

# REPORT ON PAYMENT SYSTEMS



2019



BANCO DE  
PORTUGAL  
EUROSYSTEM

## Executive summary

In 2019 large-value and retail payment systems operated in a stable and safe manner, contributing to the smooth functioning of the financial system and the Portuguese economy.

Ten years after Portugal joined TARGET2<sup>1</sup>, the Portuguese component of this system settled 1.7 million transactions in 2019, to the total amount of €1.7 trillion, which corresponds to eight times Portugal's gross domestic product (GDP). TARGET2-PT accounted for 2% of the number and 0.4% of the value processed at European level.

The amount settled in transactions remained virtually unchanged (rose by 0.2%) due to the maintenance of favourable conditions in financial markets and the economy in general. However, the number of settled transactions dropped by 21.3% and reversed the growth trend observed since 2016. Two factors contributed to this substantial decrease: the reduction, by 14%, of interbank transactions on behalf of customers and the decrease, by 58%, of ancillary systems operations. In particular, large-value transactions sent by the Portuguese Interbank Clearing System (SICOI<sup>2</sup>) for settlement in TARGET2-PT fell by 60%, as a result of changes to the cap per transaction for clearing in the subsystems for cheques, direct debits and credit transfers, which moved up from €100,000 to €500,000 in November 2018.

In the Portuguese component of **TARGET2-Securities** (T2S<sup>3</sup>), the settlement of securities instructions and liquidity transfers, in value terms, amounted to €341 billion, approximately 0.1% of the total T2S platform. This was a 3.5% decrease from 2018, chiefly due to a reduction in liquidity transfers (by 7.2%), given that as regards securities, the settled amount rose by 0.5%, in line with the growth in issues and redemptions of Portuguese government debt.

**SICOI** processed 3 billion transactions, to the amount of €523.1 billion, corresponding, on average, to 8.7 million transactions per day, totalling €1.9 billion. The system continued to post positive growth rates, of 9.3% in number (a peak for the last five years) and 6.4% in value. This increase continued to be sustained by electronic payment instruments (direct debits, credit transfers, instant credit transfers and card-based payment transactions), which, in 2019, accounted for 99.1% of the volume and 83.9% of the value of transactions processed in SICOI. Cards were still the most widely used instruments in retail payments (excluding cash), accounting for 86.6% of the total number of transactions processed in SICOI.

In 2019 consumers began using contactless payments on a sizeable scale, due to their speed and convenience. This behaviour stemmed from both an increase in the number of contactless cards and point-of-sale (POS) terminals (by 27.5% and 20.7% respectively) and the bolstering of communication campaigns on their use and security. Purchases using contactless technology corresponded to 7.8% of the number and 3% of the total value of card-based purchases<sup>4</sup>, thus doubling its total weight in total purchases, compared to 2018. Despite these positive developments, the figures show that there is great leeway in the use of contactless technology in Portugal.

Instant credit transfers, which have been live for around a year, also posted very substantial

1. TARGET2 is the Eurosystem's large-value payment system, a facility for the real-time gross settlement of payments in the euro area.

2. SICOI is the system that processes retail payment operations in Portugal.

3. T2S is a Eurosystem technical platform that provides securities settlement services against central bank money.

4. Data on the use of contactless technology only take into account purchases in POS terminals located in Portugal with national and foreign cards.

growth rates, of 311.8% in number and 521.7% in value, indicating high demand for this new payment instrument by consumers and mostly by firms. After being launched in September 2018, instant credit transfers declined somewhat in early 2019, largely due to the introduction of fees by payment service providers. However, the use of this instrument has grown steadily since then, in terms of both number and average value of transactions, chiefly due to its greater use by firms. Recourse to instant credit transfers is expected to become more entrenched in national payment practices, in line with the European trend, most notably among consumers.

The use of direct debits also grew further, by 14.2% in number and 12.9% in value. Developments were similar in card-based payment transactions and credit transfers, which rose by 9.3% and 6.1% in number, and 7.5% and 8.6% in value respectively.

Conversely, and as in recent years, cheques issued dropped by 14.5% in number and 6.6% in value.

In the course of 2019, there were **relevant developments in the domain of payments**, in which the Banco de Portugal participated under its mandate to regulate, oversee and promote the smooth operation of payment systems.

As regulator, in the context of the implementation of the revised Payment Services Directive (PSD2) and the entry into force on 14 September 2019 of the Commission Delegated Regulation (EU) 2018/389 of 27 November 2017, the Bank assessed compliance with the regulatory technical standards for strong customer authentication and common and secure open standards for communication between payment service providers. In addition to this assessment, the Banco de Portugal carried out a number of awareness-raising and briefing sessions on the impact of the new standards, so that payments could continue to be made as easily as before, but in a more innovative and secure way.

The Bank stepped up its interaction with fintechs intending to operate in the Portuguese payments market, by sharing information on the applicable regulations and the technical conditions required, and helping them improve solutions/services under development or in production. Two examples of this are the [Portugal FinLab](#)<sup>5</sup> and [Fintech Meetings](#)<sup>6</sup> initiatives, which continued throughout 2019.

The consolidation of TARGET2 and T2S, which is still in a preparation and specification stage, together with the strengthening of TARGET Instant Payments Settlement (TIPS) are, at present, among the pivotal projects linked to the Eurosystem's market infrastructures<sup>7</sup>. Due to their complexity and duration, they pose immense challenges to both market participants and the Banco de Portugal.

In 2020 several projects will proceed. As the competent authority for the implementation of the Legal Framework for Payment Services and Electronic Money (which transposes DSP2 into Portuguese law), the Bank will continue to monitor compliance by payment service providers of the applicable legal, technical and operational requirements. In particular, as regards strong customer authentication requirements applicable to e-commerce card-based payment transactions, the Banco de Portugal has made use of the flexibility set out by the European Banking Authority (EBA) and, to that extent, will monitor the migration plans of payment service providers, so as to ensure full compliance with the requirements by end-2020.

The Banco de Portugal, as operator of payment infrastructures, is faced with challenges in the European interoperability of instant credit transfers. For the national community to successfully join TIPS in 2020, the Bank will set out and monitor the implementation of the various stages

5. Communication platform between financial regulators and firms with innovative projects, launched in September 2018.

6. Regular meetings with fintech operators, which started in 2018 and are organised by the Banco de Portugal. In 2019, there was a Fintech Meeting on open banking. At the meeting, participants discussed the implementation of access to payment accounts and highlighted its importance to the provision of new payment services. Conditions for access to these activities and the identification requirement through eIDAS certificates were also explained.

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

of the project and ensure that the procedures needed for the national banking community to join the service are performed. On the other hand, the consolidation of TARGET2 and TARGET2-Securities, planned for November 2021, requires migrating to a new platform and entails a complete transformation of the technological infrastructures for the real-time gross settlement of payments. It is therefore important that all institutions are prepared by the planned date, on pain of being unable to settle payments in central bank money (monetary policy operations, cash deposits and withdrawals, reserve requirements, updating intraday credit lines, among others). For that purpose, the Banco de Portugal will monitor the fulfilment of the milestones set by the Eurosystem for the migration of the national community to the new TARGET platform.

Cooperation with stakeholders in the payments market has proven crucial to strengthen the Bank's role as regulator, policy-maker and overseer. The [second edition of Portugal FinLab](#), already under way, is a primary channel for interaction with fintechs, either incumbents or start-ups.

The Payment Systems Forum, which brings together stakeholders involved in national market, on both supply and demand sides, works on solutions to foster a more secure, efficient and innovative payments market. Its work has focused on the following objectives: (i) to promote contactless technology; (ii) to reduce the use of cheques as payment instruments; (iii) to set the conditions for making instant credit transfers available at the point of sale; (iv) to promote the use of direct debits; and (v) to foster the efficient and flexible use of strong customer authentication mechanisms. The agreed initiatives aimed at modernising our payments system will be incorporated into the national strategy for retail payments for the period 2020-22.

