

NBP

Narodowy Bank Polski

November 2019

Assessment of the Polish payment system functioning in the first half of 2019

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The “Assessment of the Polish payment system functioning” is a cyclical material, prepared by the Payment Systems Department, which provides a basis for the NBP Management Board to perform a periodical assessment of payments, i.e. the implementation of the task defined in Article 17(4)(3) of the Act on Narodowy Bank Polski.¹

The “Assessment of the Polish payment system functioning in the first half of 2019”, hereinafter referred to as the “Assessment”, presents main facts and events related to the functioning of the Polish payment system in the first half of 2019 as well as the statistical data reflecting the development of the payment system in Poland in this period and the level of development at the end of June 2019.

The most significant events for the payment system in the first half of 2019 included:

1. entry into force, as of 1 January 2019, of the provisions of the Polish Labour Code, which regulate the method of payment of remuneration for work. The changes were introduced by the Act of 10 January 2018 amending some acts in connection with the shortening of the storage period of employee files and their electronicisation. As a result of the changes, the payment of remuneration to the payment account indicated by the employee became a principle, while the option of payment of remuneration in cash was still maintained.
2. entry into application, as of 14 March 2019, of selected provisions of Commission Delegated Regulation (EU) 2018/389 of 27 November 2017 supplementing Directive (EU) 2015/2366 of the European Parliament and of the Council with regard to regulatory technical standards for strong customer authentication and common and secure open standards of communication. These selected provisions relate to enabling interested providers to test access interfaces launched by payment account providers and to provide them with relevant documentation on those interfaces.
3. implementation, as of 27 May 2019, of a new version (7.0) of the SORBNET2 system, covering a number of changes, including two significant ones: the blocking of funds by the NBP on a participant's account is split into dedicated blocked amounts while the automation of the process has increased, and the system enables automatic sending of transaction statements to email addresses of participants. Additionally, a modification was introduced by allowing the opening of a clearing account for the needs of the Ministry of Finance (MF), i.e. the NBP own account which enables MF to manage its operations which are executed by KDPW.
4. completion, on 31 March 2019, of the Programme for the popularisation of non-cash payments in public administration units and the migration of offices previously participating in this programme to the Programme of the Cashless Poland Foundation,
5. finalisation of work by the Task Team for prepaid cards appointed by the Payment System Council. The results of the Task Team work were presented in a report that was submitted to the Payment System Council at its meeting on 17 June 2019. The Council adopted "Good practices related to the functioning of prepaid payment instruments" as recommendations for market agents.
6. issuance, on 23 April 2019, by the Polish Financial Supervision Authority (KNF) of the first license of an electronic money institution to Billon Solutions Sp. z o. o. The application created by Billon

¹ Journal of Laws of 2019, item 1810.

Solutions is designed for issuing electronic money and performing transactions with electronic money.

7. as regards activities related to oversight of payment systems, two decisions issued by the President of NBP regarding changes in the rules of functioning of retail payment systems (i.e. the Elixir payment system and the Krajowy System Rozliczeń (KSR) payment system),
8. as regards actions concerning oversight of payment schemes, three decisions issued by the President of NBP regarding consent to make changes in the rules of functioning of payment schemes and one decision granting authorization to operate a payment scheme.

At the same time, in the first half of 2019, a series of activities were undertaken which would significantly affect the functioning of the Polish payment system in the nearest future. These include, in particular:

1. launching analyses regarding the legitimacy of introducing changes to the SORBNET2 system in connection with the SWIFT association's decision to withdraw from the currently used MT messages in favor of a standard compliant with the ISO 20022 standard (also called the XML standard). According to SWIFT assumptions, MX messages, which conform to the ISO 20022 standard, will replace the currently used MT messages following a four-year transition period beginning in November 2021. The above change will be of crucial importance for the necessary changes in RTGS systems, which have so far used MT messages, including the abovementioned SORBNET2 system.
2. entry into force, as of 18 April 2019, of Regulation (EU) 2019/518 of the European Parliament and of the Council of 19 March 2019 amending Regulation (EC) No 924/2009 as regards certain charges on cross-border payments in the Union and currency conversion charges. The main purpose of the regulation is to eliminate high costs of intra-EU cross-border payment transactions in Euro which persist in some countries. The regulation will, as a rule, apply from 15 December 2019.
3. continuation of work on the draft act on amending certain acts due to the development of non-cash payments connected with the preparation of provisions aimed at making the non-cash payments more dynamic in the territory of the Republic of Poland. The main assumptions of the draft include the popularisation of non-cash payments and the replacement of a part of cash payments with electronic ones (with card, electronic transfers, etc.) as well as the guarantee of the right to make non-cash payments by consumers at retail points. Another version of the draft (from 9 January 2019) was submitted to the Standing Committee of the Council of Ministers for consideration on 17 January 2019. However, this draft was not discussed on that day.
4. continuation of work related to the amendment to the Regulation (EU) of the European Parliament and of the Council of 4 July 2012 on OTC derivatives, central counterparties and trade repositories (the so-called EMIR Regulation),
5. entry into force, as of 27 June 2019, of Directive (EU) 2019/882 of the European Parliament and of the Council of 17 April 2019 on the accessibility requirements for products and services. Member States should, by 28 June 2022, adopt and publish the relevant laws, regulations and administrative provisions necessary to achieve the objectives set out in the Directive, and these rules should in principle be applicable from 28 June 2025 at the latest. The Accessibility Directive is intended to help avoid social exclusion due to the unaccessibility of products and services, and to help people with disabilities function in society in an independent and dignified manner. The Accessibility Directive applies, among others, to payment terminals and ATMs placed on the market after 28 June 2025, as well as to retail banking services provided to consumers after that date.

The key statistical data reflecting the development of the Polish payment system in the first half of 2019, in comparison to the previous semi-annual period are as follows:

1. in the large-value payment systems, the following developments were recorded:
 - in the SORBNET2 system – a decrease of both the number and value of executed orders by 2,3% and 3% respectively,
 - in the TARGET2-NBP system – a decrease of executed orders by 3,4%, with a simultaneous increase of their value by 2,2%,
2. in the retail payment systems, the following developments were recorded:
 - in the Elixir system – an increase of executed orders by 2,3%, with a simultaneous decrease of their value by 1,1%,
 - in the Euro Elixir system – an increase of both the number and value of executed orders by 8,5% and 6,5% respectively,
 - in the Express Elixir system and in the BlueCash system, which offer clearing of instant payments – a growth of executed orders by 45% and 15% respectively, and at the same time an increase of their value by 16% and 13% respectively,
 - in the BLIK system – a further growth in the number and value of executed orders by 54% and 47% respectively,
 - in the KSR system – a decrease of number and value of executed orders by 3% and 8% respectively,
3. in the securities clearing and settlement systems, the following developments were recorded:
 - in the settlement system operated by KDPW S.A. – a decrease in the number of transactions by 10%, and at the same time an increase of their value by 8%,
 - in the transactions clearing systems operated by KDPW_CCP S.A. – a decrease in both the number and value of operations by 3,8% and 4,1% respectively,
 - in the SKARBNET4 system operated by NBP:
 - a decrease of both the number and value of transactions in NBP money bills by 4,4% and 8,4% respectively,
 - in the first half of 2019, no transaction in Treasury bills was performed,
4. as regards the remaining infrastructure of the Polish payment system, the following developments were recorded:
 - decrease in the number of institutions providing payment services by 4,9% and a decrease of their outlets by 2,7%,
 - significant increase in the number of bank outlets not offering cash services. At the end of the first half of 2019, ten banks run 253 outlets not offering such service.
 - growth in the number of points of sale equipped with POS terminals by 21%,
 - decline in the number of credit union outlets by 13,5%,
 - decline in the number of KIPs (Domestic Payment Institutions) by 7%,

- decrease in the number of BUPs (Payment Service Office) by 6,7%,
 - decrease in the number of ATMs by 0,3%,
 - increase in the number of payment card merchants, accepting payments by card in POS terminals and online by 8% in comparison to the previous semi-annual period,
 - increase in the number of points of sale offering *cash back* payments by 13%,
5. as regards bank accounts and non-cash payment instruments, the following developments were recorded:
- increase in the number of current accounts of natural persons operated by banks by 1,5%,
 - further growth in the average number of non-cash transactions on a single bank account, by 3,2, which means a growth in the average activity of users per one account by 3,4%,
 - increase in the number of payment cards issued by 2% (to the level of 42.1 million), with a simultaneous decline in the number of credit cards issued by 0.7%. The payment card was an instrument of non-cash payments most commonly used by bank account holders, by means of which approximately 64.6% of all non-cash transactions were performed. The number of non-cash transactions performed with the use of the payment card increased by 7,2%.
 - growth in the number of payments by credit transfer by 3,6%,
 - decline in the number of payments by direct debit by 2,7%,
 - increase in both the number and the value of fraudulent operations made by payment card by 15,8% and 17.8%, respectively (according to data provided by banks),
 - increase in the average value of fraudulent transaction made with a payment card by 1,7%,
6. as regards cash and non-cash transactions, the following developments were recorded:
- growth of cash in circulation outside banks' cash desks from the level of PLN 203,2 billion in December 2018 to the level of PLN 214,9 billion in June 2019 (growth by 5.8%),
 - increase in the share of cash in the M1 money supply aggregate from 20.1% in December 2018 to 20.5% in June 2019,
 - increase in the share of household deposits in the M1 money supply aggregate from the level of 51.7% in December 2018 to the level of 53.4% in June 2019.

It is worth emphasizing that the first half of 2019 was also a period of dynamic development of the market of innovative payment instruments and services, comprising in particular contactless cards and mobile payments. Poland belongs to the group of countries with the highest level of contactless cards use in the world. According to NBP estimates, at the end of June 2019, the number of payment cards with a contactless function reached 36.1 million, i.a. 1.4 million more than in December 2018. Contactless cards constitute nearly 85.7% of all payment cards in Poland, and they also have an increasing share in the number and value of card transactions. In the first half of 2019, the share of transactions with the use of contactless cards in the total number of non-cash transactions with the use of cards reached 85%. At the end of March 2019, 100% of POS terminals were adapted to support payment cards with a contactless function. In addition to contactless cards, mobile payments are developing dynamically and constantly (e.g. BLIK), becoming increasingly commonplace.

Taking into account the above statistical data and detailed information and opinions contained in the whole report, the following key assessments regarding the functioning of the Polish payment system in the first half of 2019 can be formulated:

1. payment systems (SORBNET2, TARGET2-NBP, Elixir, Euro Elixir, Express Elixir, BlueCash, BLIK and KSR) functioned properly, ensuring safe and efficient payments and settlements,
2. the securities settlement and clearing systems (including the system operated by KDPW SA, the SKARBNET4 system operated by the NBP and settlement systems operated by KDPW_CCP SA) operated in a sustainable manner,
3. the infrastructure enabling users to perform retail payments developed further, in particular:
 - payment card acceptance network grew dynamically, in particular the network of points accepting cards with a contactless function, allowing for instant payments, especially for amounts up to PLN 50,
 - dynamic development of instant payment systems (BlueCash, Express Elixir), enabling customers of banks participating in this system to make a transfer to another bank in a very quick way (usually in a few to several seconds), as well as the BLIK system that clears mobile payments,
4. the number of locations and services enabling access to cash has changed:
 - the ATM network decreased, with a simultaneous decline in the number of cash withdrawals,
 - cash withdrawals with the use of innovative forms of transactions increased compared to standard withdrawals at cash desks of banks' branches or with a payment card at ATMs, i.e. through withdrawals in shops (with a payment card at retail outlets offering *cash back* service) and cash withdrawals at ATMs under the BLIK system using a mobile phone,
5. there was an increase in the share of cash in circulation in the M1 money supply aggregate,
6. the level of use of non-cash payment instruments increased:
 - in particular, payment cards with a contactless function. This corroborates the growing rate of transactions made using the existing payment cards by consumers who actively use non-cash transactions.
 - the number of transfer orders increased steadily, although their share in the total number of all non-cash transactions is steadily decreasing,
 - the number of direct debits decreased and their share in the total number of all non-cash transactions continues to decrease,
7. the number of bank accounts and the number of non-cash transactions both increased, confirming the high activity of bank account holders, who use in particular card transactions and credit transfers,
8. the level of use of mobile payments between natural persons (P2P) grew and further growth was observed in the number and value of online non-cash payments in the BLIK system,
9. an alarming development was a growth in the number of fraudulent transactions involving payment cards, according to data received from banks; however, taking into account the parallel dynamic growth of all card transactions and a relatively low, continuing for several years, percentage share of fraudulent transactions in the number and value of card transactions, particularly as compared to other EU countries, this growth should not be assessed as risk generating.

Apart from the abovementioned key facts and events related to the functioning of the Polish payments system in the first half of 2019, as well as statistical data which reflect the current condition of this system, it should

be added that the presented material also contains information on the results of selected surveys and analyses related to payment system.

In the current edition of the assessment, the following activities should be highlighted:

- research project on the costs of payment instruments on the Polish market,
- report "Stosunek Polaków do gotówki" (Attitude of Poles towards cash),
- survey of the attitude of small and medium-sized enterprises to cashless payments,
- survey "Sytuacje, w których przydaje się możliwość realizacji przelewu natychmiastowego" (Situations when the possibility of instant transfer is useful),
- survey "Kluczowe czynniki wyboru formy płatności przez konsumentów" (Key factors determining the consumers' choice of the form of payment),
- research by the Kantar Millward Brown institute for NCR Polska sp. z o.o.,
- survey "Zwyczaj płatnicze a rozwój sieci akceptacji kart w Polsce: Badanie konsumenckie 2018" (Payment habits and the development of the card acceptance network in Poland: Consumer survey 2018).

It should be added that the functioning of the payment system in Poland is the result of actions and decisions of multiple entities (the most important of them are indicated in Chapter 1). While implementing its statutory task of organizing payments, Narodowy Bank Polski fulfils not only the regulatory, oversight and operational functions in this area but also - as other central banks - the function of the catalyst for change, which involves, among others, initiating or supporting activities of a number of other entities and institutions within the system. However, it should be kept in mind that by accepting the role of the catalyst for change, NBP does not always have the final say in all decisions and actions of entities related to the payment system.

Taking into consideration the information and data presented above, the functioning of the Polish payment system in the first half of 2019 should be assessed as positive.

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