 November



2010, it has been mandatory for all euro-area banks to be reachable for cross-border direct debit transactions, as already stated in Regulation (EC) No 924/2009 on cross/border payments in the Community.

New releases of the SEPA Direct Debit Rulebooks were approved by a plenary meeting of the European Payments Council (EPC) in September and they were subsequently published on the EPC website. The releases in question were the SEPA Core Direct Debit Scheme Rulebook version 5.0 and the SEPA Business to Business Direct Debit Scheme Rulebook version 3.0. At the same time, an updated version of the SEPA Credit Transfer Scheme Rulebook (version 5.0) was also published. The SEPA Cards Framework was last updated at the end of December 2009 with the release of version 2.1. A new version (5.0) of the SEPA Cards Standardisation Volume – Book of Requirements will be published by the EPC in January 2011. A newly approved EPC publication is the SEPA Direct Debit Fixed Amount Scheme Rulebook (version 1.0), which in the coming period will be subjected to a consultation process with the banking communities of SEPA countries.

The most pressing issue addressed in 2010 was again the setting of end-dates for the migration from the existing domestic payment instrument schemes to the new direct debits (SDD) and credit transfers (SCT) schemes. A final decision on this matter will probably be taken during the course of 2011. In this regard, EU bodies are expected to adopt a legal regulation of general application.

THE EUROSISTÉM, TARGET2 SECURITIES

Work on the TARGET2-Securities (T2S) project continued in 2010. A key milestone in the im-

plementation of the T2S project was achieved in February 2010, when the ECB Governing Council approved version 5.0 of the T2S User Requirements Document (URD), which marked the culmination of the specification phase of the T2S project and therefore the beginning of the development phase. In April 2010, the Governing Council approved the T2S Guideline. Other T2S-related decisions taken by the Governing Council concerned the project management and future operation of the T2S system, on T2S connectivity (there will be a maximum of two network providers and one provider for direct links, selected on the basis of a tender), and on the T2S price policy (the approved price structure as well as the DvP transaction fee). As for the legal side, a Framework Agreement covering the T2S development and operational phases is currently being drafted.

The T2S Advisory Group (AG) continued its activities in 2010. The T2S AG gives advice on the T2S project to the ECB's decision-making bodies, and it includes also a representative from Národná banka Slovenska. In Slovakia, the National User Group (NUG-SK) is a forum in which financial market participants engage in, and receive information about, the work on the T2S project. Last year, the NUG-SK held four regular meetings, each preceding a T2S AG meeting at the European level and dealing with matters on the agenda of the T2S AG meeting. These included mainly the harmonisation of matching fields, proposals for the future T2S tariff structure, the coexistence of communication standards in T2S, issues surrounding the finality of settlement on omnibus accounts where a layered model is used, consultations on smooth cross-CSD settlement in T2S (the need for harmonisation, i.e. identification and removal of obstacles and peculiarities in particular market).¹⁵

¹⁵ All relevant information may be found on the ECB website.