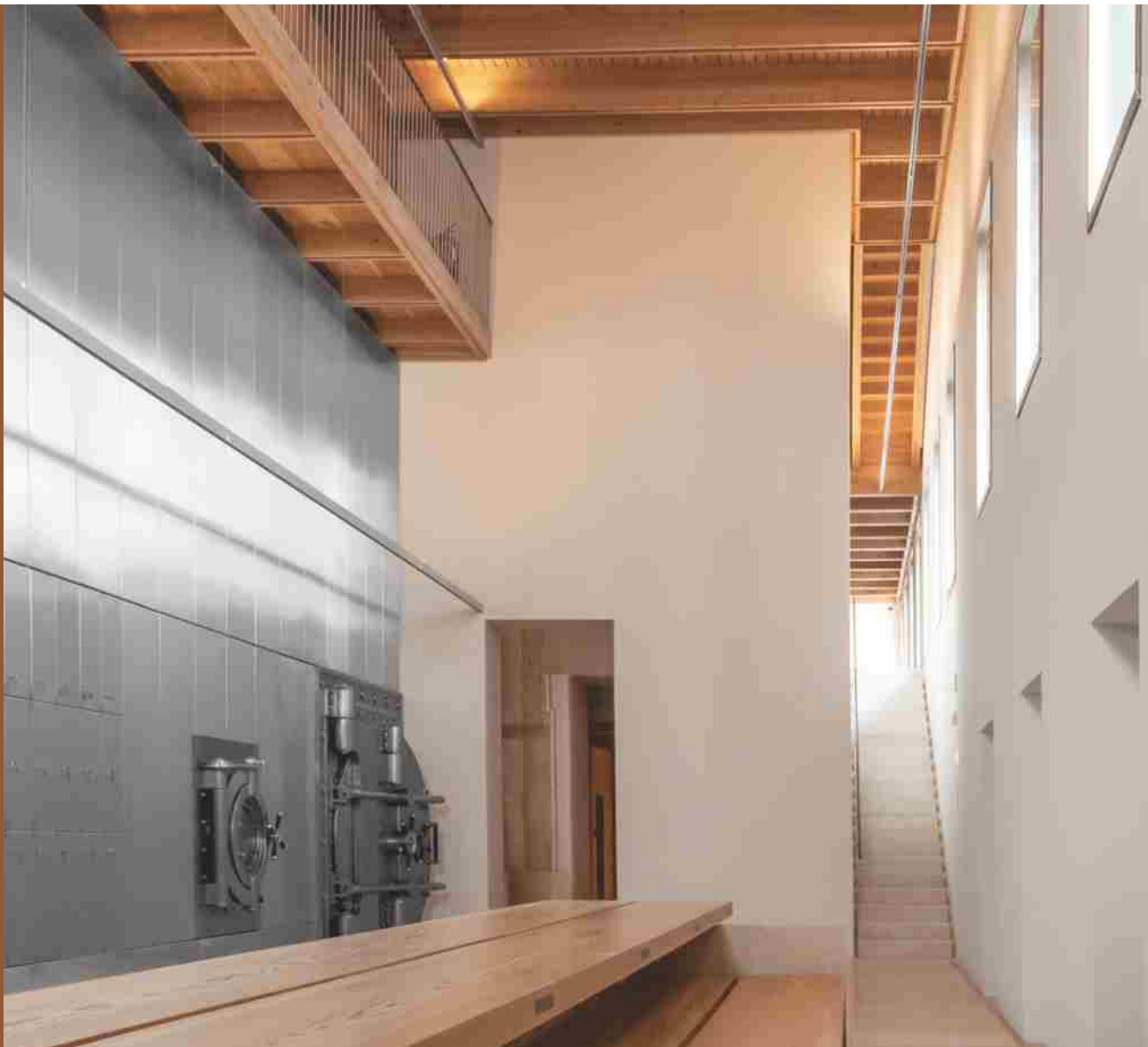




BANCO DE PORTUGAL  
EUROSYSTEM

# REPORT ON PAYMENT SYSTEMS 2014





## Executive Summary

The regulation, oversight and promotion of the smooth functioning of payment systems are statutory responsibilities of Banco de Portugal, pursuant to Article 14 of its Organic Law.<sup>1</sup>

In pursuit of this mission, Banco de Portugal carried out a range of initiatives in the payment systems area over the course of 2014, acting as operator and provider of settlement services in central bank money, catalyst and promoter of the efficiency and development of payment systems, and oversight authority of financial market infrastructures.

With regard to **large-value payment systems**, TARGET2-PT performed soundly and stably throughout the year.

In 2014 the system processed 1.8 million transactions, reaching a record level in terms of the volume of settled transactions. The processed value amounted to EUR 3,699 billion, equating to around 21 times Portugal's gross domestic product (GDP) at current prices.

Compared with 2013, the volume of processed transactions grew by 10.1 per cent, largely due to positive changes in transactions originating in securities settlement systems, notably Interbolsa, and transactions in the Interbank Clearing System (SICOI). Amounts settled grew by 6.1 per cent, chiefly due to an increase in transactions between institutions, particularly Eurosystem credit operations.

Of the total transactions processed, around 58.2 per cent (i.e. 46.3 per cent of settled values) related to cross-border transactions. The three most relevant countries in terms of exports and imports to Portugal (Germany, Spain and France) remained the main counterparties of participants in TARGET2-PT as regards the volume of transactions sent and received.

In turn, interbank transactions reinforced their predominance in volume and value, accounting respectively for 52.4 per cent and 88.2 per cent of transactions in TARGET2-PT.

Transactions of less than EUR 50,000 accounted for around 54 per cent of volumes processed in 2014. The higher concentration in

this value bracket (predominantly associated with cross-border transactions) reflects the use of the system to process urgent low-value payments.

On average, the system processed 7,182 transactions daily, amounting to EUR 14,507 million. The peaks occurred on 22 April (i.e. after Good Friday and Easter Monday), totalling 10,589 transactions, and on 17 December (the settlement day of Eurosystem credit operations), with a value of EUR 38,770 million). The minimum volumes and values processed were recorded on national holidays (15 August and 8 December respectively).

The TARGET2-PT Regulation was amended in July 2014, to bring the method for remunerating accounts opened in the system into alignment with the decision of the European Central Bank (ECB) of 5 June 2014, which laid down the introduction of negative interest rates in the remuneration of deposits, balances and holdings of excess reserves.

At oversight level, Banco de Portugal has adopted the **Principles for Financial Market Infrastructures (PFMIs)**,<sup>2</sup> following the entry into force on 12 August 2014 of Regulation of the European Central Bank (EU) No. 795/2014 of 3 July 2014 on oversight requirements for systemically important payment systems. As regards the oversight of large-value payment systems, Banco de Portugal monitored the TARGET2-PT functioning regularly and launched an assessment of the system's local platform in compliance with the above principles.

As a central bank of issue, Banco de Portugal participated in the college of regulators set up by the Portuguese Securities Market Commission (CMVM), which assessed and approved the request for authorisation of OMIClear (clearing house and central counterparty providing clearing services for derivatives in the Iberian Electricity Market) to operate in the European Union, under Regulation (EU) No. 648/2012 of 4 July 2012.

With regard to **retail payment systems and instruments**, SICOI operated smoothly, having

processed around 2.1 billion transactions, to an amount of EUR 338.9 billion, which accounted for an increase of 4.3 per cent in volume and 5.1 per cent in value, compared with the previous year.

In terms of the various SICOI subsystems, there was a decrease in the volume and value of transactions processed through paper-based payment instruments (i.e. cheques and bills of exchange). However, despite the downward trend of cheques cleared in SICOI (-12.8 per cent in volume and -7.9 per cent in value), large-value cheques (settled on an individual basis in TARGET2-PT) increased by 2.7 per cent in volume and 20.6 per cent in value. This means that the fall in the use of cheques was mainly observed in retail payments.

This decline in 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. As at 31 December 2014, 30,391 entities were included in this list, i.e. 35 per cent fewer entities than in 2013.

Transactions with electronic payment instruments processed in SICOI (credit transfers, direct debits and transactions processed through the Multibanco network) increased in number and value, in line with the recovery of private consumption in Portugal over 2014. In this year, the direct debits subsystem recorded the highest growth rate in volume (16 per cent) and in value (15 per cent).

As regards developments in the relative weight of each of SICOI's clearing subsystems, the cheques subsystem continued to lose relevance in terms of processed volumes and values, with a share of 2.3 and 20.2 per cent in SICOI's total respectively. This decline has continued for 10 consecutive years: in 2004, 13 per cent of the volume of retail payments were made with cheques, while in 2014 that share was, as mentioned, only 2.3 per cent. The credit transfers subsystem continued to play a predominant role in terms of the value of transactions (45.4 per cent), and Multibanco was the

main SICOI subsystem in terms of the volume of payments processed (84.2 per cent).

In parallel, 2014 was marked by the **conclusion of the credit transfer and direct debit migration process to formats compatible with SEPA** (Single Euro Payments Area). As regulator and catalyst of the development and efficiency of payment systems, Banco de Portugal promoted various communication, awareness and regulatory initiatives involving the main stakeholders: payment service providers, general government bodies, and enterprises. An example is the amendment of the SICOI Regulation following publication of Regulation (EU) No. 248/2014 of 26 February, so as to allow continuity of the processing of traditional credit transfers and direct debits until 1 August 2014.

Also at regulatory level, Banco de Portugal monitored the legislative work in progress, notably 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. It was also closely involved in the reflection on virtual currencies that took place both nationwide and under the aegis of the ECB and the European Banking Authority (EBA).

As regards retail payment systems oversight, and in complement to the regular monitoring of SICOI, Banco de Portugal started the process of reviewing the system in the light of the new PFMI. Banco de Portugal also participated in the Eurosystem work on the third report on card fraud in 2012<sup>3</sup> and the ninth survey on correspondent banking in euro.<sup>4</sup>

The **TARGET2-Securities project (T2S)**, which aims to create an integrated European platform for securities settlement in central bank money, advanced considerably in 2014.

Overall, in March a number of national central banks initiated platform acceptance tests, and between July and September pilot tests were held with central securities depositories that are migrating to the platform in the first wave.

October saw the start of the tests among the main users, i.e. central securities depositories and national central banks. Over the year various technical and operational documents on T2S were updated and released.<sup>5</sup> Migration to the T2S platform is organised into four waves, with Interbolsa and the Portuguese community having chosen the second wave, planned for 28 March 2016.

In this context, Banco de Portugal organised four training sessions for the Portuguese

community, where several themes relevant to the functioning of the platform were addressed. As central bank and owner of TARGET2-PT, Banco de Portugal also concluded interoperability tests with its internal applications, having obtained the certification allowing migration to the T2S platform already in the first wave on 22 June 2015.

## Notes

1. Law No. 5/98, as amended by Decree-Law 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.
2. <http://www.bportugal.pt/pt-PT/OBancoeoEurosistema/ComunicadoseNotasdelInformacao/Paginas/comb20140821.aspx> (available only in Portuguese).
3. <http://www.ecb.europa.eu/pub/pdf/other/cardfraudreport201402en.pdf>.
4. <https://www.ecb.europa.eu/pub/pdf/other/surveycorrespondentbankingineuro201502.en.pdf>.
5. <http://www.ecb.europa.eu/paym/t2s/about/keydocs/html/index.en.html>.

