



4 PAYMENT SERVICES AND PAYMENT SYSTEMS

4.1 PAYMENT SERVICES

The principal legal regulation governing payment services and payment systems in Slovakia is Act No 492/2009 on payment services and amending certain laws (hereinafter 'the Payment Services Act'), which transposes into Slovak law Directive 2007/64/EC of the European Parliament and of the Council on payment services in the internal market. As for the EU's new Payment Services Directive (2015/2366), the process of transposing it into Slovak law began in 2016 and will be completed with the adoption of a Payment Services Amendment Act, to enter into force at the beginning of 2018. Certain consumer provisions of the Payment Services Act (on, for example, payment account switching) started to be applied in 2016 in accordance with Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features.

Slovak law in the area of payment services also includes the following directly applicable EU Regulations:

- Regulation (EC) No 924/2009 on cross-border payments in the Community and repealing Regulation (EC) No 2560/2001;
- Regulation (EU) No 260/2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009;
- Regulation (EU) No 2015/847 on information accompanying transfers of funds and repealing Regulation (EC) No 1781/2006; and
- Regulation (EU) No 2015/751 on interchange fees for card-based transactions.

Further components of the legal framework are Decree No 8/2009 of Národná banka Slovenska laying down the structure of domestic and international bank account numbers and details about the issuance of an identifier code converter, and Decree No 6/2013 of Národná banka Slovenska on direct debit payee identifiers and the register of direct debit payee identifiers.

In 2016 Národná banka Slovenska approved a proposal of the Slovak Banking Association (SBA) that banks should not pay any contribution for that year to the operation of the SBA's Permanent Court of Arbitration (established under the Payment Services Act for the out-of-court settlement of disputes), in view of the Court's financial results and the sufficiency of existing funding for the activities of the Court's Chamber for the Arbitration of Disputes Related to Payment Services.

4.2 PAYMENT SYSTEMS IN SLOVAKIA

4.2.1 TARGET2 AND TARGET2-SK

Since Slovakia joined the euro area in 2009, Národná banka Slovenska has operated the TARGET2 component system known as TARGET2-SK (T2-SK). T2-SK functioned smoothly in 2016, free of any serious incident that might have disrupted the processing of payments or operation of the system, or have adversely affected its participants.

Národná banka Slovenska ensures the day-to-day operation of T2-SK, provides advice and support to the system's participants, and performs regular testing of recovery procedures. It is also involved in coordinating the development, modification, testing, and implementation of software releases for the Single Shared Platform (SSP) that forms the technical infrastructure of TARGET2. New software releases, approved by the Eurosystem in response to the requirements of the system's users, bring enhanced functionalities and modifications to the SSP and also rectify any deficiencies identified in the previous version.

In 2016 NBS organised one working meeting with representatives of T2-SK participants. The meeting concerned the TARGET2-Securities project and was addressed mainly to those institutions that planned to open a 'dedicated cash account' in the fourth migration wave.

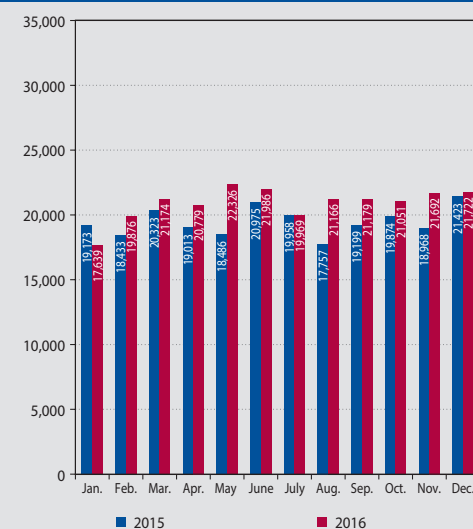


In 2016 the European Central Bank (ECB) adopted Guideline (EU) 2016/579 of the European Central Bank of 16 March 2016 amending Guideline ECB/2012/27 on a Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET2) (ECB/2016/6). On the basis of this Guideline, NBS adopted the following decisions:

- Decision No 9/2016 of 5 April 2016 amending Decision No 7/2015 on conditions for opening and administering PM accounts in TARGET2-SK;
- Decision No 10/2016 of 5 April 2016 amending Decision 8/2015 on conditions for opening and administering dedicated cash accounts in TARGET2-SK;
- Decision No 11/2016 of 5 April 2016 amending Decision 4/2010 on settlement procedures for TARGET2-SK ancillary systems, as amended;
- Decision No 12/2016 of 5 April 2016 on general conditions for the provision of intraday credit by Národná banka Slovenska;
- Decision No 13/2016 amending Decision 10/2015 on general conditions for the provision of auto-collateralisation by Národná banka Slovenska.

T2-SK had 257 operating days in 2016, and its average daily traffic by volume and value was 975 transactions and almost €2,099 million.

Chart 23 Number of transactions processed by T2-SK in 2015 and 2016



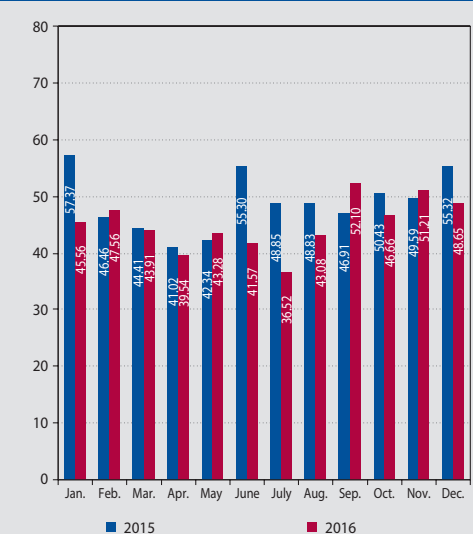
Source: NBS.

4.2.2 PAYMENTS PROCESSED BY TARGET2-SK

T2-SK had 34 participants at the end of 2016, including 30 direct participants and the following four ancillary systems: the Slovak Interbank Payment System; a company called First Data Slovakia, s. r. o.; and two central securities depositories – Centrálny depozitár cenných papierov SR, a. s. (CDCP) and Národný centrálny depozitár cenných papierov, a. s. (NCDC). With NCDC connecting to T2-SK in 2016, the number of participants was one higher at the end of the year than at the end of 2015. One other direct participant that joined the system in 2016 was BNP Paribas Personal Finance SA, a foreign bank branch, while one existing direct participant, ERB bank, left the system in 2016.

In 2016 T2-SK processed more than 250,000 transactions with a total value of over €539 billion. Compared with 2015, T2-SK traffic increased in volume by 7% (almost 17,000 transactions) and decreased in value by almost 8% (€47 billion).

Chart 24 Value of transactions processed by T2-SK in 2015 and 2016 (EUR billions)



Source: NBS.



Looking at the payment traffic in 2016 broken down into customer and interbank transactions, customer payments had the higher share by number (74:26), while interbank payments predominated in terms of value (7:93).

A total of 25 EU central banks were connected to TARGET2 by the end of 2016, one more than at the end of 2015 owing to the Croatian central bank joining the system in 2016. Of the total number of payments sent by T2-SK participants in 2016, 45.14% were domestic, 49.27% were cross-border within the euro area and 5.59% were cross-border to counterparties in non-euro area countries. Cross-border payments within the euro area accounted for 60% of the total value of payments, and domestic payments for 40%.

4.2.3 THE SLOVAK INTERBANK PAYMENT SYSTEM

The Slovak Interbank Payment System (“SIPS”) is a retail payment system used for the processing and clearing of payments in euro. These comprise mostly domestic payments, but also cross-border SEPA credit transfers and SEPA direct debits in the XML message standard. Cross-border SEPA credit transfers and SEPA direct debits are processed by STEP2, a pan-European automated clearing house, in which NBS is a direct participant.

The SIPS processes and clears payments through multiple clearing cycles on each business day. After participants’ payments are cleared in the SIPS, which is a T2-SK ancillary system, the resulting cash positions undergo final settlement in T2-SK. The Slovak IPS functioned smoothly in 2015, free of any incident that might have disrupted the processing and clearing of payments or operation of the system.

In response to the requirements of the domestic banking sector and in accordance with a decision of the NBS Bank Board, the services available to SIPS participants were extended from January 2016 to include the processing of cross-border direct debits between businesses under the SEPA Direct Debit Business to Business (SDD B2B) Scheme. The SDD B2B Scheme includes specific features for payments solely between businesses.

NBS maintains the register of creditor identifiers (CIs) for SEPA direct debits (SDDs), after assuming this task from the Slovak Banking Association in 2013. Each SDD payee, whether a natural person or legal entity, has a unique CI. The number of active SDD payees registered with NBS was almost 420 at the end of 2016.

Chart 25 Payments sent by T2-SK participants in 2016 broken down by destination

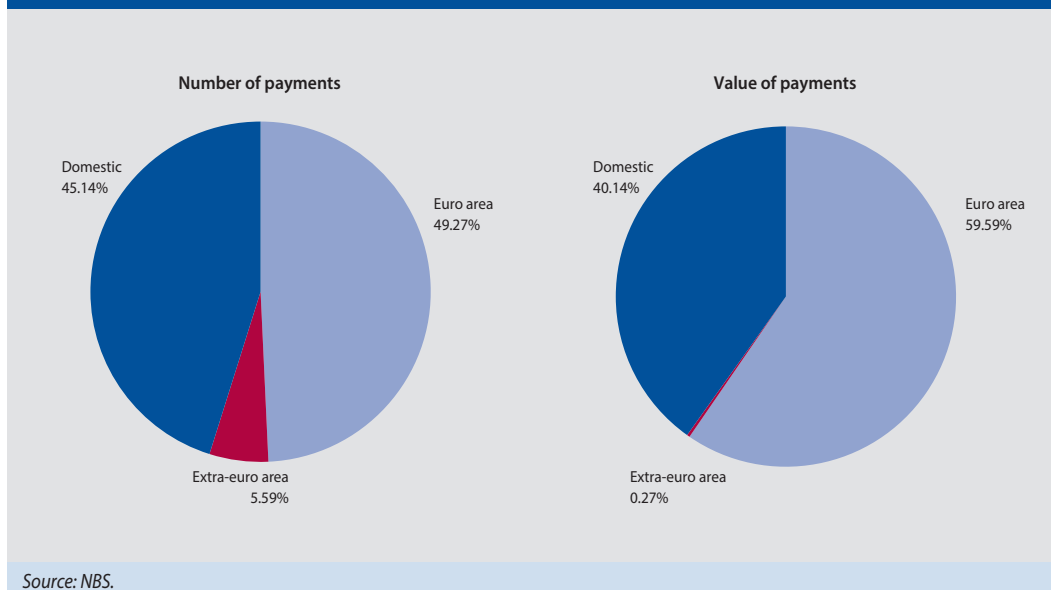
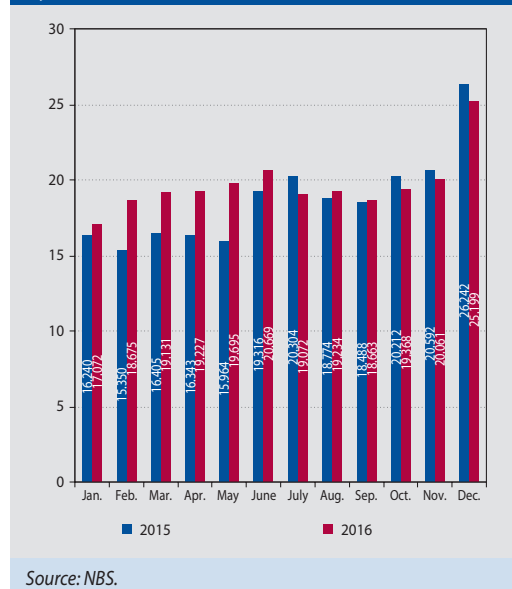




Chart 26 Number of transactions processed by the SIPS in 2015 and 2016 (millions)



Chart 27 Value of transactions processed by the SIPS in 2015 and 2016 (EUR billions)



4.2.4 PAYMENTS PROCESSED BY THE SIPS

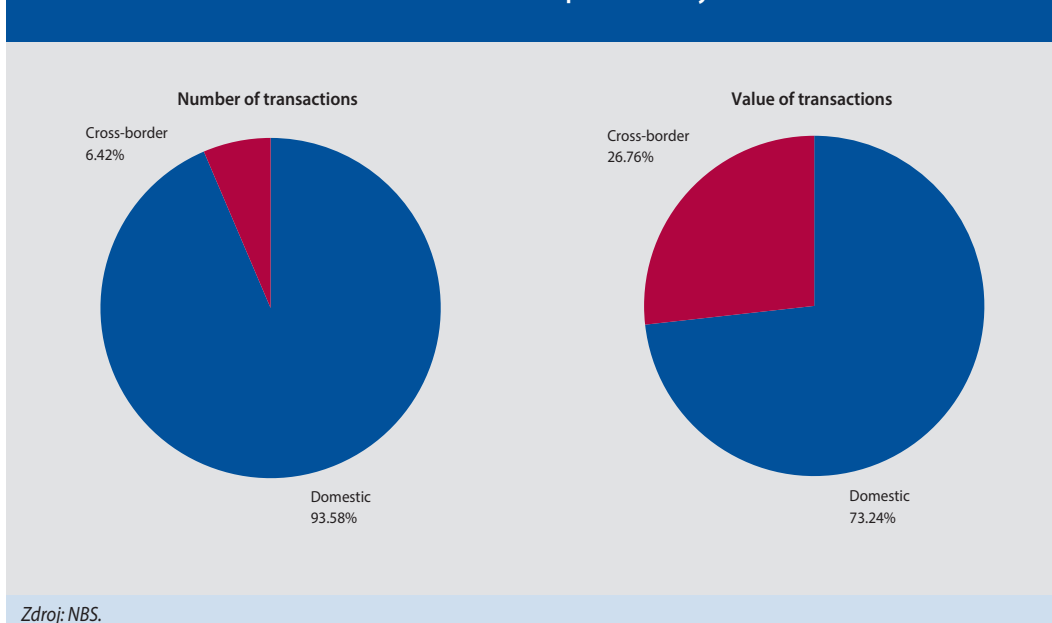
The SIPS had a total of 26 direct participants at the end of 2016, one more than it did at the end of 2015.

The volume of transactions processed by the SIPS increased in 2016 by 5.45%, year on year,

to almost 217 million, and the value of transactions increased by 5.28%, to almost €236 billion.

The volume and value of transactions processed includes, in addition to domestic transactions, cross-border transactions executed

Chart 28 Domestic and cross-border transactions processed by the SIPS in 2016



via STEP2. Cross-border transactions accounted for only 6.42% of the total number of transactions processed, and 26.76% of their total value.

4.2.5 PAYMENT CARDS

The number of bank payment cards in circulation issued by banks in Slovakia increased by 3.61% from the end of 2015 to the end of 2016, up to 5,495,791. At the same time, an increase in the issuance of payment cards in general was also observed. During the year, more than 419 million payment card transactions with a total volume of €22 billion were conducted. Both the number and value of payment card transactions were also higher in 2016 than in 2015, with the number increasing by 14.2% (to more 419 million) and the value by just under 7% (to almost €22 billion). These figures continued the upward trend of the previous year.

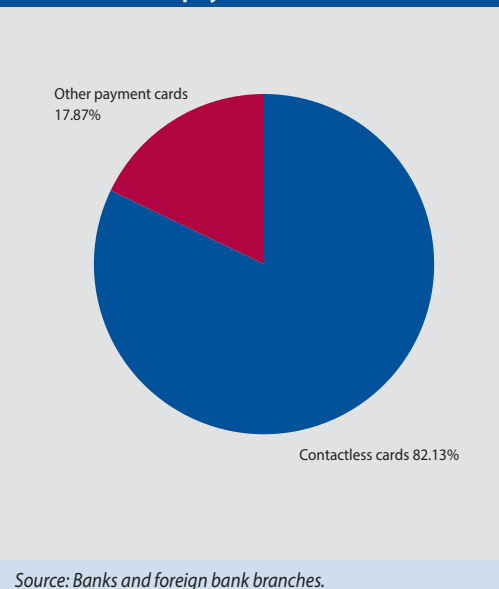
There were a total of 2,765 automated teller machines (ATMs) in Slovakia at the end of 2016, 27 more than at the end of 2015. The number of point of sale (POS) terminals increased in 2016 by 3,467 to 53,071.

CONTACTLESS PAYMENT CARDS

The number of contactless bank payment cards in circulation in Slovakia increased in 2016 by 14% year on year, bringing to 82% their share of the total number of payment cards issued by banks in Slovakia. The number of contactless card payments increased by 56%, from 100.74 million in 2015 to 157.4 million in 2016 (after increasing by almost 100% in 2015). The value of these transactions went up by 58%, from €1,338.8 million in 2015 to €2,116.24 million in 2016 (after increasing by more than 100% in 2015).

The usage of contactless payment cards in Slovakia is among the highest in the European Union. This fact was further illustrated by the 2016 figures for the total number of contactless payment cards in circulation and for the number and value of transactions carried out with them.

Chart 29 Contactless bank payment cards as a share of total payment cards in 2016



4.3 COOPERATION WITH INTERNATIONAL FINANCIAL INSTITUTIONS IN THE PAYMENT SYSTEMS FIELD

ASSESSMENT OF SECURITIES SETTLEMENT SYSTEMS (SSSs) AND LINKS BETWEEN THEM

In September 2013 the European Central Bank published a new "Framework for the assessment of securities settlement systems and links to determine their eligibility for use in Eurosystem credit operations."

On the basis of this user assessment framework (UAF), an assessment of a new central securities depository in Slovakia was launched in 2016. The depository is called Národný centrálny depozitár cenných papierov, a. s. and it is being assessed against CPSS-IOSCO Principles for Financial Market Infrastructures (PFMIs) and against the requirements set out in the UAF's User Addendum. The assessment process is due to be concluded in 2017.

The other central securities depository in Slovakia, Centrálny depozitár cenných papierov, a. s. (CDCP), was also assessed in 2016 in respect of changes stemming from the migration to Target2-Securities. The assessment outcomes will be known and consulted with CDCP in 2017.



THE EUROSISTEM – TARGET2-SECURITIES

Further central securities depositories joined TARGET2-Securities (T2S) in 2016, as the second and third T2S migration waves took place in accordance with the updated T2S Programme Plan. A total of seven CSDs joined T2S in 2016, including, in March, Interbolsa (Portugal) and the National Bank of Belgium Securities Settlement System – NBB-SSS, and later, in September, Euroclear France, Euroclear Nederland, Euroclear Belgium, VP Lux (Luxembourg) and VP Securities (Denmark). With the successful completion of the third migration wave in September 2016, T2S was processing about 45% of the total transaction volume expected after the end of full migration in 2017. The CSDs scheduled for the fourth and final migration waves continued to undergo migration testing in 2016. The fourth wave CSDs, including Slovakia's CDCP, started operations on T2S from 6 February 2017.

T2S functioned reliably in 2016 and the operating errors that did appear were successfully resolved. One way in which the Eurosystem conducts dialogue with T2S stakeholders is through "Focus Sessions", the purpose of which it is to ensure optimal use of the T2S platform.

The harmonisation of services provision and national procedures continued in 2016 and will continue to be a priority of T2S dialogue. The Eurosystem is also considering how to support the further development of market infrastructures and is looking at the following new areas of development: instant payments, T2 and T2S consolidation, and a Eurosystem collateral management system (ECMS).

The Eurosystem has adopted a near-term strategy called "Vision 2020" for the further development of market infrastructures, with a focus on preparing solutions for instant payments, T2 and T2S consolidation, and an ECMS. The purpose of the strategy is to harmonise and deepen the integration of the European market, to make cost savings by means of technical consolidation, and to introduce new services for European financial markets. Vision 2020 ties in with the European Commission's project to build a capital markets union.

The instant payments project is intended to ensure that at least one instant payment solution in euro is available 24/7/365 to all payment service providers in Europe. The Eurosystem is also examining the scope for providing real-time settlement of payments.

The T2/T2S Consolidation project is exploring potential synergies between T2 and T2S, with a view to consolidating the technical and functional components of both infrastructures, establishing a consolidated and harmonised connectivity solution, and providing new RTGS services.

The aim of the ECMS project is to establish a common Eurosystem collateral management system to support more efficient collateral mobilisation in Eurosystem credit operations. The ECMS is expected to provide only services that are harmonised at the Eurosystem level. Other services will have to continue to be provided by local collateral management systems.

5 STATISTICS

Národná banka Slovenska develops, collects, compiles and disseminates a wide range of statistics which support the monetary policy of the euro area and the stability of the financial system in Slovakia, as well as other tasks of the European System of Central Banks (ESCB), the European Systemic Risk Board (ESRB), the Bank

for International Settlements (BIS) and other international institutions. Based on data reported by financial and non-financial agents, the statistics serve internal users at Národná banka Slovenska and are also used by financial market participants, public sector entities, the media and the general public