

# REPORT ON PAYMENT SYSTEMS 2013



BANCO DE PORTUGAL  
EUROSISTEMA



## Executive Summary

Payment systems (both large-value and retail), as well as payment instruments and securities clearing and settlement systems, play an important role in economic stability, by facilitating transactions among economic agents and allowing for adequate implementation of monetary policy measures.

Promoting the smooth operation of payment systems is therefore a key task of central banks. As such, pursuant to the tasks set forth in Article 14 of its Organic Law,<sup>1</sup> it is Banco de Portugal's responsibility to regulate, oversee and promote the smooth operation of payment systems and hence to contribute to the maintenance of financial stability, the confidence in the currency, the efficiency of economic activity and security in monetary policy implementation.

When pursuing this mission, Banco de Portugal acts as: (i) operator and provider of settlement services in central bank money; (ii) catalyst and promoter of efficiency and development of payment systems; and (iii) regulator and oversight authority of financial market infrastructures.

As operator and provider of settlement services in central bank money, Banco de Portugal ensures the operation of key payment systems and participates in the implementation of new projects in this context, notably at Eurosystem level.

As a catalyst, it seeks to promote initiatives that contribute to the development of retail payment systems and the adoption of safer, more efficient and more transparent market practices.

Through its regulation and oversight functions, Banco de Portugal regulates, monitors and assesses the operation of large-value and retail payment systems, payment instruments and securities clearing and settlement systems, so as to ensure their security and efficiency.

In 2013 Banco de Portugal continued to perform its payment systems tasks, working to ensure they function properly.

With regard to **large-value payment systems**, the gross settlement system operating in Portugal, i.e. TARGET2-PT, performed soundly and stably throughout 2013.

The system processed 1.7 million transactions amounting to EUR 3,485 billion, i.e. around 21 times Portugal's gross domestic product (GDP) at current prices in 2013.

Compared with 2012, amounts settled declined overall (-24.1 per cent) chiefly due to a contraction of the value of transactions between financial institutions, stemming from the recent economic and financial situation and in particular from the fact that institutions did not need to resort as frequently to regular open market operations, given non-standard monetary policy measures, especially longer-term refinancing operations (three-year LTROs).

In 2013 the system processed on a daily basis, on average, 6,522 transactions amounting to EUR 13,668 million, of which 2,654 were national transactions totalling EUR 8,121 million and EUR 3,868 transnational transactions to an amount of EUR 5,547 million.

Interbank transactions were predominant both in volume and in value, at the national and transnational level. Lower-value transactions were also significant to a certain extent, with 52.6 per cent of payments amounting to less than EUR 50,000.

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<sup>1</sup> Law No 5/98 of 31 January, as amended by Decree-Laws No 118/2001 of 17 April, No 50/2004 of 10 March, No 39/2007 of 20 February, No 31-A/2012 of 10 February and No 142/2013 of 18 October.

In view of the relevance of large-value payment systems in the maintenance of financial stability, Banco de Portugal has carried out various oversight activities in this context, both at the domestic and European level, within the Eurosystem.

Within this scope, the new international principles to be observed when conducting oversight activities were adopted and began to be implemented. Hence, Banco de Portugal has participated in the Eurosystem's preliminary assessment of TARGET2 in the light of the new principles and monitored internally the operation of the system's Portuguese component, having conducted an analysis of the impact of a disruption in a TARGET2-PT participant. This analysis led to the conclusion that such a failure at financial institution level would have a very limited systemic impact.

Taking into consideration the interdependencies between securities clearing and settlement systems and large-value payment systems, Banco de Portugal has signed a cooperation agreement with the Portuguese Securities Market Commission (CMVM) for sharing information on the operation of the settlement systems of the Portuguese central securities depository (i.e. Interbolsa).

With regard to **retail payment systems and instruments**, the Interbank Clearing System (SICOI) also operated smoothly, having processed around two billion transactions, to an amount of EUR 322.5 billion, i.e. declining slightly in value and increasing somewhat in volume, compared with the previous year.

In terms of the various SICOI subsystems, there was a continued decrease in the volume and value of transactions processed through paper-based payment instruments (i.e. cheques and bills of exchange). In particular, the number of lower-value cheques declined considerably, as a reflection of a progressive replacement of

cheques with electronic payment instruments in day-to-day transactions.

This trend of the use of cheques was reflected in the number of entities included in the List of Cheque Defaulters managed by Banco de Portugal under the powers assigned to it by the legal framework governing unfunded cheques. In fact, as at 31 December 2013 the names of 46,640 entities were included in this list, i.e. 23 per cent fewer entities than in 2012.

Electronic payment instruments, i.e. credit transfers, direct debits and transactions processed through the Multibanco network, increased both in number and in value of transactions processed in SICOI, in line with the recently observed recovery of private consumption.

As regards developments in the relative weight of each of SICOI's clearing subsystems, as already mentioned, in 2013 the cheques subsystem continued to lose relevance in terms of value (with a share of 23.1 per cent in SICOI's total). In turn, after credit transfers (with 43.4 per cent), Multibanco was the second SICOI subsystem in traded amounts (27.5 per cent).

Given the importance of retail payment systems and instruments to the functioning of the real economy, Banco de Portugal gave them special attention, both as catalyst and as regulator and oversight authority.

Hence, in 2013 Banco de Portugal continued to promote new initiatives in the field of retail payment systems and instruments, both at national and Eurosystem level.

In particular, it organised various initiatives aimed to ensure the migration of credit transfers and direct debits to compatible formats with the Single Euro Payments Area (SEPA). It also monitored developments in solutions for internet retail payments (e-payments) and mobile payments (m-payments), and the emergence

of new financial agents supplying payment services, while maintaining constant dialogue with the market.

At regulatory level, Banco de Portugal was involved in the preparation of Decree-Law No 141/2013 of 18 October that transposed into national law the technical and business requirements for SEPA credit transfers and direct debits as set forth in Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012.

Banco de Portugal also participated actively in the analysis of the impact on the provision of payment services in Portugal of the legislative package adopted by the European Commission on 24 July 2013, composed of the proposal for a directive of the European Parliament and of the Council on payment services in the internal market and the proposal for a regulation of the European Parliament and of the Council on interchange fees for card-based payment transactions.

As regards oversight, Banco de Portugal participated in the process to review the classification of retail payment systems led by the Eurosystem, with a view to defining a sub-set of principles that should be applied to these systems. In 2013 Banco de Portugal also incorporated the new principles established at international level in SICOI monitoring and assessment activities.

Given that some (large-value and/or retail) payment flows are not processed via payment systems, but rather via correspondent banking, Banco de Portugal hosted once more the eighth survey on correspondent banking in euro (an initiative of the European System of Central Banks – ESCB), which confirmed this channel's importance at European level, notably given that this business is highly concentrated among a small number of financial institutions.

In 2013 the **TARGET2-Securities project** (T2S), intended to set up an integrated European platform for securities settlement in central bank money, developed considerably. Overall, the development of the main T2S software functionalities was concluded and the test stage was initiated. At national level, in addition to launching its own development projects internally, Banco de Portugal carried out a wide set of information activities, with a view to promoting an efficient adaptation of the Portuguese community to T2S.

