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Assessment of the Polish payment system functioning in the first half of 2021

SUMMARY



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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 2021”, hereinafter referred to as the “Assessment”, presents the major facts and events related to the functioning of the Polish payment system in the first half of 2021 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 2021.²

The most significant events for the payment system in the first half of 2021 included:

1. commencement of the legislative process concerning a draft Act amending the Act of 19 August 2011 on Payment Services. The Act was finally passed by the Sejm of the Republic of Poland on 17 September 2021, signed by the President of the Republic of Poland on 28 September 2021, and promulgated on 5 October 2021. The main objective of the Act was to regulate the legal status of the acceptance of banknotes and coins issued by NBP. The proposal for amending the Act on Payment Services and regulating the acceptance of banknotes and coins issued by NBP was submitted to the President of the Republic of Poland by the Governor of Narodowy Bank Polski. In the opinion of the authors of the proposed amendment, by making merchants legally bound to accept cash payments, with the exception of payments specified in the Act, the Act will secure the possibility of using the preferred forms of payments, including cash payments, by all social groups;
2. continuation by NBP of work on the National Cash Security Strategy. The planned activities, to be carried out by the Board on Cash Circulation, focus on the widely understood security of cash transactions, and their prime aim is to counteract elimination of cash from economic transactions and protect the freedom to choose payment instruments. The key safety pillars of cash circulation which are contained in the work on the National Cash Security Strategy include, among others, wide acceptance of cash payments. On 4 March 2021 the Council took a decision to establish task groups in charge of the development of a draft Strategy;
3. publication of the report “Pieniądz cyfrowy banku centralnego” [Central Bank Digital Currency, CBDC], alongside the current stance of the NBP Management Board on the issue of digital zloty³, on 14 May 2021 on the NBP website. In line with the above stance, NBP had not identified a purpose of a systemic nature for issuing a digital zloty or any particular needs of consumers or economic agents which could not be satisfied by payment service providers in Poland, but only by the central bank through the issue of CBDC. Therefore, not seeing convincing justification for this, NBP did not decide on its issue. It was also pointed out that the above NBP stance on the issue of digital currency may be altered should (domestic or international) circumstances justifying such alteration materialise;

¹ Journal of Laws of 2020, item 2027.

² Irrespective of the semi-annual Assessment, NBP prepares and publishes quarterly information: on interbank clearings and settlements, where it presents information and data on payment systems and payment cards.

³ The stance of the NBP Management Board on CBDC was published alongside the report “Pieniądz cyfrowy banku centralnego” [Central Bank Digital Currency] at the following address: <https://www.nbp.pl/home.aspx?f=/systemplatniczy/cbdc/cbdc.html>

4. the end, as on 31 December 2020, in accordance with the European Banking Authority's opinion of 16 October 2019 (EBA-Op-2019-11)⁴, of full implementation period for the migration to strong customer authentication (SCA) compliance for e-commerce card-based payment transactions. This means that as of 1 January 2021 payment service providers have to apply appropriate measures sufficient to meet the requirements 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, in the scope of at least a two-element authentication process (i.e. using at least two of three authentication factors: knowledge, possession or inherence {biometric features});
5. implementation, on 31 May 2021, of version 9.0 of the SORBNET2 system, which includes a number of changes facilitating the system operation, including: introduction of the so-called "bank blockade" on a participant's account which will be at their free disposal, extension of the period of access to archived data, change in the method of searching a past order, and introduction of a new authorisation method for emergency orders transmitted to NBP;
6. publication, on 22 January 2021 in the EU Official Journal, of Regulation (EU) 2021/23 of the European Parliament and of the Council of 16 December 2020 on a framework for the recovery and resolution of central counterparties (CCPRR). The objective of introducing the provisions of the Regulation is to ensure that a CCP that is failing or likely to fail prepares and submits measures to recover from financial distress, to maintain its critical functions while winding up the remaining activities through normal insolvency proceedings. The provisions of CCPRR also aim to preserve financial stability and to avoid significant adverse effects on the financial system, while minimising the cost of a CCP failure to taxpayers. Additionally, CCPRR aims to further bolster the preparedness of CCPs and supervisory authorities to mitigate financial distress and provide authorities with further insight into CCPs' preparations for stress scenarios. The provisions also provide supervisory authorities with powers to prepare for the potential resolution of a CCP and deal with the declining health of a CCP in a coordinated manner, thus contributing to the smooth functioning of financial markets;
7. entry into force, as of 26 February 2021, of Regulation of the Minister of Finance, Development Funds and Regional Policy of 8 February 2021 amending Regulation of the Minister of Development and Finance of 5 July 2017 on identifiers and sort codes assigned to certain payment service providers and unique identifiers assigned to payment accounts maintained by those providers. The amendment specified the method of handling sort codes and unique identifiers of payment accounts in the event of applying resolution measures to PSPs. New provisions were introduced which enable an acquiring entity or a bridge institution to use the sort code of the PSP subject to resolution and to keep unique identifiers of payment accounts maintained so far by the PSP under resolution. The amendment was to eliminate interpretative doubts concerning the handling of sort codes and unique identifiers of payment accounts by explicitly including cases of using resolution instruments;
8. as regards activities in the area of payment market infrastructure security and cyber resilience – performing under the ongoing assessment of the SORBNET2 system compliance with the Cyber

⁴ Opinion of the European Banking Authority on the deadline for the migration to SCA for e-commerce card-based payment transactions: <https://eba.europa.eu/eba-publishes-opinion-on-the-deadline-and-process-for-completing-the-migration-to-strong-customer-authentication-sca-for-e-commerce-card-based-payment>

The above mentioned EBA Opinion was formulated with respect to issues related with adjusting to SCA requirements for card payments in the e-commerce sector.

- resilience oversight expectations for financial market infrastructures (CROE) a review of self-evaluation made by the SORBNET2 Owner;
9. as regards actions related to the oversight of payment systems, the Governor of NBP issued a decision authorising introduction of changes to the principles of functioning of retail payment systems (i.e. the BlueCash payment system);
 10. as regards actions related to the oversight of payment schemes:
 - starting a procedure for authorising changes to the rules of functioning of the BLIK payment scheme, on request of Polski Standard Płatności Sp. z o.o.,
 - evaluation of a change in the rules of functioning of the Mastercard payment scheme which consists in modifying arbitration proceedings under the chargeback procedure.

At the same time, in the first half of 2021 certain events occurred that could indirectly affect the payment system in Poland and a number of actions were undertaken that will have a significant impact on the functioning of the Polish payment system in the near future. These include, in particular:

1. continuation by NBP of analytical work related to the implementation of a new RTGS system in zloty compliant with ISO 20022 standard planned for 2025;
2. continuation by NBP of work on the project of consolidation of the TARGET2 system and the T2S platform;
3. commencement of work on the draft act amending the Act on the Bank Guarantee Fund, Deposit Guarantee Scheme and Resolution, and some other acts. The act was passed by the Sejm on 8 July 2021 and promulgated in the Journal of Laws of 31 August 2021 (Journal of Laws of 2021, item 1598). Pursuant to this Act, the Polish Financial Supervision Authority (KNF) will act as an authority in charge of monitoring the compliance of payment services users with Regulation of the European Parliament and of the Council (EU) No 260/2012 of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) 924/2009.⁵ In the above described scope the Act came into force on 15 September 2021;
4. continuation of legislative work on the government draft of the Regulation of the Minister of the Interior and Administration amending the regulation on requirements to be met by the protection and transport of monetary values by entrepreneurs and other organisational units. The draft Regulation stipulates, among others, introduction of additional requirements related to the system of neutralising paper-based monetary values. The draft Regulation stipulated that banks and non-bank operators who are owners of ATMs be obliged to equip at least 40% of ATMs with a set of specialised containers equipped with a system of paper-based monetary values neutralisation. The choice of ATMs to be fitted with specialised containers will be left to ATM owners, who will select the ATMs most at risk from this type of crime. The Regulation was signed on 15 September 2021 and promulgated in the Journal of Laws of 23 September 2021 (Journal of Laws of 2021, item 1739);
5. commencement of legislative work on the draft act amending the Act on Payment Services of 19 August 2011.⁶ The draft Act was initially focused mainly on the partly deregulation of payment service offices in respect of the public supervision of this group of payment service providers. As part of its task to issue an opinion on this draft act, NBP proposed, among others, to:

⁵ Official Journal of the EU L 94, from 30 March 2012, pp. 22-37.

⁶ <https://legislacja.gov.pl/projekt/12342905>

- regulate the legal status of acceptance of banknotes and coins issued by NBP (cash), in order to ensure that consumers have the possibility to choose in the territory of the Republic of Poland their preferred forms of payment, including cash payment (in the case of concluding a purchase contract with an entrepreneur accepting non-cash payment instruments). This issue, however, became the subject of separate parliamentary work (Sejm Paper No. 1221⁷), which means it was considered by the Sejm as a Presidential draft and was finally passed by the Sejm on 17 September 2021;
 - make amendments to the Act on Payment Services⁸ as a result of the amendments introduced to Regulation (EU) 2020/2011 of the European Central Bank of 1 December 2020 amending Regulation (EU) No. 1409/2013 on payment statistics (ECB/2013/43) (ECB/2020/59);
 - abandon the requirement to obtain the opinion of the Governor of NBP, referred to in Article 60(3) of the Act on Payment Services, and change the wording of other provisions as a consequence of abandoning the said requirement. Pursuant to the existing legislation, KNF issues authorisation to provide acquiring services after it obtains an opinion of the Governor of NBP;
6. commencement of legislative work on draft Act on the Financial Information System, which stems from the obligation to implement into the Polish legal order the EU law covering regulations aimed at prevention of the use of the financial system for the purposes of money laundering or terrorist financing;
 7. continuation of work on the draft Act amending the Act on the National Cybersecurity System. As a result of NBP's comments to the draft Act, the draft of 16 February 2021 was supplemented with an article in accordance with which regulations concerning prohibiting the use or ordering withdrawal from use of equipment or software from a provider considered a high-risk provider, preventive decisions [polecenie zabezpieczające] or demanding information from public entities by relevant supervisory authorities will not apply to NBP. The Governor of NBP will only be immediately informed by the minister competent for computerisation about a decision issued on deeming a provider of equipment of software to be a high-risk provider or a decision on issuing a preventive decision [polecenie zabezpieczające];
 8. continuation of work on the draft Regulation of the European Parliament and of the Council (EU) on the Digital Operational Resilience Act (DORA) for the financial sector, which sets out requirements for financial entities in the area of cybersecurity, such as central securities depositories, central counterparties (CCPs) and electronic money institutions and domestic payment institutions. In the course of the legislative work, NBP in the first place pointed to a lack of justification for covering payment systems and payment schemes by the above mentioned regulation;
 9. continuation of work on the draft Regulation (EU) of the European Parliament and of the Council on Markets in Crypto-assets and (MiCA) and amending Directive (EU) 2019/1937. The draft Regulation aims to represent the first coherent approach to regulating crypto-assets in economic transactions;
 10. continuation of work on the draft Regulation (EU) of the European Parliament and of the Council on a pilot regime for market infrastructures based on distributed ledger technology (DLT). The above draft Regulation is the first attempt at the Union level to regulate the market of financial instruments based on distributed ledger technology and lay down requirements on multilateral trading facilities operators and central securities depositories using DLT technology in their activities. The draft Regulation aims to limit obstacles to issuing, trading and settling securities based on DLT, and support innovative technologies in the area of market infrastructure, while ensuring a high level of

⁷ <https://www.sejm.gov.pl/Sejm9.nsf/PrzebiegProc.xsp?nr=1221>

⁸ Journal of Laws of 2020, item 794.

consumer and investor protection, market trading integrity and mitigation of risks for the stability of the financial system;

11. continuation of work on draft amendments to Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 2014 on improving securities settlement in the European Union and on central securities depositories, amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR). In the course of work, the European Central Bank (ECB) prepared a survey addressed to central securities depositories (CSDs) to consult the principles of settling the cash leg of securities transactions, including cash settlement in foreign currencies. The results of the survey were communicated by the ECB to the EC, which conducts further work on the draft amendments to the CSDR.

The key statistical data reflecting the development of the Polish payment system in the first half of 2021 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 slight decrease of 0.05% in executed orders, with a simultaneous increase of 3.2% in their value,
 - in the TARGET2-NBP system – an increase in both the number and value of executed orders, of 0.6% and 17.6%, respectively,
2. in the retail payment systems, the following developments were recorded:
 - in the Elixir system – an increase in both the number and value of executed orders, of 1.4% and 2.9%, respectively,
 - in the Euro Elixir system – an increase in both the number and value of executed orders, of 3.9% and 20.9%, respectively,
 - in the Express Elixir system, which offers clearing of instant payments – a marked growth of 40% in executed orders and at the same time an increase of 20% in their value,
 - in the BlueCash system – an increase in both the number and value of executed orders, of 13% and 17%, respectively,
 - in the BLIK system – a further increase in both the number and value of executed orders, of 31% and 32%, respectively,
 - in the KSR system – a decrease of 1.1% in the number of executed orders, with a simultaneous slight increase of 0.3% in their value,
3. in the securities clearing and settlement systems, the following developments were recorded:
 - in the settlement system operated by KDPW S.A. – a decrease of 11.2% in the number of transactions, and at the same time an increase of 21.8% in their value,
 - in the clearing systems operated by KDPW_CCP S.A. – a decrease of 1.8% in the number of transactions, with a simultaneous increase of 14.1% in their value,
 - in the SKARBNET4 system operated by NBP:
 - an increase in both the number and value of transactions in NBP bills, of 9.1% and 1.6%, respectively,

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- a decrease in both the number and value of transactions in NBP T-bills, of 68.4% and 50.9%, respectively,
4. as regards the remaining infrastructure of the Polish payment system, the following developments were recorded:
- decrease of 1% in the number of institutions providing payment services and a decrease of 2.1% in the number of their outlets,
 - significant increase in the number of bank outlets not offering cash services. At the end of the first half of 2021, 12 banks ran 599 branches not offering such services,
 - increase of 2.6% in the number of KIPs (Domestic Payment Institutions),
 - increase of 30.2% in the number of MIPs (Small Payment Institutions),
 - decrease of 2.4% in the number of BUPs (Payment Service Offices),
 - decrease of 0.5% in the number of ATMs,
 - increase of 7.4% in the number of payment card merchants, accepting payments by card in POS terminals and online, in comparison to the previous semi-annual period,
 - increase of 6.6% in the number of points of sale equipped with POS terminals,
 - increase of 7.6% in the number of POS terminals,
 - increase of 1.1% in the number of points of sale offering cash back payments,
 - increase in the number and value of cash back payments as compared with the previous half-year period (of 4.7% and 5%, respectively),
5. as regards bank accounts and non-cash payment instruments, the following developments were recorded:
- slight decrease of 0.4% in the number of current accounts of natural persons operated by banks,
 - increase of 3.2, to 119.7 transactions, in the average number of non-cash transactions on a single bank account, which means a growth of 2.7% in the average activity of users per one account,
 - increase of 1.4% in the number of payment cards issued (to the level of 44.3 million), with a simultaneous decline of 2.1% in the number of credit cards issued. The payment card was an instrument of non-cash payments most commonly used by bank account holders, by means of which approximately 63.0% of all non-cash transactions were performed.
 - increase in the number and value of non-cash card payments (of 0.7% and 0.7%, respectively),
 - growth of 5.3% in the number of payments by credit transfer,
 - growth of 5% in the number of payments by direct debit,
 - decrease of 12.5% in the number of fraudulent transactions made with payment cards, with a simultaneous increase of 51.7% in their value (according to data provided by banks),
 - increase of 42.9% in the average value of fraudulent transaction made with a payment card,
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 306.8 billion in December 2020 to the level of PLN 328.7 billion in June 2021 (growth of 7.1%),

- slight increase in the share of cash in the M1 money supply aggregate from 20.0% in December 2020 to 20.1% in June 2021,
- increase in the share of household deposits in the M1 money supply aggregate from the level of 51.4% in December 2020 to the level of 51.8% in June 2021.

It is worth emphasising that the first half of 2021 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. At the end of June 2021, the number of payment cards with a contactless function reached 39.2 million, i.e. 0.85 million more than in December 2020. Contactless cards constituted 88.5% of all payment cards in Poland, with an increasing share in the number and value of card transactions. In the first half of 2021, the share of transactions with the use of contactless cards in the total number of non-cash transactions with the use of cards reached 95.8%. It should be noted that as from the first half of 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. The BLIK system allows users to make payments using, e.g. mobile phones or tablets both online and in conventional points of sale, public transport, public offices and between mobile phone users (P2P). Users of the BLIK system most often make non-cash payments in POS terminals (an increase of 54% in their number and of 56% in their value). P2P payments are also highly popular as the first half of 2021 saw a very dynamic growth in their number and value (of 40% and 33%, respectively), which clearly confirms the growing interest in this type of service.

Taking into account the above statistical data as well as 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 2021 can be formulated:

1. the payment systems (SORBNET2, TARGET2-NBP, Elixir, Euro Elixir, Express Elixir, BlueCash, BLIK and KSR) functioned properly, ensuring safe and efficient interbank clearings and settlements;
2. the securities settlement and clearing systems (including the system operated by KDPW SA, the SKARBNET4 system operated by 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:
 - the payment card network developed, in particular as regards points of sale accepting contactless cards,
 - dynamic development was recorded in the instant payment system 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 decrease in the number and value of cash withdrawals,
 - cash withdrawals from ATMs under the BLIK system using a mobile phone increased;
5. regarding the use of non-cash payment instruments:

- the number of payment cards with a contactless function increased, with a simultaneous increase in the number and value of contactless payments,
 - the number of credit transfers increased, with a simultaneous increase in their share in the total number of all non-cash transactions, as compared to the second half of 2020,
6. there was a slight increase in the number of bank accounts accompanied by an increase in the average number of non-cash transactions on a single bank account – in connection with a growth in the number of card payments and direct debits;
 7. the 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.

Apart from the above-mentioned key facts and events related to the functioning of the Polish payment system in the first half of 2021, 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 the payment system.

In the current edition of the assessment, the following surveys and analyses are presented:

- research report “Metody płatności preferowane przez Polki i Polaków” [Payment methods preferred by female and male Poles],
- Mastercard research on the attitudes and behaviour of the Z generation,
- survey commissioned by Tpay: Jak Polacy płacą za e-zakupy?, “Klienci cenią sobie przede wszystkim wygodę i szybkość” [How do Poles pay for their online shopping? Customers value convenience and speed the most],
- study entitled “Zwyczaje płatnicze w Polsce w 2020 r.” [Payment habits in Poland in 2020],
- study entitled “Ocena zmian na rynku płatności w Polsce” [A review of changes in the payment market in Poland],
- Intrum report “European Payment Report 2021”,
- “Badanie metod płatności: co sądzą klienci” [A study of payment methods: customers’ opinions],
- “Analiza opłat i prowizji związanych z korzystaniem z rachunku płatniczego w Polsce (wg danych na dzień 31 grudnia 2020r.)” [An analysis of fees and commissions related to the use of the payment account in Poland (according to data as at 31 December 2020)],
- NetB@nk report on online and mobile banking, non-cash payments (2021 Q2).

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, 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 2021 should be assessed as positive.

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