

NBP

Narodowy Bank Polski

December 2017

Polish Payment System Oversight Report for 2016



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Introduction

Polish Payment System Oversight Report for 2016 (hereinafter referred to as the *Report*) was prepared in connection with the task related to the payment system oversight carried out by Narodowy Bank Polski (NBP), as one of the basic functions of central banks.

This *Report* is the first compilation concerning systems and services overseen by NBP and oversight activities undertaken by NBP in the specific calendar year. It presents synthetic information on the functioning of payment systems, clearing systems and securities settlement systems and the acquiring service,¹ covered by the NBP oversight, as well as oversight activities undertaken by NBP² in 2016.

The presented material contains information concerning:

- conditions of oversight performance by NBP;
- payment systems: large-value payment systems: SORBNET2 and TARGET2-NBP, operated by NBP and retail payment systems: Elixir, Euro Elixir, Express Elixir and Inkart, operated by Krajowa Izba Rozliczeniowa (KIR SA), BlueCash operated by Blue Media SA, BLIK Mobile Payment System operated by Polski Standard Płatności sp. z o.o. (PSP) and Krajowy System Rozliczeń (KSR) operated by First Data SA;
- securities settlement system operated by Krajowy Depozyt Papierów Wartościowych (KDPW SA), securities clearing systems operated by KDPW_CCP SA, securities clearing and settlement system of IRGiT SRF³ operated by Izba Rozliczeniowa Giełd Towarowych SA (IRGiT SA) and securities clearing and settlement system SKARBNET4 operated by NBP;
- acquiring service.

The *Report* presents aggregate statistical data reflecting the development of the payment system in Poland in 2016 as well as the oversight activities performed in this period.

Due to the fact that one of the criteria used to assess payment systems is their capacity to process a significant number of operations, in categories related to the value and number of processed payment orders, the *Report* also intentionally includes payment orders which were not executed, e.g. as a result of liquidity shortage or rejection. Consequently, a minor difference may occur between the data contained in the *Report* and the data presented in other NBP reports, where only orders executed in the particular system were included.

¹ The service provided by national payment institutions (NPIs). The acquiring is the payment service within the meaning of Article 3 para. 1 item 5 of the Act of 19 August 2011 on Payment Services (Journal of Laws 2014, item 873, as amended).

² The *Report* presents oversight performed by the President of NBP in the scope effective as at the end of 2016. In 2017, this scope was extended by oversight of payment schemes, which will be described in the next edition of the report for 2017.

³ SRF means the financial clearing system on the commodity market.

In 2016, NBP still did not have legal basis to collect oversight data from entities operating within the financial market infrastructure.⁴ Accordingly, it sent written requests to operators of overseen systems to provide basic information required for the preparation of the *Report*. Data collected by NBP up to date and generally available information concerning the systems, published by their operators were also used for the development of the *Report*. Data derived from the document called “Informacja o sytuacji Krajowych Instytucji Płatniczych (KIP) i Biur Usług Płatniczych (BUP) w 2016 roku” (Information on the situation of National Payment Institutions (NPIs) and Offices of Payment Services (OPSs) in 2016),⁵ prepared by the Polish Financial Supervision Authority Office (KNF Office) were also used for the analysis of the data concerning entities providing the acquiring service.

⁴ NBP obtained those powers pursuant to the Act of 30 November 2016 amending the Act on Payment Services and Some Other Acts which entered into force on 8 February 2017. They were specified in detail in the following implementing acts of the Minister of Economic Development and Finance: Regulation concerning the functioning of the payment scheme (Journal of Laws of 2017, item 995), Regulation concerning the data and information provided by entities operating the deposit of securities, the system for registration of financial instruments other than securities and the settlement system (Journal of Laws of 2017, item 948) and Regulation concerning the functioning of the payment system (Journal of Laws of 2017, item 1060).

⁵ Information on the situation of national payment institutions (NPIs) and offices of payment services (OPSs) in 2016, https://www.knf.gov.pl/?articleId=56434&p_id=18.

Conditions of systemic oversight in Poland in 2016

In 2016, NBP carried out activities in the scope of systemic oversight pursuant to *Narodowy Bank Polski payment system oversight policy* (hereinafter referred to as the *Policy*), approved by the NBP Management Board in October 2015.⁶ In accordance with this document, oversight of the payment system focused on the functioning of payment systems, securities clearing and settlement systems and provision of the acquiring service by NPIs. In 2016, systemic oversight of the above mentioned systems was performed by NBP within the following legal framework:

- Act of 24 August 2001 on Settlement Finality in Payment and Securities Settlement Systems and the Rules of Oversight of these Systems⁷ (hereinafter referred to as the “Settlement Finality Act”) – in relation to payment systems (exclusive oversight of President of NBP);
- Act of 29 July 2005 on Trading in Financial Instruments⁸ (hereinafter referred to as the “Financial Instruments Trading Act”) – in relation to securities clearing systems and securities settlement systems; the oversight consists in cooperation with the principal supervision authority, i.e. Polish Financial Supervision Authority (KNF Office) and is implemented, among others by means of opinions issued by the President of NBP on request of the KNF Office;
- Act of 19 August 2011 on Payment Services⁹ (hereinafter referred to as the “Payment Services Act”) – in relation to the acquiring services; the oversight consists in cooperation with the principal supervision authority, i.e. the KNF Office, and is implemented, among others, by means of opinions issued by the President of NBP on request of the KNF Office.

The division of the payment market infrastructure in Poland overseen by the President of NBP is presented in the diagram below.

The oversight performed by NBP in 2016 entailed collecting information regarding the current operations from entities which it oversees, assessing these operations and the performance of tasks with a view to introducing amendments necessary for the functioning of the aforementioned systems and provision of the acquiring service. The activities carried out by NBP in the scope of oversight were also related to its responsibility for organising monetary clearing, which arises from Article 3 para. 2 item 1 of the Act of 29 August 1997 on *Narodowy Bank Polski*¹⁰ (hereinafter referred to as the NBP Act).

The oversight tools used in 2016 are determined in detail in the *Policy*. Besides the aforementioned collecting of information and assessing the functioning of those systems

⁶ In June 2017, the NBP Management Board adopted the new *Narodowy Bank Polski payment system oversight policy*, pursuant to which in 2017 it oversaw payment systems, securities settlement systems, securities clearing systems, provision of the acquiring service and payment schemes.

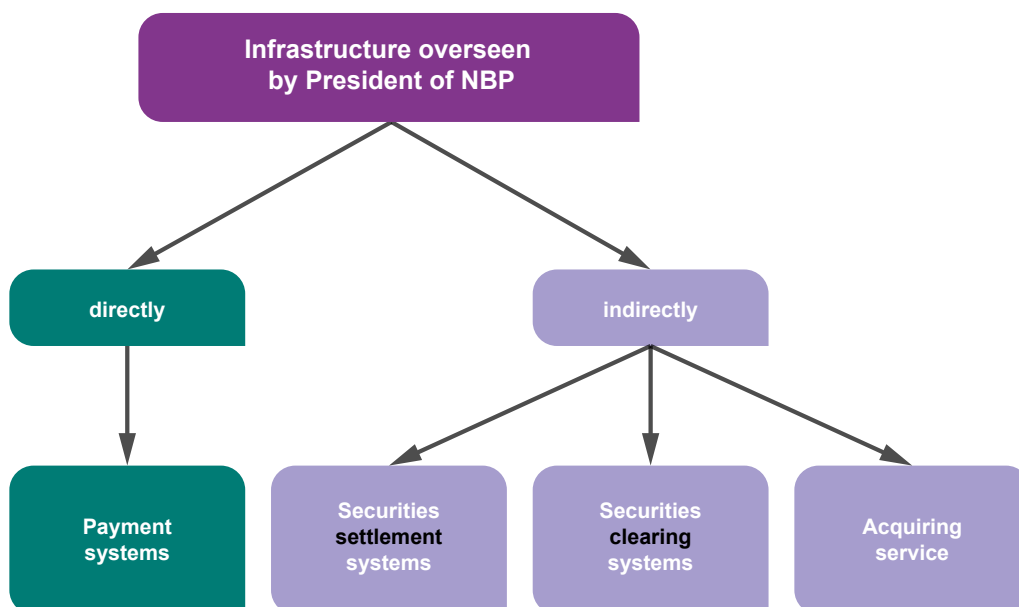
⁷ Journal of Laws of 2016, item 1224, as amended.

⁸ Journal of Laws of 2016, item 1636, as amended.

⁹ Journal of Laws of 2016, item 1572, as amended.

¹⁰ Journal of Laws of 2013, item 908, as amended.

Payment market infrastructure in Poland overseen by the President of NBP in 2016



Source: NBP study.

and the acquiring service, significant tools required for appropriate provision of oversight included:

- collecting and analysing of statistical data,
- clarifying incidents which occur in systems,
- cooperating with entities operating the systems and providing the acquiring service.

In 2016, NBP oversight activities consisted mainly in the monitoring of the functioning of payment systems with the use of information originating from their operators. They stemmed from the necessity of ensuring by operators of payment systems the efficient and safe functioning of those systems and their compliance with the provisions of law and, as a consequence – ensuring the stable functioning of the payment system in Poland.

While performing the current oversight of efficiency, safety and compliance of the functioning of the payment systems with the provisions of law, in 2016 the President of NBP granted authorisations (in the form of decisions of the President of NBP) to operate payment systems or to introduce amendments to their functioning rules pursuant to Article 16 para. 1 and 3 of the Settlement Finality Act.

In the framework of the oversight of securities clearing and settlement systems and provision of the acquiring service, the President of NBP issued opinions on request of the KNF Office. In the case of securities clearing and settlement systems, the legal basis for the issuance of opinions of the President of NBP were the provisions of Article 50 para. 2 and Article 48 para. 16 of the Financial Instruments Trading Act. Pursuant to those provisions, the amendments to the Rules on the functioning of the aforementioned systems required the KNF Office to obtain the opinion of the President of NBP. On the other hand, pursuant to Article 60 para. 3 of the Payment Services Act, the President of NBP issued opinions for

the KNF Office concerning requests of entities applying for the KNF Office authorisation to provide the acquiring service. The purpose of this activity was to assess whether this service would be provided efficiently, safely and in compliance with the provisions of law.

In the scope of the oversight performed in 2016, NBP also participated in the activities of the European Central Bank. NBP representatives took part in works of the following committees and working groups:

- Market Infrastructure and Payments Committee,
- Payment and Securities Oversight Working Group (PSOWG),
- Cyber Resilience Strategy Task Force (CR TF), including the Cyber Resilience Oversight Expectations (CROE) team,
- European Forum on the Security of Retail Payments (SecuRe Pay).

In 2016, it was necessary to adjust the Polish law, among others, to Regulation 2015/751 of the European Parliament and of the Council (EU) of 29 April 2015 on interchange fees for card-based payment transactions¹¹ (hereinafter referred to as: Regulation 2015/751). As a result of several months' legislative works, Act of 30 November 2016 amending the Act on Payment Services and certain other acts was adopted.¹² Its provisions related to oversight of the payment system entered into force on 8 February 2017.

Adjusting the provisions of the Polish law to Regulation 2015/751, the aforementioned Act entrusted to the President of NBP the role of the competent authority within the meaning of this Regulation in relation to card payment systems and assigned to the President of NBP competence required to enforce this regulation in the scope of oversight of card payment systems. It should be emphasised that the Act entrusted the oversight of functioning of payment schemes to the President of NBP,¹³ which means a scope broader than directly arising from the provisions of Regulation 2015/751, which refers only to card payment systems. In addition, within the Act amendments were introduced to the Settlement Finality Act, by specifying the scope of payment system oversight performed by the President of NBP; among others, the President of NBP was assigned the powers to issue recommendations in relation to entities operating a payment system.

¹¹OJ L 123 of 19.05.2015, p. 1, and Directive 2014/92/EU of the European Parliament and of the Council of 23 July 2014 on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (so-called PAD Directive).

¹²Journal of Laws of 2016, item 1997.

¹³In accordance with the definition contained in the Act, the term 'payment scheme' comprises: (1) a set of rules concerning the execution of payment transactions, the issuance and acceptance of payment instruments by payment service providers and the processing of payment transactions performed with the use of payment instruments; and (2) the card payment system.

Payment systems

Within the meaning of Article 1 para. 1 of the Settlement Finality Act, payment systems mean legal relationships, governed by the Polish law, between at least three institutions, of which at least one must be an entity¹⁴ responsible for discharging obligations arising from the execution of settlement orders within the system, except an indirect participant, with common rules, applicable to the participants, for the execution of their settlement orders. A slightly different, broader definition of the payment system is included in Article 2 para. 27 of the Payment Services Act, pursuant to which payment systems constitute systems of monetary transfers based on formal and standardised rules as well as common principles related to processing, clearing or settlement of payment transactions. In order to ensure efficiency and safety of the payment system, entities constituting its infrastructure are covered by systemic oversight under which the provisions of the national law and the adopted international standards and European Union (EU) regulations make the point of reference. For the purpose of payment system systemic oversight the definition specified in the Settlement Finality Act is used.

Payment systems are divided into large-value payment systems and retail payment systems. Large-value payment systems represent the main element of the payment system infrastructure and they are regarded as systemically important payment systems (SIPS). In the Polish payment system, two large-value payment systems operate, i.e. SORBNET2 for settlements made in PLN and TARGET2-NBP for settlements in EUR. Retail payment systems providing for clearing of transactions whose value usually does not exceed PLN 1 million also play an important role. In 2016, the following payment systems operated: Elixir, Euro Elixir, Express Elixir, BlueCash, KSR, BLIK and Inkart. In accordance with the classification defined in the *Policy* document adopted by the NBP Management Board, Elixir was classified as systemically important retail payment system. In 2016, it processed 95% of retail payment orders executed in Poland. On the other hand, the Euro Elixir system, whose share in the total volume of transactions amounts to only 1.2%, was classified as prominently important retail payment system. Its significance for the national financial market infrastructure stems from the fact that it is the only system of retail payments in euro. It should be emphasised that two independent instant payment systems (Express Elixir and BlueCash) operate in the Polish payment infrastructure, which is a distinctive feature both on the European and on the global scale (most of countries do not have any instant payment systems or have only one system of this type).

In Poland operate several independent retail payment systems and entities providing payment services. Such a diversification significantly reduces systemic risk. This is particularly important due to the systematic growth in non-cash transactions resulting from the economic development and new trends seen in the payment sector.

¹⁴ In accordance with Article 1 of the Settlement Finality Act, such entities may comprise: Narodowy Bank Polski, the central bank of another state, a domestic bank or a branch of a foreign bank, a brokerage house, a foreign legal entity or a public authority body.

In 2016, the total number of orders processed in large-value payment systems, SORBNET2 and TARGET2-NBP, amounted to PLN 5.3 million and rose by almost 300 thousand compared to 2015 (i.e. by 6%). The total value of orders executed in both systems exceeded PLN 76.3 trillion and it decreased by PLN 0.6 trillion (i.e. by almost 1%). This change was caused by a decline in the value of payment orders executed in the SORBNET2 system.

In all retail payment systems: in the systemically important (Elixir) and prominently important (Euro Elixir) systems, in instant payment systems (Express Elixir, BlueCash) and other retail payment systems (KSR, BLIK), the total of 1.8 billion of payment transactions with the value of PLN 5.0 trillion were processed.¹⁵ In the above systems (excluding BlueCash), both the value and the number of transactions processed in the fourth quarter of 2016 increased, compared to the first quarter of 2016. In the BlueCash system in 2016, the number of transactions gradually decreased in quarter to quarter terms. Elixir, Euro Elixir and Express Elixir systems (run by the same operator, i.e. KIR SA) processed jointly 96% of all transactions on the retail payment market, whereas taking into account the value of transactions – 99.5%. At the same time, in relation to 2015, the value of transactions processed by those systems increased by over 5% (their number increased by 3%).

In the majority of payment systems, growth trends are observed, both in terms of the value and the number of processed payment orders. It confirms further systematic development of non-cash transactions in Poland.

Oversight activity

Similar to previous periods, oversight activities were related to the monitoring of functioning of payment systems. In 2016, a total of seven incidents were recorded in three payment systems (SORBNET2, Euro Elixir and BlueCash). The reasons of those incidents can be divided into three types: human factor (mistakes in performing the procedure), software errors and problems with network connection. Measures undertaken by system operators in connection with the aforementioned incidents were assessed as adequate.

Payment system oversight focused on the analysis and preparation of opinions on changes in the rules of functioning of retail payment systems. In the framework of performing payment system oversight in Poland, in 2016 the NBP President issued five decisions; they referred to changes in the rules of functioning of the following systems: Elixir, Express Elixir, BlueCash and BLIK.

In 2016, the assessment of the SORBNET2 system's compliance with the *Principles for financial market infrastructures* (PFMIs) was completed.¹⁶ The proceedings carried out

¹⁵In the Inkart system launched in 2016, no transactions were performed.

¹⁶*Principles for financial market infrastructures* (PFMIs), CPSS-IOSCO (currently CPMI-IOSCO), April 2012, <http://www.bis.org/cpmi/publ/d101a.pdf>.

by the Payment Systems Department demonstrated a high level of SORBNET2 system compliance with the PFMI standards.¹⁷

Moreover, the resistance of the SORBNET2 system to the occurrence of extreme market conditions was examined (stress tests). The results of simulations performed on the basis of two diverse scenarios demonstrated its high resistance to the assumptions adopted in the study.

¹⁷Information concerning the assessment of the SORBNET2 payment system in terms of compliance with the “Principles for financial market infrastructures” (as at 31 December 2015), <http://www.nbp.pl/systemplatniczy/nadzor/ocena-systemu-platnosci-sorbn2.pdf>.

Securities clearing and settlement systems

The Settlement Finality Act defines (in Article 1 para. 2) securities settlement systems as legal relationships governed by Polish laws, between at least three institutions.¹⁸ In those systems common rules for the clearing or execution of settlement orders apply, i.e. participant orders to transfer securities by means of relevant book entries to a register of securities.

In 2016, the IRGiT SRF settlement system was granted an authorisation to operate within the meaning of the Settlement Finality Act.¹⁹ Consequently, the number of securities clearing and settlement systems operating on the Polish market increased to five. At present, they comprise:

- the securities settlement system operated by KDPW SA;
- the securities clearing and settlement system operated by NBP – SKARBNET4;
- the clearing system operated by KDPW_CCP SA pursuant to Rules of Transaction Clearing (organised trading);
- the clearing system operated by KDPW_CCP SA pursuant to Rules of Transaction Clearing (non-organised trading);
- the securities clearing and settlement system operated by IRGiT SA – IRGiT SRF.

The settlement system operated by KDPW SA in 2016 demonstrated a stable number of operations on equity and debt securities. Volatility between consecutive quarters did not deviate significantly from the quarterly average in 2016. The value of operations was systematically growing until the third quarter of 2016, whereas in the last quarter it was slightly lower than in the previous quarter. In total, in 2016, 8.7 million of operations of the value of PLN 11.6 trillion were processed.

In the SKARBNET4 system, which enables performing the operations on NBP bills and Treasury bills issued by the Ministry of Finance, in 2016, the total of 2.4 thousand transactions with the value of PLN 4.4 trillion were performed. As compared with 2015, the number of transactions decreased (by 0.6 thousand, i.e. by 20%), similarly to their value – by PLN 832.6 billion, i.e. by 16%.

The total number of transactions cleared by KDPW_CCP SA systems amounted to 22 million, by 4.1 million (i.e. by 16%) less than in 2015. On the other hand, the total value of transactions cleared in 2016 increased in relation to the previous year by PLN 85 billion (i.e. by 19%) reaching the level of PLN 544.5 billion.

In 2016, no transactions were cleared in the IRGiT SRF system.

¹⁸ At least one of those institutions must be NBP, the central bank of another state, a domestic bank, a branch of a foreign bank, a credit institution or its branch, an investment company or a public authority (Settlement Finality Act, Article 1 para. 5 letters a–d, h).

¹⁹ Journal of Laws of 2016, item 1224, as amended.

Oversight activity

As in previous periods, oversight activities in 2016 were related to the monitoring of functioning of the aforementioned systems.

With respect to the capital market, NBP oversight activities focused on the analysis and issuing opinions on amendments to the rules for the functioning of securities settlement and clearing systems operated by KDPW SA and KDPW_CCP SA, respectively. Those amendments introduced adjustments to the above systems operating rules in accordance with the statutory criteria.

In reference to the abovementioned, in 2016, upon the PFSA request, the President of NBP issued two opinions regarding the amendments to the KDPW Rules. Whereas four opinions of the President of NBP referred to the amendments to the rules for the functioning of the systems operated by KDPW_CCP SA.

The oversight activities also included participation of NBP representatives in the supervisory college for CCPs issuing the opinion on granting the authorisation, upon the request of KDPW_CCP SA, to extend the scope of authorisation to provide clearing services as CCP for instruments denominated in euro.

Acquiring service

The acquiring service means a payment service facilitating the execution of payment transactions, initiated by the merchant or through it, using the payer's payment instrument, with the exception of activities entailing clearing and settling of the payment transaction in the payment system, within the meaning of the Settlement Finality Act. The service consists in processing the authorisation, transferring the payer's or merchant's payment orders to the payment card issuer or payment systems, with the aim of transferring the due funds to the merchant.

At the end of 2016, 38 entities holding the authorisation to provide payment services in the capacity of a NPI were entered in the register of payment service providers operated and published by the PFSA. 21 entities among them were authorised to provide the acquiring service.

In 2016, the value of transactions executed within the acquiring service amounted to PLN 70.1 billion, whereas the number of transactions reached 794.2 million. As compared with 2015, the value of transactions increased by PLN 18.1 billion (by 35%) and their number – by 227.9 million (by 40%).

Oversight activity

The oversight of the acquiring service by the President of NBP is limited to issuing opinions, on request of the KNF Office, in relation to NPIs intending to offer such service under their licence.

In connection with the proceedings concerning the issuance of the authorisation for the NPIs to provide the acquiring service, in 2016 President of NBP issued three opinions.

Assessment of overseen payment system infrastructure

In 2016, payment systems as well as securities clearing and settlement systems in Poland operated in a stable manner and the nature and intensity of potential risks for their stability has not changed significantly in relation to the previous year.

It should be stated that measures undertaken by system operators were adequate and ensured the efficient and safe functioning of the payment system. It also applies to the fulfilment of information obligations towards NBP by entities overseen. In particular, the cooperation of overseen entities in developing standards for the submission of oversight data under the preparation of implementing regulations to the acts amended by the provisions of the Act of 30 November 2016 Amending the Act on Payment Services and Some Other Acts, should be assessed positively.

Considering the foregoing, it can be concluded that in terms of oversight, in 2016 the Polish financial system operated properly, ensuring the efficient and safe processing of clearing and settlement transactions.

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