

**NBP**

Narodowy Bank Polski

December 2018

# Polish Payment System Oversight Report for 2017



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# Introduction

*Polish Payment System Oversight Report for 2017* (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* contains information concerning the conditions of oversight performance by NBP in 2017 and oversight activities undertaken by NBP of:

- 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 S.A. (KIR S.A.), BlueCash payment system, operated by Blue Media S.A., BLIK Mobile Payment System, operated by Polski Standard Płatności Sp. z o.o. (PSP) and Krajowy System Rozliczeń (KSR) operated by First Data S.A.;
- payment schemes: card payment schemes (Visa Europe, Mastercard, American Express and Diners Club) and payment schemes that are non-card payment schemes (BLIK payment scheme, YetiPay, mPay, SkyCash, Snoopay and Peopay);
- securities clearing systems and securities settlement systems: SKARBNET4, the registration system of NBP money bills and Treasury bills operated by NBP, the settlement system of transactions concluded in financial instruments trading operated by Krajowy Depozyt Papierów Wartościowych S.A. (KDPW S.A.), clearing systems operated by KDPW\_CCP S.A. for transactions in financial instruments, the financial instruments clearing and settlement system IRGiT SRF<sup>1</sup> operated by Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT S.A.);
- provision of the acquiring service<sup>2</sup> provided by national payment institutions (NPIs).

This *Report* was drawn up based on information provided to NBP by entities operating systems and schemes overseen by the President of NBP. The data are submitted to NBP based on the relevant regulations of the Minister of Development and Finance (MRiF). Generally available information on systems, published by their operators, was also used for the preparation of the *Report*. Data derived from quarterly documents 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

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<sup>1</sup>SRF means the financial clearing system on the commodity market.

<sup>2</sup>The acquiring is the payment service provided by domestic payment institutions, defined in Article 3 para. 1 item 5 of the Act of 19 August 2011 on Payment Services (Journal of Laws of 2017, item 2003, as amended).

Offices of Payment Services (OPSs) in 2016<sup>3</sup>, prepared by the Polish Financial Supervision Authority Office (KNF Office) were also used for the analysis of data on acquiring service providers.

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<sup>3</sup> Information on the situation of National Payment Institutions (NPIs) and Offices of Payment Services (OPSs) for the consecutive quarters of 2017 prepared by the KNF:

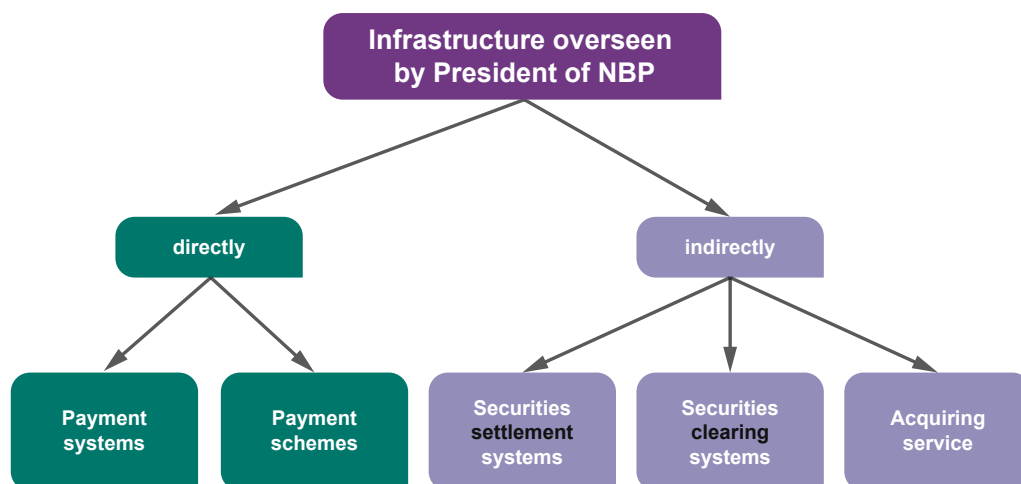
- for 2017 Q1: [https://www.knf.gov.pl/?articleId=58296&p\\_id=18](https://www.knf.gov.pl/?articleId=58296&p_id=18),
- for 2017 Q2: [https://www.knf.gov.pl/knf/pl/komponenty/img/Informacja\\_o\\_sytuacji\\_KIP\\_i\\_BUP\\_w\\_2Q2017\\_60358.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Informacja_o_sytuacji_KIP_i_BUP_w_2Q2017_60358.pdf),
- for 2017 Q3: [https://www.knf.gov.pl/knf/pl/komponenty/img/Informacja\\_o\\_sytuacji\\_KIP\\_BUP\\_IIIQ\\_2017.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Informacja_o_sytuacji_KIP_BUP_IIIQ_2017.pdf),
- for 2017 Q4: [https://www.knf.gov.pl/knf/pl/komponenty/img/Informacja\\_o\\_sytuacji\\_KIP\\_i\\_BU\\_w\\_4%20\\_Q\\_2017\\_61542.pdf](https://www.knf.gov.pl/knf/pl/komponenty/img/Informacja_o_sytuacji_KIP_i_BU_w_4%20_Q_2017_61542.pdf).

# Oversight in Poland in 2017

## Legal conditions

In 2017, NBP carried out oversight activities pursuant to *Narodowy Bank Polski payment system oversight policy* (hereinafter referred to as the *Policy*), approved by the NBP Management Board in October 2017 and its update approved by the NBP Management Board in June 2017<sup>4</sup>. In accordance with this document, oversight of the payment system in 2017 included the functioning of payment systems, payment schemes, securities clearing and settlement systems and provision of the acquiring service provided by NPIs. Compared to 2016, this scope was extended to include oversight of payment schemes following the entry into force on 8 February 2017 of the *Act of 30 November 2016 amending the Payment Services Act and certain other acts*<sup>5</sup> (hereinafter referred to as the “amending Act”). The distribution of

Payment market infrastructure in Poland overseen by the President of NBP in 2017



Source: NBP study.

the payment system infrastructure in Poland overseen by the President of NBP is shown in the chart below.

In 2017, oversight of the above-mentioned systems and schemes was performed by NBP within the following legal framework:

<sup>4</sup>As of 8 February 2017 the scope of statutory oversight exercised by NBP was extended, therefore in June 2017 the NBP Management Board adopted the updated *Narodowy Bank Polski payment system oversight policy* ([http://www.nbp.pl/en/system\\_platniczy/payment-system-oversight-policy-june-2017.pdf](http://www.nbp.pl/en/system_platniczy/payment-system-oversight-policy-june-2017.pdf)).

<sup>5</sup>Journal of Laws of 2016, item 1997.

- *Act of 24 August 2001 on Settlement Finality in Payment and Securities Settlement Systems and the Rules of Oversight of these Systems*<sup>6</sup> (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 Instruments*<sup>7</sup> (hereinafter referred to as the “Financial Instruments Trading Act”) – in relation to securities clearing systems and securities settlement systems (the oversight consisting in cooperation with the principal supervision authority, i.e. Polish Financial Supervision Authority (KNF) and implemented, among others, by means of opinions issued by the President of NBP on request of the KNF);
- *Act of 19 August 2011 on Payment Services*<sup>8</sup> (hereinafter referred to as the “Payment Services Act”) – in relation to payment schemes (exclusive oversight by President of NBP) and provision of the acquiring services (the oversight consisting in cooperation with the principal supervision authority, i.e. the KNF, in the form of opinions issued by the President of NBP on request of the KNF).

Moreover, in 2017, pursuant to the amending Act, NBP was authorised to collect oversight information from entities operating within the payment system infrastructure. The amendments introduced by the amending Act stemmed from the need to adjust Polish legislation, among others, to *Regulation of the European Parliament and of the Council (EU) 2015/751 of 29 April 2015 on interchange fees for card-based payment transactions*<sup>9</sup> (hereinafter referred to as “Regulation 2015/751”) and *Directive of the European Parliament and of the Council 2014/92/EU 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). In the scope related to adjusting the provisions of the Polish law to the provisions of Regulation 2015/751, the amending Act entrusted to the President of NBP the role of the competent authority in relation to card payment systems and assigned to the President of NBP competence required to enforce this law. It should be emphasised that the amending Act entrusted oversight of the functioning of all payment schemes to the President of NBP<sup>10</sup>, which means a broader scope than that directly arising from the provisions of Regulation 2015/751, which refers only to card payment systems. In addition, within the amending Act, amendments were also made in the Settlement Finality Act, by specifying the scope of oversight of the payment system 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.

At the same time, more precise provisions regarding the oversight of the payment system were provided in the following implementing acts of the Ministry of Development and Finance:

<sup>6</sup> Journal of Laws of 2016, item 1224, as amended.

<sup>7</sup> Journal of Laws of 2017, item 1768, as amended.

<sup>8</sup> Journal of Laws of 2017, item 2003, as amended.

<sup>9</sup> OJ L 123, 19.05.2015, p. 1.

<sup>10</sup> In 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.



- Regulation of 5 May 2017 concerning data and information provided by entities operating a securities depository, a system for registration of financial instruments other than securities and a settlement system<sup>11</sup>;
- Regulation of 10 May 2017 on payment scheme functioning<sup>12</sup>;
- Regulation of 17 May 2017 on payment system functioning<sup>13</sup>.

### Oversight activity

The most important activities and events related to oversight in 2017 include:

1. Extending the oversight of the President of NBP to the functioning of payment schemes (entry into force of the amending Act in February 2017 and the Regulation of MRiF on payment scheme functioning in May 2017), followed by the commencement by NBP of assessment of payment schemes operating in Poland, including assessment of compliance of the functioning of payment card schemes with the requirements set forth in Regulation of the European Parliament and of the Council (EU) 2015/751 (September 2017).
2. Approval by the Management Board of NBP of the updated version of the *Narodowy Bank Polski payment system oversight policy* (June 2017).
3. Adoption by the Management Board of NBP of the report on the assessment of the SORBNET2 payment system, in terms of compliance with the rules contained in the PFMI document (January 2017).
4. Commencing the assessment of the operation of the SKARBNET4 system in terms of its compliance with the CSDR requirements and complementary regulatory technical standards, concluded by the approval by the Management Board of NBP of the report “Assessment of the SKARBNET4 system in terms of its compliance with the CSDR requirements” (March 2018).
5. Performing the assessment of cyber resilience of SORBNET2 and Elixir payment systems.
6. Performing the assessment of cyber resilience of the SKARBNET4 system and, in cooperation with the KNF, the settlement system operated by KDPW S.A. and clearing systems operated by KDPW\_CCP S.A.
7. Development and posting on the NBP website of the guidelines concerning the reporting obligations, including reporting forms<sup>14</sup>, in order to improve and harmonise the reporting to NBP of systems and schemes overseen by the President of NBP (May 2017).

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<sup>11</sup> Journal of Laws of 2017, item 948.

<sup>12</sup> Journal of Laws of 2017, item 995.

<sup>13</sup> Journal of Laws of 2017, item 1060.

<sup>14</sup> <http://www.nbp.pl/home.aspx?f=/systemplatniczy/nadzor/raportysprawozdawcze.html>

The role of NBP in exercising the oversight consists, among others, in examining requests for an authorisation of the President of NBP to start the operation of a payment system or a payment scheme or to introduce amendments to their operating rules, issuing opinions on the KNF requests concerning the oversight of securities clearing systems and settlement systems and the provision of the acquiring service. It also consists in obtaining information on the current activity of the overseen payment system infrastructure, performing the assessment of this activity and in undertaking measures to implement necessary changes in the way it operates. It is associated with the NBP's 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*<sup>15</sup>. Additional tools enabling an appropriate provision of the oversight function by NBP include:

- quantitative data analysis,
- clarifying incidents which occur in payment systems and schemes,
- ongoing cooperation with entities operating payment systems and payment schemes and providing the acquiring service.

In 2017, NBP oversight activities consisted mainly in the monitoring of the operation of the payment system infrastructure supervised by the President of NBP, with the use of information originating, respectively, from system operators or entities operating payment schemes. These measures were aimed at controlling of ensuring by system operators or entities operating payment scheme efficiency, safety functioning of those systems and schemes and compliance with the provisions of law and, as a consequence – the stable functioning of the payment system in Poland.

While performing the current oversight of the functioning of the payment systems, in 2017 the President of NBP granted authorisations (in the form of decisions of the President of NBP) to introduce amendments to their operating rules, pursuant to Article 16 para.1 and 3 of the Settlement Finality Act. Analogically, while performing the oversight of the functioning of payment schemes, the President of NBP issued one authorisation (in the form of decision of the President of NBP) to operate the payment scheme, pursuant to Article 132 of the amended Payment Services Act.

At the request of the KNF, the President of NBP issued seven opinions in the framework of the oversight of securities clearing systems and securities settlement systems and three opinions in the framework of the oversight of the acquiring service. In the case of securities clearing and settlement systems, the legal basis for the issuance of opinions of the President of NBP (in the form of decision 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 functioning of the aforementioned systems, required the KNF to obtain an opinion of the President of NBP. Moreover, pursuant to Article 60 para. 3 of the Payment Services Act, the President of NBP issued opinions for the KNF concerning requests of entities applying for a PSFA authorisation to provide the acquiring service. The purpose of issuing the opinions concerning requests for the PSFA authorisation

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<sup>15</sup> Journal of Laws of 2017, item 1373.

was to assess whether the applicant ensures that the acquiring service would be provided efficiently, safely and in compliance with the provisions of law.

Additionally, in the scope of the oversight performed in 2017, NBP representatives participated in the activities of the European Central Bank and took part in the work of the following committees and working groups:

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

## Chapter 2

# Payment systems

Within the meaning of Article 1 para. 1 of the Settlement Finality Act, payment systems mean legal relationships, governed by Polish law, between at least three institutions, except an indirect participant, with common rules, applicable to the participants, for performing clearing or execution of their settlement orders<sup>16</sup>, except an indirect participant, with common rules, applicable to those participants, for execution of their settlement orders<sup>17</sup>.

In accordance with the *Policy*, for the purpose of oversight, payment systems are divided into:

1. *Systemically Important Payment Systems (SIPS)*:
  - large-value payment systems (LVPS),
  - retail payment systems;
2. prominently important retail payment systems;
3. other retail payment systems.

The classification of a system into one of the aforementioned categories is performed based on an individual assessment by the NBP Payment Systems Department under the criteria contained in the *Policy*. Such assessment follows the analysis of the extent of impact on the financial market, the level of market penetration, the area of the impact (cross-border nature of the system increases potential adverse impacts in the case of malfunctioning) and performing the settlement for other financial market infrastructure.

Systemically important payment systems include all large-value payment systems and the biggest retail payment system in terms of the number of executed orders. On the other hand, the system performing at least 25% of retail payments in the particular currency is recognised as a prominently important retail payment system.

Large-value payment systems occupy an overriding place in the payment system infrastructure. In 2017, two large-value payment systems were in operation in Poland:

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<sup>16</sup> In accordance with Article 1 of the Act on Settlement Finality in Payment and Securities Settlement Systems and the Rules of Oversight of These Systems, such entities may comprise: Narodowy Bank Polski, the central bank of another country, a domestic bank or a branch of a foreign bank, a brokerage house, a foreign legal person or a public authority.

<sup>17</sup> 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 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 oversight, the definition specified in the Settlement Finality Act is used.

- the SORBNET2 system, operated by NBP, where the settlement of transactions in PLN is performed;
- the TARGET2-NBP system, operated by NBP in legal terms, and by four central banks (Deutsche Bundesbank, Banque de France, Banca d'Italia and Banco de España) in organisational terms<sup>18</sup>, where the settlement of transactions in EUR is performed.

In 2017, the total number of orders processed in large-value payment systems, SORBNET2 and TARGET2-NBP, amounted to 5.7 million and rose by almost 375 thousand compared to 2016 (i.e. by 7%). The total value of orders executed in both systems exceeded PLN 78.4 trillion and it rose by PLN 2.1 trillion (i.e. by almost 3%) compared to the previous year.

Retail payment systems, as systems ensuring clearing of transactions whose value is usually below PLN 1 million<sup>19</sup> also play an important role. In 2017, seven retail payment systems operated on the Polish market: Elixir, Euro Elixir, Express Elixir, BlueCash, KSR, BLIK and Inkart.

While assessing the significance of an impact of individual retail payment systems on the Polish market of payment services, the number of orders executed therein was adopted as the basic criterion. In accordance with this criterion, the Elixir system can be explicitly indicated as it processed 95% of all payment orders in the framework of retail payment systems in PLN. For this reason, this system was recognised as systemically important.

The Euro Elixir system, as the only retail system, processes orders in the currency other than PLN (i.e. in EUR). Due to this fact, it is recognised as a prominently important system, despite a relatively limited scale of retail settlements performed (in 2017, only 1.4% retail payment orders were processed therein).

Among retail payment systems, instant payment systems, i.e. Express Elixir and BlueCash, represent a specific group. From point of view of a payer (i.e. a client-participant of the system), a significant and characteristic feature of instant payments is the lack of clearing sessions and payments executed “instantly” or “almost instantly”. Instant payments represent a retail payment segment belonging, besides mobile payments, to the most rapidly developing part of the payment market, whereas their significance and share in retail settlements is systematically growing, although their share in 2017 in relation to the overall market of retail payments was insignificant, amounting to only 0.5%. A similar image of individual systems' share is visible when the criterion of the value of orders cleared is used. The aggregate share of the value of orders performed in instant payment systems in the value of payment orders on the Polish market also amounted to 0.5%.

In all retail payment systems processing orders in PLN, i.e. the systemically important system (Elixir), instant payment systems (Express Elixir, BlueCash) and other retail payment systems

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<sup>18</sup>The functioning of the TARGET2 system is based on the *Single Shared Platform (SSP)* developed by three EU central banks, i.e. France, Germany and Italy and currently (after the integration with TARGET2-Securities) operated by those three banks and additionally also by the Bank of Spain.

<sup>19</sup>In accordance with §1 item 13 letter d) of Regulation No. 13/2013 of the President of NBP of 24 May 2013 concerning the manner of performing interbank settlements effective in 2017, exceptions against the rule included, among others, payments of social security contributions, payments performed in favour of tax authorities and payments made based on cheques and other debit payment orders.

(KSR, BLIK), the total of 1.9 billion of payment transactions with the value of PLN 4.8 trillion were processed. Elixir, Express Elixir and Inkart systems (run by the same operator, i.e. KIR S.A.) processed jointly 94.9% of all transactions on the retail payment market, whereas taking into account the value of transactions – 99.4%. At the same time, in relation to 2016, both the volume and the value of orders processed by those systems increased by 5.0% and 7.8%, respectively. On the other hand, 27.2 million orders with the value of EUR 156.0 billion were executed in the Euro Elixir system in 2017 (respectively, by 23.4% and 34.1% more than in 2016).

## Oversight activity

As in previous periods, oversight activities were related to the monitoring of the operation of payment systems, including incident analysis. In 2017, a total of 15 incidents were recorded in five payment systems and one payment scheme.<sup>20</sup> However, these incidents were neither of key importance for the operation of individual systems nor for the functioning of the entire payment system in Poland. The reasons of those incidents can be divided into four types: human factor (mistakes in the performance of procedures), equipment failures, software errors and network connection problems. Measures undertaken by system operators in connection with the aforementioned incidents were assessed as adequate.

## Decisions of the President of NBP

Payment system oversight focused on the analysis and preparation of opinions on changes in the rules of the operation of retail payment systems. As part of the exercise of payment system oversight in Poland in 2017, the President of NBP issued five decisions; they referred to changes in the rules of the operation of the following systems: Elixir, Euro Elixir, Express Elixir and BLIK.

## Other activities

In 2017, the assessment of the SORBNET2 system's compliance with the *Principles for financial market infrastructures*<sup>21</sup> (PFMIs) was completed. The proceedings demonstrated a high level of SORBNET2 system compliance with the PFMI standards<sup>22</sup>. The assessment covered the most important functions of the SORBNET2 system, i.e. the operation of bank accounts and execution of payment orders of participants in this system. Moreover, aspects associated with the intraday credit facility were also taken into account, the role of which is to support liquidity management by banks during one trading day and to support liquidity of interbank settlements in the SORBNET2 system. Within five steps of the assigned assessment of 16 Principles in terms of which the evaluation of the SORBNET2 system was performed, it was

<sup>20</sup> In 2017, seven incidents were recorded in the SORBNET2 system, two in the TARGET2-NBP system, three in Euro Elixir, two in BlueCash and one in the BLIK Payment System (including the BLIK Payment Scheme).

<sup>21</sup> *Principles for financial market infrastructures* (PFMIs), CPSS-IOSCO (currently CPMI-IOSCO), April 2012, <http://www.bis.org/cpmi/publ/d101a.pdf>

<sup>22</sup> Information concerning the assessment of the SORBNET2 payment system in terms of its compliance with the "Principles for financial market infrastructures" (as at 31 December 2015) <http://www.nbp.pl/systemplatniczy/nadzor/ocena-systemu-platnosci-sorbn2.pdf>.

found that 12 Principles were complied with while 4 remaining Principles were complied with to a major extent. No Principles which would be partially complied with or not complied with were identified.

Work related to the performance of the KSR system assessment in terms of its compliance with the *Principles for financial market infrastructures* (PFMIs) as at 31 August 2016 started in 2017. As the KSR was classified as “other retail payment system”, the preliminary assessment was performed based on nine principles.

The preliminary analysis was completed in 2018 Q1. Full KSR assessment will be performed in 2019.

In 2017, the resilience of the SORBNET2 system to the occurrence of extreme market conditions was examined (stress tests). The results of simulations performed on the basis of three different scenarios demonstrated its high resilience to the assumptions adopted in the study. A survey regarding critical participants' identification in the SORBNET2 system was carried out on the basis of data for 2017.

Moreover, in 2017, the assessment of cyber resilience of SORBNET2 and Elixir systems was performed, which indicated a high level of maturity of these systems.

## Payment schemes

In accordance with the Payment Services Act, a payment scheme is a set of rules concerning execution of payment transactions, issuance and acceptance of payment instruments by payment service providers and processing of payment transactions with the use of payment instruments and the payment card scheme. Two types of payment schemes are distinguished: four-party schemes and three-party schemes.

Operating of a four-party payment scheme requires an authorisation of the President of NBP. An exception are so-called EU schemes which are bound to submit, among others, a copy of the relevant document confirming that the assessment of payment scheme operating rules was performed. In a four-party payment scheme, the payment organisation does not carry out activities of an issuer or an acquirer and these activities are entrusted to other payment service providers. On the other hand, in a three-party payment scheme, issuance of payment instruments and their acceptance is the sole competence of the payment organisation operating the payment scheme. Due to the provision of the acquiring service, such payment organisation is the NPI, therefore, it is subject to KNF oversight and must obtain the KNF authorisation to operate. In connection with the above, the operation of a three-party payment scheme does not require the authorisation of the President of NBP.

Upon the entry into force of the amending Act, i.e. on 8 February 2017, payment schemes operating on the territory of the Republic of Poland became subject to oversight exercised by the President of NBP. In 2017, they included the following schemes:

- payment schemes being payment card systems: Visa Europe, Mastercard, American Express and Diners Club;
- payment schemes that are non-payment card schemes: BLIK payment scheme<sup>23</sup>, YetiPay, mPay, SkyCash, Snoopay and Peopay.

At the end of 2017, 39.1 million payment cards were issued in Poland, with the share of cards issued by Visa Europe Ltd. and MasterCard Europe S.A. amounting in total to 99% of the market of payment cards in Poland, and the share of American Express Services Europe and Diners Club Polska Sp. z o.o. – to 0.2%. Besides cards issued by international card systems operating in Poland, own cards of issuers are also used on the market. These are cards issued mostly by cooperative banks, of a territorial nature only, used mainly for withdrawal of cash from ATMs. At the end of 2017, they accounted for 0.8% of all cards issued in Poland.

In payment schemes other than payment card schemes, the total of 47.5 million transactions were executed in 2017. Taking into consideration both the total value of executed transactions and their number, the BLIK Payment Scheme was Poland's largest payment scheme in this category in 2017. 67% of all transactions completed in non-card payment schemes were

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<sup>23</sup> It obtained the authorisation of the President of NBP in 2017.



executed in this scheme. In terms of the number of executed transactions, the SkyCash scheme was ranked second, with the share in this value exceeding 29% of all transactions.

The value of transactions executed in 2017 in non-card payment schemes amounted to PLN 4.9 billion. In the BLIK Payment Scheme, 93% of this value was processed. In the second largest scheme, Sky Cash, 4.1% of the value of transactions was processed.

In accordance with Article 132zq para. 3 of the Payment Services Act, Article 3 and Article 4 of Regulation 2015/751, a four-party card organisation or an organisation recognised as a four-party card organisation provides NBP with quarterly information required to check the accuracy of application of the interchange fee level. Accordingly, NBP analysed the level of interchange fees charged in 2017 by individual card organisations (i.e. Visa Europe, Mastercard and Diners Club), broken down into debit cards and credit cards. As a result of the analysis, NBP did not find any irregularities in the application of interchange fees by those schemes, i.e. their value did not exceed the statutory limit of 0.2% for debit cards and 0.3% for credit cards (issued to individual clients).

### **Oversight activities**

Oversight activities in 2017 referred to the monitoring of functioning, including incident analysis. In payment schemes being payment card schemes, no incidents were recorded in 2017. On the other hand, in payment schemes that were non-payment card schemes, overseen by the President of NBP, one incident was recorded in 2017.

#### **Decisions of the President of NBP**

As part of oversight activities in 2017, the decision of the President of NBP was issued concerning the authorisation to operate the payment scheme called BLIK Payment Scheme.

#### **Other activities**

The analysis has examined which payment schemes operate on the territory of the Republic of Poland in a three-party model and which ones in a four-party model as well as which of them are required to apply for the authorisation of the President of NBP after the expiry of the aforementioned transitional period (on 8 August 2017). Pursuant to the transitional period, payment schemes functioned prior to the entry into force of the amending Act could act without the required authorisation until 8 August 2017. In connection with the above, payment card schemes were assessed in terms of their compliance with the requirements provided for in Regulation 2015/751. The assessment demonstrated that the payment card schemes fulfil the requirements defined by law.

## Securities clearing and settlement systems

Securities settlement systems are legal relationships governed by Polish law between at least three institutions<sup>24</sup>. In those systems which common rules of for the clearing or execution of settlement orders apply in transactions concluded in financial instruments trading, including derivatives.

In Poland, the KNF is the authority competent for oversight, including the prudential oversight of securities clearing systems and securities settlement systems. The role of the President of NBP in this scope is auxiliary and consists in systemic assessment of the functioning of the systems in terms of efficiency, security and compliance with law.

In 2017, similar to 2016, the following securities clearing systems and securities settlement systems operated on the Polish market:

1. SKARBNET4 System for registration of NBP money bills and Treasury bills operated by NBP;
2. the settlement system of transactions concluded in financial instruments trading operated by KDPW S.A.;
3. the clearing system operated by KDPW\_CCP S.A. for transactions in financial instruments pursuant to Rules of Transaction Clearing (organised trading);
4. the clearing system operated by KDPW\_CCP S.A. for transactions in financial instruments pursuant to Rules of Transaction Clearing (non-organised trading);
5. the securities clearing and settlement system of financial instruments operated by Izba Rozliczeniowa Giełd Towarowych S.A. (IRGiT S.A.).

In the SKARBNET4 System for registration of NBP money bills and Treasury bills, the total of 0.65 thousand (compared to 0.69 thousand in 2016; a 5.8% decline) settlement operations of transactions on Treasury bills and NBP bills were performed with the total value of PLN 510.7 billion (including PLN 35.1 billion for Treasury bills and PLN 475.6 billion for NBP bills; compared to the total of PLN 457.8 billion in 2016 – a 11.6% growth).

In 2017, in the KDPW S.A. operated settlement system for transactions traded in financial instruments, the total of 8.5 million operations were conducted for the settlement of

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<sup>24</sup> Within the meaning of the Trading in Financial Instruments Act, at least one of those institutions which are participants of the payment system or the securities settlement system and which are responsible for the fulfilment of the obligations stemming from the execution of settlement orders in the system should 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.

transactions concluded on the organised market (compared to 7.7 million in 2016; up 10.6%) with the total value of PLN 926.8 billion (compared to PLN 730.1 billion in 2016; a 26.9% rise). On the other hand, on the over the counter market (OTC), the total of 0.94 million transaction settlement operations were executed (compared to 0.96 million in 2016; a 2.1% decline) with the total value of PLN 11.7 trillion (compared to PLN 10.9 trillion in 2016; a 7.3% increase).

In 2017, the total number of transactions cleared in the KDPW\_CCP S.A. systems for transactions in financial instruments amounted to 24.3 million transactions in financial instruments on the organised market (compared to 22 million in 2016; a 10.5% rise) with the total value of PLN 471.7 billion (compared to PLN 382.8 billion in 2016; a 23.2% increase) and the total of 1.1 thousand transactions in financial instruments traded in the OTC market (compared to 1.3 thousand in 2016; a 16.2% decline) with the total value of PLN 135 billion (compared to PLN 161.7 billion in 2016; a 16.5% decline).

As at 31 December 2017, no transactions were processed in the IRGiT SRF system operated by IRGiT S.A., i.e. no financial transactions which the clearing house could clear were concluded. In connection with the absence of any operating activity in the scope of transactions with underlying financial instruments, no oversight action in relation to the IRGiT SRF system were undertaken by NBP in 2017.

### **Oversight activity**

Besides the opinions of the President of NBP indicated later in the text, oversight activities in 2017 were related in particular to the monitoring of functioning of the securities clearing and settlement systems, the analysis of quantitative data provided by their operators and the issuance of opinions on proposed amendments to the operating rules of these systems requested by their operators. In 2017, no incidents were reported in the functioning of the securities clearing and settlement systems.

#### **Opinions of the President of NBP**

In 2017, on request of the KNF and in the form of decisions, the President of NBP issued:

- three opinions regarding the amendments to the KDPW S.A. Rules,
- two opinions regarding the amendments to the KDPW\_CCP S.A. Rules for clearing on an organised market, and
- two opinions regarding the amendments to the KDPW\_CCP S.A. Rules for clearing on a non-organised market.

## Other activities

NBP also undertook oversight activities consisting in the verification of compliance of the operation of the SKARBNET4 system with the requirements of the CSDR<sup>25</sup> and regulatory technical standards issued thereto<sup>26</sup>. The assessment performed by NBP demonstrated a high level of compliance of the SKARBNET4 system with the requirements of the CSDR and the requirements of regulatory technical standards.

Considering the growing role of cyber security risk in the scope of assessment of the security of the operation of the financial system infrastructure, including securities settlement systems, NBP decided to take part in the Pan-European questionnaire survey regarding cyber resilience comprising, in the case of Poland, among others the SKARBNET4 system. The said survey was launched in 2017 Q4. Subsequently, on the basis of feedback received from the system Operator and the consistent ESCB assessment methodology, a high level of cyber maturity of the SKARBNET4 system was found. In addition, in cooperation with the KNF Office, NBP conducted questionnaire surveys regarding the cyber security resilience of the settlement system of transactions concluded in financial instrument trading operated by KDPW S.A. and clearing systems operated by KDPW\_CCP S.A. for transactions in financial instruments. The analyses have shown a high level of cyber maturity for systems operated by KDPW S.A. and KDPW\_CCP S.A.

NBP representatives are members of the international supervision college established for KDPW\_CCP S.A. at the KNF, comprising representatives of the KNF and selected members of supervision authorities from other Member States of the European Union and the European Securities Markets Authority<sup>27</sup>.

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<sup>25</sup> Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012.

<sup>26</sup> Commission Delegated Regulation (EU) 2017/390 of 11 November 2016 supplementing Regulation (EU) No. 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on certain prudential requirements for central securities depositories and designated credit institutions offering banking-type ancillary services and Commission Delegated Regulation (EU) 2017/392 supplementing Regulation (EU) No 909/2014 of the European Parliament and of the Council with regard to regulatory technical standards on authorisation, supervisory and operational requirements for central securities depositories – these regulations entered into force on 30 March 2017.

<sup>27</sup> The rules concerning establishment of the college arise from the provisions of the EMIR.

## 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.

The oversight of the President of NBP of the acquiring service consists in issuing opinions in the form of decisions of the President of NBP, following the submission by the KNF of applications of entities intending to provide this service as part of services offered as an NPI. At the end of 2017, the total number of entities holding the KNF's licence to operate as the NPI amounted to 44, whereas the number of NPIs holding the authorisation to provide the acquiring service amounted to 25 and it was higher by 4 entities compared to the end of the previous year.

In 2017, the value of transactions executed within the acquiring service amounted to PLN 93.8 billion, whereas the number of transactions reached 1.1 billion. As compared with 2016, the value of transactions increased by PLN 23.8 billion (by almost 34%) and their number – by 334.8 million (by over 42%).

### Oversight activity

The oversight of the acquiring service by the President of NBP is limited to issuing opinions, on request of the KNF, in relation to NPIs intending to offer such service under their licence. In connection with the above and the KNF proceedings concerning the issuance of the authorisation for the NPI to provide the acquiring service, in 2017 the President of NBP issued three opinions related to the following entities:

- Fenige Sp. z o.o.,
- Conotoxia Sp. z o.o.,
- PAYMENTO FINANCIAL S.A.

## **Assessment of overseen payment system infrastructure**

In 2017, payment systems, payment schemes 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 and payment scheme operators were adequate and ensured the efficient and safe functioning of the payment system. This also applies to the fulfilment of information obligations towards NBP by entities overseen. In particular, the cooperation of overseen entities in regular submission to NBP of oversight data based on the implementing regulations to the acts amended by the provisions of the amending act should be assessed positively.

Considering the foregoing, it can be concluded that in terms of oversight, the Polish financial system operated properly in 2017, ensuring the efficient and safe processing of clearing and settlement transactions.

## List of abbreviations

<b>OPS</b>	Office of Payment Services
<b>CCP</b>	Central Counterparty, i.e. the entity which becomes the sole buyer for all sellers and the sole seller for all buyers
<b>CPMI</b>	Committee on Payments and Market Infrastructures
<b>CPSS</b>	Committee on Payment and Settlement Systems
<b>CSDR</b>	<i>The Central Securities Depositories Regulation – Regulation (EU) No. 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories (...)</i>
<b>DSP</b>	NBP Payment Systems Department
<b>ESCB</b>	European System of Central Banks
<b>IOSCO</b>	International Organization of Securities Commissions
<b>IRGiT S.A.</b>	Izba Rozliczeniowa Giełd Towarowych S.A.
<b>IRGiT SRF</b>	the securities clearing and settlement system operated by IRGiT S.A.
<b>KDPW S.A.</b>	Krajowy Depozyt Papierów Wartościowych S.A.
<b>KDPW_CCP S.A.</b>	operates as a clearing house engaged in clearing transactions concluded in the domestic financial market, with the status of Central Counterparty (CCP); a part of KDPW Group
<b>NPI</b>	National Payment Institution
<b>KIR S.A.</b>	Krajowa Izba Rozliczeniowa S.A.
<b>KNF</b>	Polish Financial Supervision Authority
<b>KSR</b>	Krajowy System Rozliczeń
<b>NBP</b>	Narodowy Bank Polski
<b>OTC</b>	<i>Over the counter – a non-organised market</i>
<b>PFMIs</b>	<i>Principles for financial market infrastructures</i>
<b>PSP</b>	Polski Standard Płatniczy sp. z o.o.
<b>SKARBNET4</b>	a system for registration of bills, in which accounts and deposit accounts for such bills are operated by NBP and securities transactions are executed
<b>SORBNET</b>	Banks' Accounts Operating System – network version, the Polish RTGS system for payments in PLN, in operation until 9 June 2013.
<b>SORBNET2</b>	new version of the SORBNET system in operation since 10 June 2013
<b>TARGET2</b>	Trans-European Automated Real-Time Gross Settlement Express Transfer System
<b>TARGET2-NBP</b>	Polish component of the TARGET2 system
<b>EU</b>	European Union
<b>KNF Office</b>	Office of the Polish Financial Supervision Authority

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