

REPORT ON PAYMENT SYSTEMS

2020



BANCO DE
PORTUGAL
EUROSYSTEM

Executive summary

In 2020, the pandemic context had a significant impact on Portuguese society and economy as well as on consumption and payments.

The payment systems under the responsibility of the Banco de Portugal operated efficiently and addressed the needs of economic agents.

The system that processes most day-to-day retail payments – the Interbank Clearing System (SICOI) – managed 2.7 billion transactions, amounting to €501.5 billion. After six years of growth, and as a result of the contraction in economic activity and consumption, payments made with cheques, bills of exchange, direct debits, credit transfers, instant transfers and cards together fell by 9.2% in volume and 4.1% in value.

This was accompanied by a change in consumer behaviour.

The use of credit transfers and instant transfers increased, largely because they allow payments to be made remotely (up by 8% in volume and 3.5% in value for credit transfers and by 81.3% in volume and 50.4% in value for instant transfers).

As they are paper-based and used in person, the use of cheques as a means of payment declined drastically, by 27.9% in volume and 27.8% in value, reinforcing the downward trend seen in the past few years.

Direct debits decreased by 5% in volume and 7.6% in value, mostly as a result of the suspension during the pandemic of a number of services where this type of instrument is widely used (e.g. gyms).

Card transactions declined by 10.5% in volume and 5.6% in value, mainly due to a decrease in cash withdrawals (by 21.4% in volume and 14% in value) and purchases (by 8.5% in volume and 9% in value).

The negative trend in purchases did not affect all sectors of activity equally. The sectors with the largest drops in the amount of card payments received were: accommodation (-54%), general government (-51%), food services (-32.7%) and petroleum products (-18.1%). The sectors that showed greater resilience during the pandemic were postal services (16.8%) and retail (2%).

Although card purchases declined, online purchases increased (by 32.3% in volume and 9.6% in value), which in December represented 12.8% of the volume and 11.6% of the aggregate value of purchases made with cards issued in Portugal, in contrast to the decline of purchases at point of sales.

One of the most visible effects of the pandemic on payment services was the increased use of contactless technology, which grew by 163% in volume and 271% in value. While in January and February 2020 the use of this technology was growing on average by 11.3% in volume and 4.5% in value compared to the same period a year earlier, it became increasingly significant during the course of 2020. At the end of 2020 approximately 32% of purchases in terminals, and 19.4% of the value, were made using this technology.

In order to meet increased demand for contactless means of payment, the Banco de Portugal, in coordination with the Portuguese banking community, decided to increase the maximum amount per contactless transaction without the need to enter a PIN from €20 to €50.

In addition to having an impact on retail payments, the pandemic also affected payments settled in TARGET2-PT and the Portuguese component of TARGET2-Securities (T2S).

TARGET2-PT processed approximately 1.6 million transactions, amounting to €1.7 trillion, which is nine times the Portuguese GDP. Heightened tensions in financial markets and the monetary and fiscal stimulus implemented to mitigate the negative effects of the pandemic put greater pressure on the processing of transactions. Overall, TARGET2 met the increase in activity with resilience, efficiency and security. However, on 23 October TARGET2 recorded the largest incident since its implementation in 2007, when payment settlement services in central bank money were unavailable for approximately ten hours. Together with the Portuguese banking community, the intervention of the Banco de Portugal ensured the settlement of all necessary payments.

In the Portuguese component of **T2S**, 253 thousand securities instructions were settled, to the amount of €159 billion. The value of transactions declined, in line with the decrease in the issuance and redemption of public and private debt in Interbolsa.

Despite the constraints, on 14 October 2020 the Portuguese banking community was successfully connected to **TIPS**, the service provided by the Eurosystem for pan-European instant transfers. As of this date, pan-European instant transfers have been made with the same ease as domestic instant transfers. By the end of the year, 56 thousand transactions totalling €85 million had been sent and received. As at 31 December 2020, TIPS had 59 participants from nine markets (Austria, France, Germany, Italy, Latvia, Luxembourg, Netherlands, Portugal and Spain). Of these, 12 direct participants were part of the Portuguese community.

The coming years will be of profound transformation in the market infrastructures provided by the Eurosystem, as it seeks to invest in technological renewal, greater payment efficiency and security, as well as contribute to financial stability and to strengthening confidence in the euro. These objectives include projects such as (i) consolidating TARGET2 with T2S, leading to the entry into production of a new platform in November 2022 (as [announced](#) by the Governing Council of the European Central Bank in July 2020); (ii) strengthening the use of TIPS to ensure the pan-European reachability of instant transfers from November 2021 onwards; and (iii) preparing for the possible issuance of the digital euro.

On the latter, in 2020 the Eurosystem published a [report](#) where it addressed the possibility of issuing a central bank digital currency in the euro area. The digital euro will be a central bank digital currency provided to the general public (including households and firms) to be used in retail payments. By issuing the digital euro, the Eurosystem will provide citizens and other economic agents with a trusted, risk-free digital means of payment that is free of charge for basic use. The report concludes that, although the issuance of the digital euro has not been necessary to date, it may be a viable option for the Eurosystem to fulfil its mandate if certain scenarios materialise. Against this background, the Eurosystem is currently examining the implications for its core functions of issuing the digital euro, including for the proper functioning of payment systems. The Banco de Portugal is participating in this analysis.

In a year when payments became increasingly electronic, security concerns intensified. Consequently, and continuing its action as National Competent Authority in the context of the implementation of the revised Payment Services Directive (PSD2), the Banco de Portugal promoted the migration to procedures compatible with strong customer authentication for online card payments and evaluated the strong authentication mechanisms adopted by payment service providers.

It also began assessing the degree of cyber resilience of SICOI and its processing entity using the methodology defined by the Eurosystem in December 2018 on the basis of the [Cyber resilience oversight expectations for financial market infrastructures](#). The operational and cyber resilience of payment infrastructures has been a recent concern of central banks, as rapid technological innovation leads to more sophisticated attacks and, consequently, greater vulnerability of these infrastructures.

On 9 November 2020 the Banco de Portugal published the [National Strategy for Retail Payments | 2022 Horizon](#) (in Portuguese only), prepared under the aegis of the Payment Systems Forum. This Forum brings together stakeholders involved in supply and demand from the Portuguese payments market

and strives to find solutions for a more secure, efficient and innovative payments market. The Strategy is the result of this cooperation and is based on four development pillars: Pillar I – to promote a better-informed society; Pillar II – to enhance the benefits of digital transformation; Pillar III – to contribute to a regulatory framework that fosters innovation and efficiency; and Pillar IV – to promote the adoption of more secure payment solutions.

The actions included in each of the four pillars of the Strategy are expected to be carried out by the end of 2022. The following stand out for their potential to transform the Portuguese payments market: (i) to promote greater coverage of the network of contactless point-of-sale (POS) terminals and payment cards; (ii) to foster the widespread use of instant transfers, not only in remote payments, but also at POS; (iii) to promote electronic solutions that speed up payments to the general government; (iv) to identify and propose the revision of legislative acts and other regulation that impose/favour the use of paper-based payment instruments, in particular cheques; finally, (v) to assess the feasibility of making a legislative amendment requiring firms to accept, together with cash, at least one electronic payment instrument.