

## POSITION OF THE NATIONAL BANK OF SLOVAKIA IN THE PAYMENTS SYSTEM

**One of the key functions of the National Bank of Slovakia is ensuring the smooth and efficient functioning of the payments and clearing systems in the SR and oversight over these systems.**

**The National Bank of Slovakia has, since 1 January 2003, operated the interbank payments system, SIPS, and on 1 April this year put into operation the new interbank payments system RTGS. In connection with this we requested an interview with Ing. Milena Koreňová, chief executive director of the Financial Management and Payment System Division of the National Bank of Slovakia.**

**Over the years 1993 to 2002 the company Bankové zúčtovacie centrum Slovenska, a.s. (Slovak National Clearing Centre) operated the interbank payments system. Why has there been this change of operator?**

One of the conditions of Slovakia's accession to the European Union, defined by the European Commission, was the setting up of an interbank payments system on RTGS principles (Real Time Gross Settlement) for large value payments. The essence of RTGS systems lies in the fact that each payment must be settled individually, in real time, be irrevocable and its finality must be ensured. A payment is final, if it is settled on the accounts in the central bank. Ensuring the operation of the RTGS system is most economically efficient, if carried out by the central bank. At the time, but on the basis of an authorisation from the National Bank of Slovakia, the interbank payments system was operated by Bankové zúčtovacie centrum Slovenska, a.s., the shareholders of which were, besides the National Bank of Slovakia, also banks and branches of foreign banks operating in Slovakia. It was simply that to operate two separate payments systems, i.e. RTGS for large-value payments in the National Bank of Slovakia and another for small-value payments in another institution would, given Slovakia's conditions, be very expensive. At that time the operator of the interbank payments system, Bankové zúčtovacie centrum Slovenska, a.s., introduced to the participants of the system, and concurrently also to its shareholders, the project of the new version of the interbank payments system, which required significant investment for the renewal of system hardware and software. The National Bank of Slovakia,



aware of its responsibility for managing, co-ordinating and ensuring the payments system and settlement of data of the system of payments between banks, had for a long time been analysing the situation in the field of the system of payments and had proposed a new interbank system of payments, using modern technologies such as chip cards, digital signatures or encryption algorithms, with the functionality of RTGS clearing

and with lower costs for its realisation. This interbank payments system, entitled SIPS (Slovak Interbank Payments System) was also presented to banks and branches of foreign banks at an extraordinary general meeting of shareholders of Bankové zúčtovacie centrum Slovenska, a.s., where the shareholders through their decision supported the solution proposed by the central bank.

**How has the National Bank of Slovakia implemented this demanding project?**

The SIPS interbank payment project was demanding not only from the aspect of ensuring the full functionality of the system, but also due to the fact that in the test operation and parallel operation phases, the involvement of all participants in the interbank payments system was essential. Only following the successful completion of the test operation, the aim of which was testing the transfer of data between the National Bank of Slovakia and individual participants of the SIPS payment was it possible to begin parallel operation. During parallel operation the results of the SIPS clearing were reconciliated on a daily basis with the results of the clearing at the Slovak National Clearing Centre.



### **How does the system work and how is its security ensured?**

The processing and settlement of payments works on gross settlement principles; the priority payments fulfil principles of gross settlement in real time. The processing and settlement of payments takes place continually throughout the day on accounts kept at the National Bank of Slovakia. Technically, information on the balance of accounts is provided to participants at five-minute intervals. The processing and settlement of payments is fully automated; the transfer of data between the National Bank of Slovakia and participants of the SIPS interbank payments system are performed exclusively in electronic form – by means of the communication system entitled BIPS (Basic Interface for Payment System).

The basic types of money transfers which the system handles are payments and direct debits, which are further grouped into normal and priority operations. Normal payments may be characterised as “small-value payments”. As a rule, they are standard interbank and client payments, which from the processing aspect are of low priority. Priority payments, “large-value payments”, are interbank money-market payments, i.e. payments of extraordinary economic importance. From the aspect of processing they receive the highest priority, meaning that they are settled in the interbank payment system ahead of normal payments. The time required for a priority payment transfer from a participant to the National Bank of Slovakia is approximately 3 to 5 minutes.

Following the processing and settlement of each individual priority payment a binding confirmation is dispatched to the sender and recipient of the priority payment via the BIPS communications system, and which contains all the data necessary for identifying the priority payment. The SIPS interbank payments system may be simply and effectively integrated with applicants' payments systems using API (Application Programme Interface).

The security of the SIPS interbank payments system is founded on a high degree of data protection in all phases of the processing and settlement of data, as well as during its transfer between the National Bank Slovakia and participants of the interbank payments system. In the transfer of data its integrity and authenticity is verified by means of a digital signature. The processing and settlement of payments is fully automated, the transfer between participants is done in electronic form by means of the BIPS communications system, a special system intended for the transfer and protection of data in the framework of that SIPS system. It comprises a central node, located at the National Bank of Slovakia and nodes on the side of the individual partici-

pants. Their interconnection is ensured by the UNIVERSALNET® network, a private data network set up and operated for the needs of the National Bank of Slovakia, and intended for the bilateral transfer of data exclusively between the payments system operator and its participants.

### **What is the fee policy of the NBS?**

The pricing policy of the National Bank of Slovakia is aimed at the cost recovery principle for services provided by means of the SIPS interbank payments system. Every fee stated in the table of charges is supported by a price calculation based on the acquisition cost of the SIPS interbank payments system and actual expenses for its operation. In principle we differentiate between transaction, monthly and one-off fees.

One-off and monthly fees represent the fixed costs of a participant's connection to the payments system and use of the transfer lines. The level of transaction fees depends on the number of payments sent to the National Bank of Slovakia for processing and settlement. The basic fee is set for one input item, which is subsequently multiplied by the respective coefficient according to the type of payment (normal, priority) and the time when the payment entered the system. The basic fee for processing one input item is SKK 0.25. The fee for processing a priority payment is at maximum SKK 6.25. The fee is charged for each payment only once; the National Bank of Slovakia does not charge fees for output items.

### **Who can be a participant of the system?**

We can divide participants of the SIPS interbank payment system into direct and indirect. Banks, branches of foreign banks and other financial institutions are direct participants of the interbank payments system, having their own account kept at the National Bank of Slovakia for the settlement of payments realised by means of this system. In the case of banks and branches of foreign banks their account serves also for monitoring and evaluating the set compulsory minimum reserves. Direct participants make their own payments and their clients payments by means of the SIPS interbank payments system. Indirect participants of the SIPS system are subjects operating in the interbank system of payments as third parties. They are non-bank subjects, not having their own account kept at the National Bank of Slovakia for settlement of the payments. Third parties are entitled to debit and credit the accounts of direct participants of the SIPS interbank payments system, though only on the basis of their prior authorised written consent.



The access of participants to the SIPS interbank payments system is co-ordinated and managed by the National Bank of Slovakia in accordance with the Act on the payment system. The National Bank of Slovakia has issued rules on access to the SIPS interbank payments system. In the process of an application for entry to the payments system the technical prerequisites placed upon the applicant for participation in the system are verified in the framework of details laid down by the Act. If the applicant fulfils the conditions stipulated, it becomes a participant of the payments system, on the basis of which the central bank concludes with it a contract on the SIPS payments system and assigns identification codes to it for the domestic system of payments.

***The efficient and smooth functioning of the interbank payments system is closely connected with sufficient liquidity in the banking sector. How is the situation resolved when banks do not have sufficient liquidity?***

Since 1 January 2003 we have extended the range of functions offered in the framework of the SIPS system by the provision of intraday credits. This means that a bank not having sufficient liquidity may, in the framework of one business day, draw an interest-free credit from the central bank secured by securities, where these funds must be returned by the end of the business day. If the bank does not return the money by the end of the business day the intraday credit is reclassified to a refinancing credit with set interest rates. Intraday credits are provided with the aim of ensuring smooth running of the system, which is one of the basic conditions for the functioning of the interbank system of payments.

***Let's go back to RTGS payments. Is this an independent payments system or are both systems – SIPS and RTGS – mutually interconnected?***

The interbank payments system SIPS, as I have already mentioned, has two types of payments defined. These are normal, ordinary payments in the framework of interbank payment system and so-called priority payments. The system of priority payments is used primarily for settlement of large-value payments. According to statistics for last year priority payments formed around 0.02 – 0.03% of the total volume of payments, but more than 25% of the value of all payments. The average value of one priority payment was SKK 460 million. Mostly they served for settling bank transactions between the National Bank of Slovakia and commercial banks or between commercial banks themselves.

Essentially these priority payments and the manner

of their processing had already formed the basis for payments made in real time under RTGS principles. Simply said, these “half-RTGS” payments worked throughout the whole of 2003. The National Bank of Slovakia supplemented this system of priority payments by the finality of payment function and on 1 April 2004 introduced it into real-time operation.

So, to sum up, the interbank payments system functions as one system, but it is necessary to present it at two levels. One part of the system comprises ordinary payments, the other RTGS payments.

***You indicate that the interbank payments system is continually developing. How do you assess the past period, specifically the first year of the interbank payments system's operation at the National Bank of Slovakia?***

I think that the first year of operating the interbank payments system may be seen as successful from all aspects. No problems arose that would have threatened its smooth functioning. Its success is documented also by statistical data. For example in 2003 there were 25 participants in the SIPS interbank payments system, of which 23 were direct and 2 indirect. Over the whole of 2003 99 million transactions were processed, which is an increase of 11% on the preceding year. The total value of the transactions was SKK 32 248 756 million, which is an increase of 44% on the preceding year. Normal payments represented more than 99% of the number and approximately 74% of the value of the transactions processed. The average value of one normal payment was SKK 250 000. In 2003 there were 248 business days. On average 399 000 payments, with a total value of SKK 130 035 million, were processed and settled daily in the SIPS system, where by means of the current technological equipment it is possible to process and clear up to two million payments per hour. Via the BIPS communication system it is possible to transfer between one participant and the National Bank of Slovakia around 230 000 payments per hour.

***Already only a few days separate us from Slovakia's accession to the European Union. As regards the interbank system of payments are we at a level comparable with other member states?***

Yes, in this field we are at a comparable level, where this has been stated also in an assessment report drawn up by the European System of Central Banks. The RTGS system is important for connecting the country to the TARGET system (Trans-european Automated Real-Time Gross settlement Express Transfer system), which is essentially a large-value operating on



RTGS principles and covering the European territory. It comprises national RTGS systems and an interlinking network. The European Central Bank on the basis of experience to date is developing a new version of the TARGET system, TARGET 2, with the aim of raising its efficiency and lowering operating costs, and thereby also transaction fees.

***How is the situation with Slovakia's connection to TARGET?***

A matter often discussed is when it will be appropriate to connect to TARGET. The Committee on Payment and Securities Settlement Systems, which operates in the framework of the European Central Bank, has set four options for connecting to TARGET. Theoretically,

we could connect on the first day of accession to the European Union, at latest however a year before our accession to Economic and Monetary Union. The European Central Bank still emphasises that we should first have a business case, or said simply, it only makes sense to connect when it is economically worthwhile. At present in Slovakia mostly correspondent banking is used for transfers abroad. This means that if transfers via TARGET were more efficient and faster, and there were a sufficient quantity of these payments, it would perhaps be appropriate to connect. If not, then it will be more appropriate to leave our connection for later. It is an issue we are currently looking at.

***Thank you for the interview***  
***Alica Polónyiová***