

Report on Payment Systems

2018



BANCO DE
PORTUGAL
EUROSYSTEM

Executive summary

Resilient payment systems relying on robust solutions that guarantee economic agents' confidence are crucial for the smooth functioning and development of the economy.

In Portugal large-value and retail payment systems operated smoothly over the course of 2018.

The Portuguese component of TARGET2, the Eurosystem's real-time gross settlement system for euro payments, processed 2.2 million transactions, to the amount of €1.7 trillion (accounting for 1.3% of the number and 0.3% of the total value processed in TARGET2 in 2018). The processed value was equivalent to 9.4 times the Portuguese GDP.¹

The number of settled transactions continued on the upward trend observed since 2016. It rose by 13.2% from 2017, due to an increase of 17.1% in transactions between the institutions participating in the system (particularly in customer payments) and of 4.6% in transactions with Banco de Portugal.

The negative developments in processed values observed in recent years accelerated. In 2018 settled values declined by 11.2%, due to a reduction in transactions between institutions and transactions with Banco de Portugal (especially in Eurosystem credit operations).² By contrast, the value of ancillary system operations increased by 3.6% from the previous year.

In the Portuguese component of TARGET2-Securities (T2S), the Eurosystem's securities settlement platform, the number and value of transactions with debit and credit settlement declined in 2018, both in liquidity transfers and securities settlement instructions. With regard to liquidity transfers, 6,477 debit transactions amounting to €86.6 billion and 6,269 credit transactions amounting to €95.5 billion were settled. As regards securities settlement instructions, 126 thousand debit instructions amounting to €90 billion and 119 thousand credit instructions amounting to €81 billion were settled.

In turn, the Interbank Clearing System (SICOI), which processes retail transactions, remained on the upward trend of the past few years. Its transactions increased by 7.6% in number and 7.3% in value. In 2018 SICOI processed 2.7 billion transactions amounting to €491.5 billion. The subsystems that clear transactions originating in electronic payment instruments (cards, direct debits and credit transfers) continued to play an important role, accounting for 98.9% of the overall volume of transactions and 81.6% of their value.

The card-based payment transactions subsystem processed the highest number of transactions (86.6% of transactions processed in SICOI) and was the second most important in terms of value (25.5%). These transactions recorded the second highest growth rates (8.4% in number and 8.9% in value) of SICOI, only surpassed by credit transfers. The most frequent types of transaction were purchases, withdrawals and payments.

The direct debits subsystem, i.e. the second most important in terms of number (with a share of 6.6%), rose by 0.5% in number and 6% in amount.

The credit transfers subsystem continued to rank first in terms of the overall value processed in SICOI (50.7%). It was the subsystem with the highest growth rates in number and value (9% and 12.1% respectively).

1. Based on Statistics Portugal's flash estimate.

2. The Eurosystem comprises the national central banks of the euro area and the European Central Bank.

The subsystems processing paper-based payment instruments, especially cheques, continued to play a minor role, particularly in terms of number. Processed cheques decreased by 12.2% in number and 6.3% in value. Returned cheques followed this downward trend (7.9% fewer in number). As a result, the number of cheque defaulters declined by 10.6% from 2017. 65.5% of total cheques were returned due to lack of funds.

The payments ecosystem is undergoing a major transformation. In 2018 there were considerable changes in this field, both in Portugal and in Europe.

A new SICOI subsystem was launched publicly on 18 September 2018 in Portugal. It allows instant transfers up to €15 thousand, within 10 seconds or less. For the first time SICOI has a real-time subsystem with continuous operation complying with the pan-European requirements set for the processing of these transactions.

The risk management mechanisms in SICOI have been reinforced with the revision of the system's regulatory framework.³ The maximum value per transaction processed in the cheques, direct debits and credit transfers subsystems was raised to €500 thousand, and individual guarantee accounts with Banco de Portugal were created in SICOI, per participant. New urgent suspension or exclusion procedures have also been adopted, to be applied to participants in the direct debits and bills of exchange subsystems. In addition, SICOI now has a new governance model, and a specific monitoring committee has been set up.

On 13 November 2018 the revised Payment Services Directive (PSD2) was transposed into Portuguese law.⁴ This new regulatory framework changed the manner in which services are provided and payments are made. New types of payment service emerged (account information services and payment initiation services), as well as new methods of authentication (set of security requirements to be observed in online transactions).

There were also important developments in Europe. On 30 November 2018 the pan-European service for the settlement of instant payments in central bank money, TARGET Instant Payment Settlement (TIPS), went live. Over the year, work continued on the consolidation of TARGET2 with T2S, to be predictably implemented in November 2021.

Topics related to technological innovation also featured on the payments agenda, namely the adoption of processing solutions relying on solutions such as the Distributed Ledger Technology (DLT), the operation of fintech⁵ and developments associated with the potential creation of a central bank digital currency.

3. The SICOI regulation has been updated through Instruction No 8/2018 of 22 March 2018, subsequently revised by Instruction No 25/2018 of 8 November 2018.

4. Decree-Law No 91/2018 of 12 November 2018, transposing into Portuguese law Directive (EU) 2015/2366 of the European Parliament and of the Council of 25 November 2015 on payment services in the internal market (PSD2). This Decree-Law is complemented by a number of regulatory technical standards and guidelines, to be directly applicable in the Member States.

5. 'Fintech' is a portmanteau word formed from the phrase 'financial technology', which refers to technological innovation in financial services.

