

May 2018

Assessment of the Polish payment system functioning in the second half of 2017

SUMMARY





Summary

The “Assessment of the Polish payment system functioning” is a cyclical material prepared by the Payment Systems Department which provides basis for the NBP Management Board to perform a periodical assessment of cash settlements, i.e. the implementation of the task defined in Article 17(4)(3) of the Act on Narodowy Bank Polski.¹

The “Assessment of the Polish payment system functioning in the second half of 2017”, hereinafter referred to as the “Assessment” presents main facts and events related to the functioning of the Polish payment system in the second half of 2017 as well as the statistical data reflecting the development of the payment system in Poland in this period and the level of development at the end of December 2017.

The most significant events for the payment system in the second half of 2017 included:

1. NBP reaching readiness to provide the auto-collateralisation service in euro within the framework of the TARGET2-Securities platform as of 18 September 2017.
2. as of 2 September 2017 - the entry into force of the Act of 7 July 2017 amending the Code of Procedure for Petty Offences², the purpose of which was to introduce provisions facilitating the method of paying a fine imposed by way of a penalty notice through introducing the non-cash form and the use of a payment card or other payment instrument for this purpose. This solution aims at increasing the collection rate of such fines, among others, from foreigners staying temporarily on the territory of Poland, in particular, from foreign drivers.
3. launching the implementation of the Non-Cash Transaction Support Programme by the Non-Cash Poland Foundation, the purpose of which is a significant popularisation of the network accepting non-cash payment instruments (through doubling the current number of POS terminals) and, at the same time, the reduction of differences in the availability of cash and non-cash payments as well as the promotion of technological innovations supporting non-cash transactions in Poland.
4. introducing legal changes to agreements concerning the terms and conditions of opening and maintaining a bank account in the SORBNET2 system, which resulted from the expansion by Krajowy Depozyt Papierów Wartościowych S.A. and KDPW_CCP S.A. of the scope of operations performed in the SORBNET2 system to include operations related to the purchase and sale of the euro currency on the interbank FX market.
5. as regards oversight of payment schemes, the oversight activities of NBP were carried out regarding the assessment of the rules of functioning of four-party payment schemes subject to oversight of another foreign public authority, in the scope defined in the provisions of the Act of 30 November 2016 amending the Act on Payment Services and certain other Acts³.
6. in the scope of oversight of payment systems - three decisions issued by the NBP President regarding changes in the rules of functioning of retail payment systems.
7. in the scope of security and cyber resilience of the financial market infrastructure, NBP performed the assessment of two entities operating systemically important payment systems and initiated, in

¹ Journal of Laws of 2017, item 1373,

² Journal of Laws of 2017, item 1477,

³ Journal of Laws of 2016, item 1997.

cooperation with the Polish Financial Supervision Authority (KNF), the conduct of the assessment in this scope related to operators functioning in Poland, maintaining the settlement systems and the securities clearing systems.

At the same time, in the second half of 2017, a series of activities were undertaken which would significantly affect the functioning of the Polish payment system in the nearest future. These include, in particular:

1. progressing work on the draft Act amending the Act on Payment Services and certain other Acts, the main purpose of which was to implement so-called PSD2 Directive. Following the PSD2 Directive⁴, the draft Act introduces a number of significant changes, including among others, introduction of new types of payment services enabling access to account information and the service of payment transaction initiation, in accordance with the technical standards. On 23 January 2018, the draft was submitted to the Sejm. On 1 March 2018, the meeting of the standing Parliamentary Subcommittee for Financial Institutions was held, during which this draft was discussed and considered jointly with so-called Presidential draft, i.e. the draft Act amending the Act on Payment Services and certain other Acts presented by the President of the Republic of Poland, which constitutes the implementation of the provisions of Article 88 of PSD2. On 16 April 2018, the Senate adopted the Act of 22 March 2018 submitted to the Sejm as the Presidential draft, without any amendments (Senate paper no. 763). On the other hand, the relevant implementation of the Directive, i.e. the governmental draft (Senate paper no. 762) will be subject to further voting procedure in the Sejm in connection with the amendments submitted to this Act by the Senate. Examining of this case is scheduled for the 62nd session of the Sejm to be held on 8-11 May 2018.
2. continuation of work on the development of the regulatory technical standards (RTS) on strong customer authentication and communication, referred to in Directive (EU) 2015/2366 of the European Parliament and of the Council on payment services in the internal market (PSD2). The European Commission presented the final draft of Commission Delegated Regulation supplementing PSD2 Directive with regard to the regulatory technical standards for strong customer authentication and common and secure open standards of communication. Neither the European Parliament nor the EU Council raised any reservations. On 13 March 2018 the Regulation was published in the Official Journal of the EU. The regulation will become effective as of 14 September 2019, save for the provisions effective as of March 2019 regarding banks' readiness to make technical documentation and testing environment available to payment service providers.
3. signing on 26 October 2017 of Regulation No. 30/2017 of the President of Narodowy Bank Polski on the manner of performing interbank clearing and interbank settlements.⁵ Pursuant to the provisions of the Act of 30 November 2016 amending the Act on Payment Services and certain other Acts, the legal basis for the issuance of this regulation has changed, extending the scope of the subject of the regulation by an element of interbank settlements. The need to take this issue into account in the regulation was mainly associated with the potential risk of appearance of new not overseen interbank clearing mechanisms on the market, which do not have the nature of payment systems subject to oversight by the NBP President and which may pose certain risks to the security and efficiency of interbank clearing in Poland. This regulation entered into force as of 1 February 2018.

⁴ OJ L 337 of 23.12.2015, pp. 35-127,

⁵ Official Journal of NBP item 21.

4. commencing work on the draft Act amending certain Acts in connection with the Development of Non-Cash Payments, the principal objective of which is to popularise the acceptance of non-cash payments and replace a part of cash transactions by electronic transactions in public administration institutions as well as to guarantee customers the right to make non-cash payments at points of sale. Accordingly, citizens will be able to use the non-cash form to pay, e.g. taxes, stamp duty, charges to tax authorities as well as amounts due/payables under the enforcement proceedings.
5. continuation of work on the draft Act on Counteracting Money Laundering and Terrorist Financing, the main aim of which is to implement Directive (EU) 2015/849 of the European Parliament and of the Council of 20 May 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing⁶ (4th AML Directive) and to adjust to the amended recommendations of the Financial Action Task Force (FATF). Member States were obligated to introduce the statutory, implementing and administrative regulations required for the performance of statutory obligations adopted in the aforementioned Directive by 26 June 2017. The draft Act also covers selected issues of the draft Directive of the European Parliament and of the Council (EU) amending Directive 2015/849 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing amending Directive 2009/101/EC (5th AML Directive). Currently the legislative process regarding this Directive is under finalisation. Taking into account a high probability of acceptance of the solutions envisaged in this draft and the time limit planned for its implementation (18 months following the entry into force), the Polish draft initiator has also included certain solutions foreseen for implementation by the 5th AML Directive in the draft Act on Counteracting Money Laundering and Terrorist Financing. The Act on Counteracting Money Laundering and Terrorist Financing was passed by the Sejm of the Republic of Poland on 1 March 2018. The Senate adopted the Act on 8 March 2018. On 28 March 2018, the Act was signed by the President of the Republic of Poland and on 12 April 2018 it was announced in Journal of Laws item 723. The entry into force of the Act will take place after the lapse of three months of its promulgation, i.e. on 13 July 2018, with the exception of certain articles to become effective after 18 months of the promulgation date. In this Act, for the first time in the Polish law, the “virtual currency” was defined and entities dealing with trade or intermediation in virtual currency became subject to the obligations and requirements of obligated entities.
6. passing on 15 December 2017 of the Act amending the Act on Value Added Tax and certain other Acts,⁷ which imposes the obligation on banks and credit unions to open by 30 June 2018 VAT accounts for each entity for which the bank (or the credit union) operates or opens a settlement account in the domestic currency. Moreover, the VAT Act introduces a new chapter to the Banking Act, relating to the aforementioned VAT account in which it specifies the rules of operating the account. At the same time, the VAT Act introduces so-called “split payment” mechanism, which consists in the separation of the VAT amount from the payment amount (gross) for the goods supplied or services provided, paid by the purchaser to the account of the supplier or service provider; the VAT amount will be subsequently booked to the separate VAT account through the settlement account. This mechanism will apply to transactions performed in favour of other VAT taxable persons, i.e. to B2B transactions. It follows from the explanatory memorandum to the Act that the aim of the adopted solutions is to counteract tax fraud and abuse, and the taxpayers who

⁶ OJ L 141 of 5.6.2015, pp. 73-117,

⁷ Journal of Laws of 2017, item 1221, as amended.

decide to apply such a solution will gain a number of benefits, e.g. the regulations concerning joint and several liability will not apply to such taxable persons.

7. advancing work associated with the preparation of the assessment of the SKARBNET4 securities settlement system operated by Narodowy Bank Polski, in accordance with the requirements of the CSDR (Central Securities Depositories Regulation),
8. continued work related to the amendment of Regulation of the European Parliament and of the Council (EU) of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (so-called EMIR regulation)⁸ in connection with the regulatory review performed by the European Commission on the basis of provisions of this regulation,
9. continuation of work on the preparation of the relevant legal documentation enabling NBP to provide the intermediation service in the access to the STEP2 system for the purposes of clearing SEPA Direct Debit (SDD) orders for banks, participants of the Euro Elixir system. However, due to the fact that a prospect client known to NBP postponed the plans related to clearing of the aforementioned service, measures aiming to enable the rendering of this service by NBP were postponed until interested banks notify such a need to NBP.
10. advancing work on the implementation of the TIPS (TARGET Instant Payment Settlement) service, provided under the TARGET2 system service, used for the settlement of instant payments. In accordance with the assumptions, the TIPS will be a module technically connected with the TARGET2 system, in which the settlement of instant payments in the euro currency will be performed 24/7/365 in the central bank money. The settlement of instant payments will be based on the exchange of messages compliant with the SCTinst scheme. Instant TIPS will also be technically prepared to perform instant payment settlement in currencies other than the euro. The implementation of this task has been scheduled for 2018-2020.
11. continuation of work related to the consolidation of the TARGET2 system and the TARGET2-Securities (T2S) platform aiming at centralisation and harmonisation of common functions, limiting costs and increasing the efficiency, unification and implementation of a flexible and effective model of liquidity management. In addition, within the consolidated system, it is planned to enable settlement also in currencies other than the euro as well as to enable participants to use offers of various network service providers. On 6 December 2017, the ECB approved this project and its implementation is scheduled for November 2021.

The key statistical data reflecting the development of the Polish payment system in the second half of 2017, in comparison to the previous semi-annual period, and the level of development at the end of December 2017, are as follows:

1. in the large-value payment systems, the following developments were recorded:
 - in the SORBNET2 system - an increase in the number of executed orders by 8.9% with a simultaneous slight growth of their value by 2%,
 - in the TARGET2-NBP system - a growth of both the number and value of executed orders by 0.1% and 14.2%, respectively,
2. in the retail payment systems, the following developments were recorded:

⁸ OJ L 201 of 27.7.2012, pp. 1-59,

- in the Elixir system - a growth in the number and value of executed orders by 1% and 7.5%, respectively,
 - in the Euro Elixir system - an increase in the number of executed orders by 10% with a simultaneous growth of their value by 15%,
 - in the Express Elixir system and the BlueCash system, which offer clearing of instant payments - a growth in the number of executed orders by 44% and 12%, respectively, with a simultaneous growth of their value by 33% and 16%, respectively,
 - in the BLIK system - a further growth in the number and value of executed orders by 60% and 60%, respectively,
3. in the securities clearing and settlement systems, the following developments were recorded:
- in the settlement system operated by KDPW S.A. - a decline in both the number and value of operations by 15.1% and 10.3%, respectively,
 - in the transaction clearing systems operated by KDPW_CCP S.A. - a decline in the number as well as a significant decline in the value of transactions cleared by 12.1% and 36.1%, respectively,
 - in the SKARBNET4 system operated by NBP:
 - a slight growth of both the number and value of transactions in NBP money bills, by 7.3% and 3.2%, respectively,
 - a decline in both the number and value of transactions in Treasury bills, by 60.3% and 43.5%, respectively,
4. as regards the remaining infrastructure of the Polish payment system, the following developments were recorded:
- growth in the number of institutions providing payment services by 1.4% and a growth of their outlets by 0.3%,
 - growth in the number of points of sale equipped with POS terminals by 12.1%,
 - decline in the number of credit union outlets, by 4.7%,
 - increase in the number of financial intermediaries by 3%,
 - growth in the number of outlets accepting payments to bank accounts by 1.6%,
 - for the first time since 2004 - a decline in the number of ATMs by 1.3%,
 - growth in the number of payment card merchants, enabling processing of payments by payment card in POS terminals and via the Internet by 8.6% in comparison to the previous semi-annual period,
 - increase in the number of on-line sales points by 34.6%,
 - growth in the number of points of sale offering *cash back* payments by 7.5%,
5. as regards bank accounts and non-cash payment instruments, the following developments were recorded:
- growth in the number of current settlement accounts of natural persons operated by banks by 1.5%,

- further growth in the average number of non-cash transactions on a single bank account, by 1.5%, accompanied by simultaneous growth in the average activity of users per one account, i.e. by 6.3% (by 5 transactions),
 - growth in the number of payment cards issued by 3.1% (to the level of 39.1 million), with a simultaneous decline in the number of credit cards issued by 1%. The payment card was an instrument of non-cash payments most commonly used by holders of bank accounts, by means of which approximately 61.1% of all non-cash transactions were performed. The number of non-cash transactions performed with the use of the payment card increased by 11.9%.
 - growth in the number of transactions executed by credit transfer and direct debit by 2.3% and 3.1%, respectively.
 - decline in the number of fraudulent operations performed by payment cards by 3.9% with the simultaneous growth of their value by 21.5% (according to the data provided by banks),
 - increase in the average value of a fraudulent transaction made by payment card by 26.4%.
6. as regards cash and non-cash transactions, the following developments were recorded:
- growth of cash in circulation outside banks' cash desks, from the level of PLN 176.6 billion in June 2017 to the level of PLN 184.4 billion in December 2017 (a growth by 4.5%),
 - decline in the share of cash in M1 monetary supply aggregate, from 21.3% in June 2017 to 20.4% in December 2017,
 - decline in the share of households' deposits in M1 monetary supply aggregate, from the level of 51.4% in June 2017 to 50% in December 2017.

It is worth stressing that the second half of 2017 was also a period of dynamic development of the market of innovative instruments and payment services, comprising in particular contactless cards and mobile payments. Poland belongs to the group of countries with the highest level of contactless card use in the world. According to NBP's estimates, at the end of December 2017, the number of payment cards with the contactless function reached 31.1 million, i.e. 1.4 million more than in June 2017. Contactless cards constitute almost 79.6% of all payment cards in Poland and they have an increasing share in the number and value of card transactions. In the second half of 2017, the share of transactions with the use of contactless cards in the total number of non-cash card transactions reached the level of 69%. Besides contactless cards, mobile payments (e.g. BLIK) have been developing very dynamically and continuously, becoming more and more popular.

Taking into consideration the above statistical data as well as detailed information and opinions contained in the whole report, the following key assessments regarding the functioning of the Polish payment system in the second half of 2017 can be formulated:

1. payment systems (SORBNET2, TARGET2-NBP, Elixir, Euro Elixir, Express Elixir, BlueCash and BLIK) operated correctly, ensuring secure and efficient processing of clearing and settlement,
2. the securities settlement and clearing systems (including the system operated by KDPW S.A., the SKARBNET4 system operated by NBP and the clearing systems operated by KDPW_CCP S.A.) operated in a sustainable manner, similarly to the previous semi-annual period,
3. the infrastructure enabling users to perform retail payments was developing, in particular:

- payment card acceptance network was growing dynamically, in particular the network of points accepting cards with the contactless function, allowing for instant payment, especially for amounts up to PLN 50,
 - level of mobile payments use between natural persons (P2P) was growing and further growth was recorded in the number and value of non-cash payments via the Internet in the framework of the BLIK system,
 - dynamic development of instant payment systems (BlueCash, Express Elixir) occurred, enabling clients of banks participating in this system to make a very fast transfer to another bank (usually within few to several seconds),
4. the number of locations and services enabling access to cash has changed:
 - the network of ATMs decreased, however, with the simultaneous growth in the number and value of cash withdrawals,
 - growth was recorded in cash withdrawals with the use of innovative forms of transactions as compared with standard cash withdrawals at cash desks in banks' branches or by payment card from ATMs. The innovative forms of transactions included withdrawals in shops (by payment card in locations offering the *cash back* service) and withdrawals from ATMs in the framework of the BLIK system using a mobile phone,
 5. further decline in the share of cash in circulation took place, which may indicate a more permanent growth in the scale of non-cash transactions,
 6. the level of use of non-cash payment instruments was increasing,
 - in particular, as regards contactless cards. It corroborates an increasing rate of transactions made using the existing payment cards by consumers who actively use non-cash transactions,
 - bearing in mind the results of the survey showing the growth of consumers' awareness regarding non-cash transactions and other forms of payment, the assessment indicated that payment cards represented the best-known form of payment,
 - the number and value of credit transfers and direct debits was consistently growing, although their share in the total number of all non-cash transactions has been consistently decreasing.
 7. the number of bank accounts and the number of non-cash transactions increased, confirming substantial activity of bank account holders, who use, in particular, card transactions and credit transfers,
 8. a positive development was a decline in the number of fraudulent transactions involving payment cards, according to data acquired from banks, taking into account the parallel dynamic growth of all card transactions.

Apart from the aforementioned key facts and events related to the functioning of the Polish payment system in the second half of 2017 and the statistical data which reflect the current condition of this system, it should be added that the material presented also contains information on the results of selected surveys and analyses in the area of payment system.

In the current edition of the assessment, the following activities should be highlighted:

- research project on the costs of payment instruments on the Polish market,

- survey on factors influencing the level of cash turnover in individual regions of Poland,
- survey on “Poles’ attitudes towards particular forms of payment”,
- survey on “Retail payment market in Poland. Range of acceptance - Transaction volumes - Innovation opportunities”.

It should be added that the functioning of the payment system in Poland results from actions and decisions of multiple entities (the most important of them were indicated in Chapter 1). While implementing its statutory task of organising monetary settlements, Narodowy Bank Polski fulfils not only the regulatory, supervisory and operational function in this area but also - as other central banks - the function of the catalyst for change, which involves, among others, initiating or supporting activities of a number of other entities and institutions within the system. However, it should be kept in mind that by accepting the aforementioned role of the catalyst for change, NBP does not always have the final influence on all decisions and actions of other entities related to the payment system.

Taking into consideration the information and data presented above, the functioning of the Polish payment system in the second half of 2017 should be assessed as positive.

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