

ELECTRONIC MEANS OF PAYMENT

Ing. Mgr. Renáta Vokorokosová, PhD.

Faculty of Business Economics Košice, University of Economics in Bratislava

The digital economy is opening up opportunities for the emergence and implementation of new alternative forms of payment. These are, for example, electronic means of payment and monetary funds, which include payment cards, electronic purses and software-based products, so-called virtual money.

Payment cards in Slovakia now enjoy wide acceptance amongst the public. Other forms will soon gradually find their place in the market among other competing products. Electronic money is today in many countries still at the stage of development and gradual testing. Its use and growth in worldwide terms is expected in the global creation of a corresponding legislative environment. The aim of this article is to highlight the progressive development in the field of bank payment cards in the market for means of payment in the context of applicable legislation.

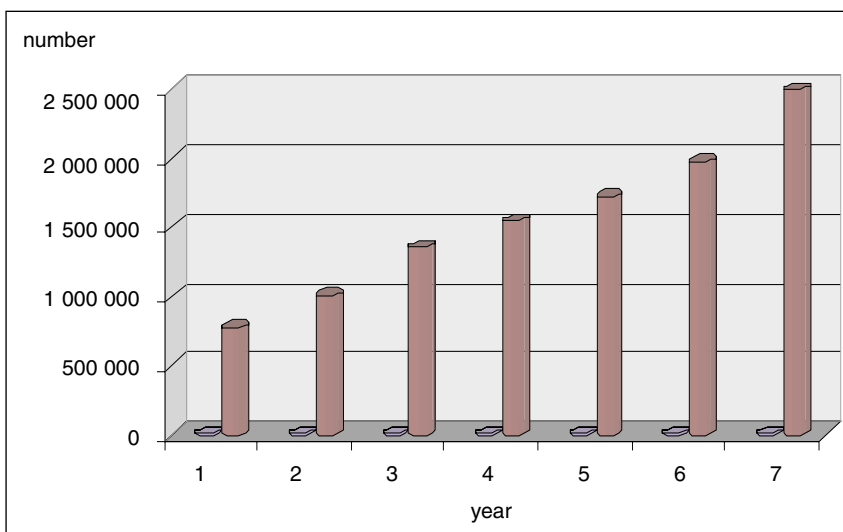
Bank services connected with the issuing of bank payment cards for clients' current accounts are marked by the current global trend, where the need to offer clients new forms of payment at increasingly advantageous conditions is becoming ever more important. On the one hand these are manifested by a trend to simplify and stimulate the issuing and use of cards and subsequently make clients' cards and accounts easier to use, for example through lowering the set minimum account balances, or the level of turnover on an account, reducing fees for issuing cards, the minimum time for administering an account, or on the other hand by various marketing activities connected with certain advantages in using EFTPOS (Electronic Funds Transfer at Point of Sale) terminals. There is here thus an effort to contribute to the growth of a non-cash society through the use of alternative forms of payment for their primary purpose - non-cash payment and concurrently to limit cash withdrawals from ATM cash machines by increasing fees for these services, since the majority of clients still always use cards for withdrawing funds and in many cases also in low amounts, which in most cases increases banks' costs.

There are now 2.5 million payment cards issued in Slovakia. Although their use for non-cash payment is increasing, they are most often used for cash withdrawals from cash machines. Bank payment cards may now be used in a network of 1 366 automatic

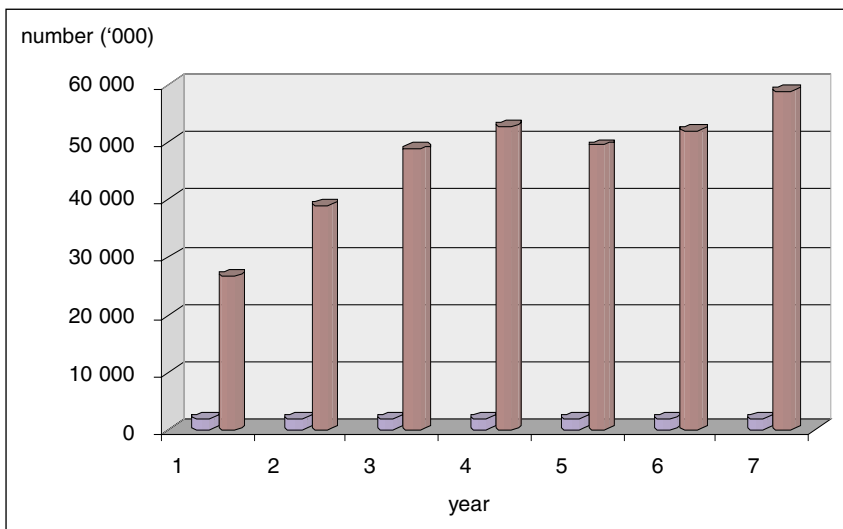
teller machines (ATMs) and in more than 12 265 shops. EFTPOS (payment terminals) are most often located at petrol stations, in a wide network of department stores, in supermarkets, hypermarkets and other large stores. In the past year the number of transactions made via payment terminals increased to almost 5 000, whereas transactions via cash machines grew by almost 7000. The following graphs summarize the development in the number of payment cards and transactions made via ATMs and EFTPOS terminals in the period 1996 to 2002.

Electronic forms of payment and monetary funds are today in Slovakia governed by Act no. 483/2001 of the Digest of Laws on Banks, Act no. 149/2001 of the Digest of Laws on the National Bank of Slovakia, Act no. 510/2002 of the Digest of Laws on the System of Payments. Act no. 483/2001 of the Digest of Laws on Banks contains a provision in § 2 (2) (g), according to which the issuing and processing of means of payment is classified as a banking activity. The Act also in § 3 clearly states that no-one without a banking licence may issue bank payment cards. A bank payment card is a means of payment by which are performed non-cash payment operations via technical facilities to the debit or credit of an account established by a bank or branch of a foreign bank and in respect of which the payment card was issued (§ 5, first part of Act no. 483/2001 of the Digest of Laws). Act no. 149/2001 of the Digest of Laws defines the framework of the National Bank of

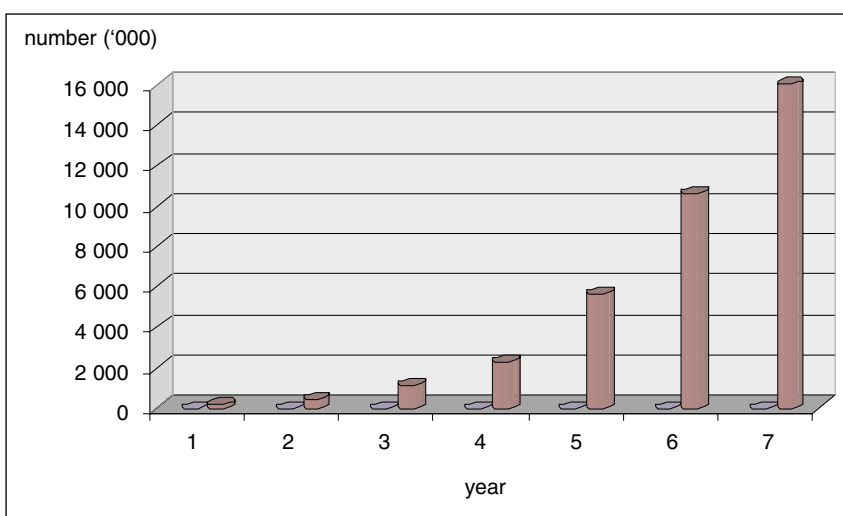
Graph 1 Bank payment cards issued 1996 – 2002



Graph 2 Transactions via ATMs 1996 – 2002



Graph 3 Transactions via EFTPOS 1996 – 2002



Source: www.zbk.sk

Slovakia's competence in twelve fields, where the eighth "Further activities and Authorisations of the NBS" contains among others also a provision in § 31 (2), according to which the NBS coordinates and directs the issuing, administration and use of individual means of payment, where a means of payment is understood to be an instrument of the system of payments that serves for performing non-cash payment operations and cash payment operations in particular to the debit or credit of an account established by a bank, including electronic means of payment, for example, electronic money, electronic purses and bank payment cards. The NBS in the interest of security in the system of payments performed via means of payments also stipulates details on the issuing, administration of means of payments, as well as other requirements for technical parameters and security elements of individual means of payment including limits and other technical limitations for operations performed by individual means of payments. Act no. 510/2002 of the Digest of Laws codifies the legal regulation of the financial system of payments in the SR, harmonising Slovakia's legal code with legal norms of the European Community/European Union for the financial system of payments. The question of the issuing and use of electronic payment and monetary funds is contained in the act in the third part "Issuing and use of electronic means of payment", in § 21 to § 30, in which are defined electronic means of payment, electronic money, sample business conditions for issuing and using electronic means of pay-



ment, drafted by the National Bank of Slovakia, business conditions of the issuer, clearing in the use of electronic means of payment, electronic money means of payment and redemption.

Thus, for example, in paragraph 1 electronic means of payment are defined and divided into means of payment based on remote access to financial funds, where these include bank payment cards and electronic banking payment applications, and into electronic money means of payment, which include electronic and software-based purses (virtual money). Paragraphs (8) and (9) define bank debit and credit cards. Both definitions conform to the general definition of a bank payment card contained in section 5 (m) of the Act on Banks. In section 30 of the Act on the System of Payments there is, for example, stipulated the rule for the redemption of electronic money for a monetary value (money). As results from paragraph (2), the issuer has the right to set a minimum value for an exchange of electronic money. In the case of individual redemptions it may not, according to the act, fall below the limit of EUR 10, or the equivalent of this amount recalculated to the Slovak currency at the NBS exchange rate valid as at the redemption of the electronic money. Electronic money is a replacement of legal tender; in the interest of managing monetary policy it is therefore necessary to gain a precise, comprehensive and true picture of all issuers and the monetary means of payment issued by them.

According to the draft act issuers of electronic means of payment must inform the NBS not only of the values of electronic money issued, but also of the number of electronic money means of payment. Details on sending the data required for the NBS are contained in NBS decrees. For example, NBS decree no. 10/2002 concerns the declaration of an issuer of an electronic money means of payment to the National Bank of Slovakia, or NBS decree no. 2/1998 again stipulates the details on issuing and administering electronic money means of payment in Slovakia. An electronic purse is defined as a chip card with a payment function. The client pre-pays for the value stored on the card. In Slovakia an electronic purse may be issued in respect of a client's account in the domestic currency. Through the decree there is prevented the loading from one electronic purse to another. The daily ceiling for reloading such a card including the actual balance is SKK 10 000. This same amount of money represents the maximum daily limit for its application. Through this decree there is also stipulated the duty of com-

mercial banks to submit data on the issuing of electronic purses and their use to the National Bank of Slovakia. This data is contained in the Monthly Statement on an Account Float. On this account are allocated financial funds loaded to electronic purses from the accounts of bank clients.

Conclusion

The Slovak Republic in its negotiating position on Chapter 4 – Free Movement of Capital undertook to implement the *acquis communautaire* in the field of the system of payments with effect as of 1 January 2003, or at latest on the date of the Treaty of Accession of the Slovak Republic to the European Union entering into effect. In connection to electronic means of payment harmonisation of domestic legal regulation with EU legislation is required. Recommendation no. 97/489/EC, e.g., defines transactions via electronic means of payment and monetary funds and the relation of the issuer and holder. With EU membership is connected also harmonisation of the rate of use of non-cash means of payment. It is a huge challenge for banking subjects to expand their operations in the market and to incorporate the issuing of the latest alternative forms of non-cash tender into their existing product range.

This article was written in the framework of the VEGA project solution no. 1/9225/02.

Literature:

1. ECB/1998/: Report on Electronic Money, Frankfurt am Main, 1998.
2. www.zbk.sk
3. Act No. 483/2001 of the Digest of Laws on Banks.
4. Act No. 149/2001 of the Digest of Laws on the National Bank of Slovakia.
5. Act No. 510/2002 of the Digest of Laws on the System of Payments.
6. NBS decree No. 2/1998.