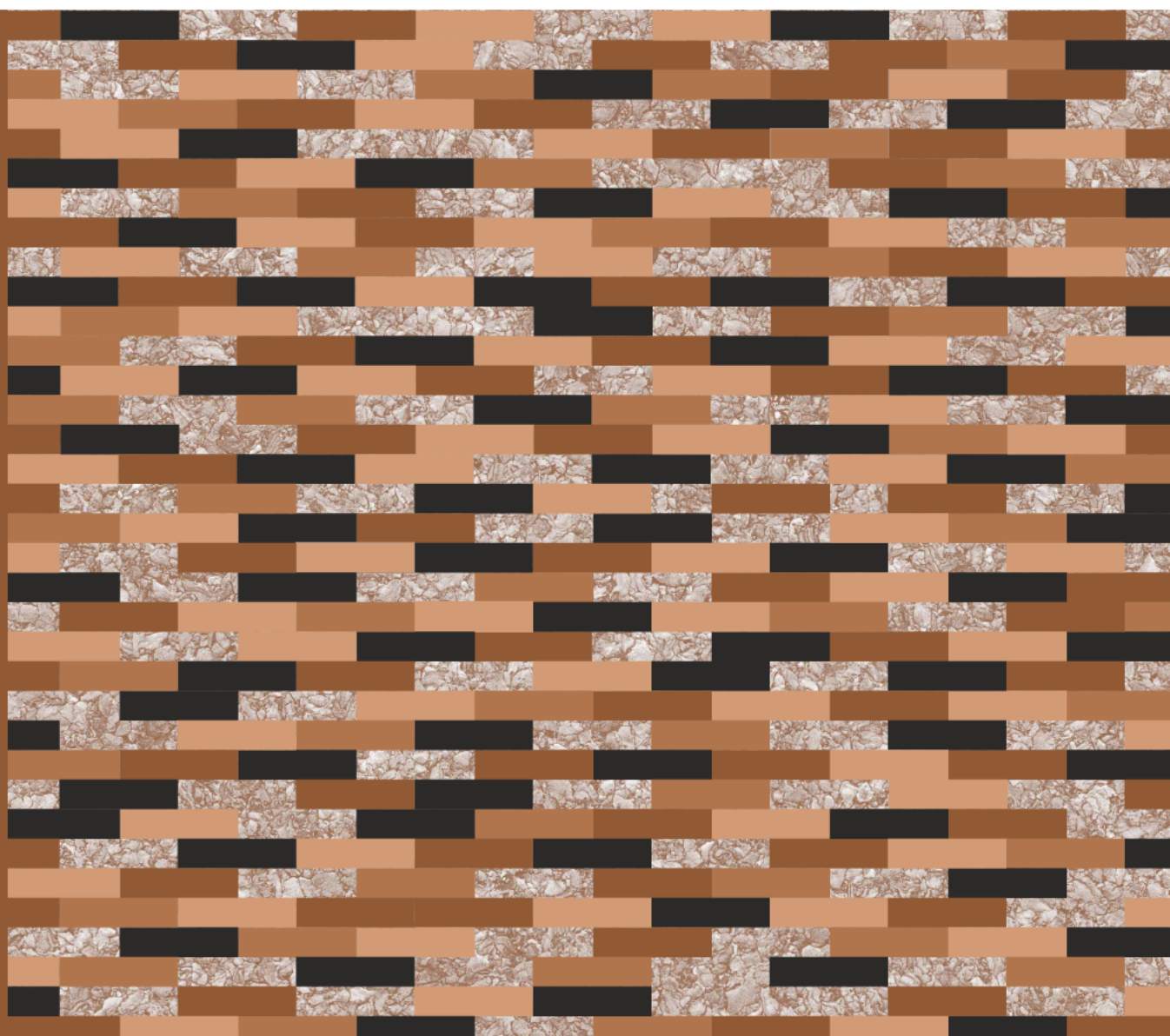


# Report on Payment Systems

2016



BANCO DE PORTUGAL  
EUROSYSTEM





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Lisbon, 2017 • [www.bportugal.pt](http://www.bportugal.pt)



## Executive summary

In 2016 **payments made significant progress** both in Portugal and in Europe. The Portuguese banking community successfully migrated to the new Eurosystem platform for securities settlement in central bank money – TARGET2-Securities (T2S).

The development of pan-European instant payment solutions proceeded. From the end of 2017 onwards, it will be possible to make instant payments in euros, based on credit transfers, in most European countries, through a link to be established between the payment service providers of those countries.

These developments in retail payments are expected to promote changes in payment patterns in Portugal and to reduce payment instrument costs borne by society, which represented approximately 1.6 per cent of gross domestic product in 2013.

The **regulatory framework** of payment systems has also evolved.

The European Central Bank has clarified the legal framework of the T2S, which involved a revision of the regulation governing the Portuguese component of the Eurosystem's large-value payment system, TARGET2-PT.

Some provisions of [Regulation \(EU\) 2015/751](#) of the European Parliament and of the Council of 29 April on interchange fees for card-based payment transactions entered into force on 9 June 2016. These included the introduction of the possibility to choose, at the payment terminal, the brand to be used in each transaction made with a multi-brand card.

Preparatory work has also been undertaken to transpose into national legislation Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November on payment services in the internal market.

In the course of the year, payment and settlement systems in Portugal have functioned in a stable and safe manner.

**TARGET2-PT** processed 1.8 million operations, 1.7 per cent more than in 2015, resuming the

upward trend registered in 2013 and 2014. This was chiefly the result of the increase in operations between institutions, due to payments switching from EURO1 to TARGET2.

The amounts settled in TARGET2-PT totalled €2,104 billion, which is equivalent to 11 times the value of the Portuguese gross domestic product at current prices. Compared to 2015, the values processed declined by 27.2 per cent, following the trend observed in previous years, only interrupted in 2014. These developments are justified by the decline in transactions with Banco de Portugal, on account of the fact that Eurosystem credit operations are now settled on a net basis, at the time of renewal.

Between 29 March and 31 December 2016, **T2S** processed 5,356 credit transfers of liquidity from dedicated cash accounts and 5,471 debit transfers, to the amount of €105,950 million and €90,170 million respectively. During the same period, 114 thousand debit security instructions amounting to €104 billion and 112 thousand credit instructions amounting to €88 billion were settled. As a rule, the amounts transferred to T2S by the Portuguese banking community exceeded the amounts received, with the difference reflecting securities transactions made with counterparties holding accounts in other central banks.

The system processing retail payment operations in Portugal, **SICOI**, processed 2,354 million operations, amounting to €386 billion. The number and value of the operations processed grew by 6.8 per cent and 8 per cent from 2015, maintaining the trend registered in previous years. The use of electronic payment instruments continued to increase, while paper-based payment instruments declined.

Transactions processed through the **Multibanco** network, which represented 86 per cent of the volume of payments in SICOI, increased both in number and value. Purchases, in particular, grew by 10.4 per cent in number and 9 per cent in value, in line with developments in private consumption in Portugal. Nevertheless, only 1.2

per cent of the purchases were made with contactless technology and 3.1 per cent were made via the Internet or mobiles.

SICOI also processed 132 million **credit transfers**, amounting to €200.5 billion.

SICOI's **direct debit** subsystem processed 160.1 million instructions, amounting to €21.1 billion. Transactions increased in both number and value, although levels are still below those registered in 2014. Rejections, returns, repayments and reversals of charges processed in SICOI corresponded to 11 per cent of the volume and 15 per cent of the value of the instructions processed. In most cases, rejections were due to lack of funds.

The SICOI's **cheque** subsystem registered a decline of 12.2 per cent in number and 7.9 per cent in value of the transactions processed. In line with these developments, the number of entities in the list of cheque defaulters declined by 13.8 per cent. As at 31 December, this list comprised 19,931 entities.

Over the course of the year, Banco de Portugal conducted a number of **oversight initiatives** to ensure the proper functioning and safety of payment systems.

Within the scope of the Eurosystem, an assessment of systemically important payment systems, including TARGET2, was concluded.

Banco de Portugal reviewed the activity of correspondent banks, which are an alternative channel for payments processing. Although business has declined in recent years, in 2016 €1,299 million was processed, on average, per day, through correspondent banks.

The Multibanco card system was assessed in view of the oversight recommendations published in 2015. In parallel, SEPA direct debit assessment in line with oversight rules continued.

With the entry into operation of T2S, the competent authorities responsible for the oversight of this platform formalised a memorandum of understanding.

