The role of
the National Bank of Poland
in the oversight
of payment systems
Design:
Oliwka s.c.

Layout and print:
Drukarnia NBP

Published:
National Bank of Poland
Department of Information and Public Relations
ul. Świętokrzyska 11/21, 00-919 Warszawa
www.nbp.pl

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Introduction ................................................................. 4

1. Oversight of payment systems as a function of central banks ................. 5
   1.1. Payment system - general description ........................................... 5
   1.2. Objectives of central banks’ oversight ........................................... 6
   1.3. International initiatives in the field of oversight over payment system .... 7
   1.4. Oversight vs. supervision ............................................................... 10

2. Principles of oversight of payment systems in Poland ............................. 11
   2.1 Legal basis for the oversight of payment system ............................... 11
   2.2 Criteria applied in the assessment of the overseen payment systems ....... 12
   2.3 Forms of oversight ........................................................................... 12
   2.4 Organisational-related aspects of payment system oversight .................. 14
   2.5. Co-operation with other central banks and other foreign institutions in terms
        of the oversight of payment systems ................................................. 14
   2.6. Principles of informing on exercising oversight of payment systems by the NBP ............................... 15

Annex 1: Policy of the National Bank of Poland in the Area of Payment Systems Oversight ................................................. 16

Annex 2: The Core Principles and central bank responsibilities
   Public policy objectives: safety and efficiency in systemically important payment systems ................................................. 19
Introduction

The role of payment systems in the functioning of domestic and international financial markets cannot be underestimated. They come as a source of funding for the market participants and central banks use payment systems in their monetary policy operations. Effective operation of payment systems is a prerequisite for efficient monetary policy and functioning of domestic financial systems. Payment systems have been undergoing rapid development in the recent years. The creation of modern telecommunication and IT technologies and their application in payment systems increased the speed and efficiency of fund flows, thus contributing to the development of a modern economy. Some new, innovative payment methods have been implemented. However, payment system participants are still exposed to a number of risks connected with their functioning. The oversight of payment systems is one of the activities performed by central banks with a view to reduce risks.

This document presents the principles of payment systems oversight conducted by the National Bank of Poland (NBP). It has become a standard in the EU that the central bank presents these issues to the general public. The majority of central banks in the European Union (EU) countries either have already published a document of this type, or intend to do so in the nearest future, following the recommendations of the European Central Bank (ECB).
1
Oversight of payment systems as a function of central banks

1.1. Payment systems – general description

In accordance with the generally recognised definition formulated by the Bank for International Settlement (BIS), a payment system consists of a set of instruments, banking procedures and interbank funds transfer systems that ensure the circulation of money within a given geographical area, typically a country.

In general, a payment system includes:

- payment instruments enabling execution of a transaction (including notes and coin, as well as non-cash payment instruments, such as transfer orders, payment cards, settlement cheques, direct debits),
- payment systems allowing for clearing and settlement of transactions performed with the above-listed payment instruments.

It is a common practice that payment systems are operated by banks or undertakings in which banks are shareholders. The systems enable their participants to transfer funds due to their own transactions, or when authorized by third parties (typically banks’ customers).

Payment systems are composed of:

- formal arrangements among the system participants (typically on the grounds of relevant contracts and agreements),
- jointly agreed and accepted technical standards and methods of transmitting payment messages between the system participants,
- an agreed means of settlement of mutual liabilities among the system participants,
- a set of common operating procedures and rules, e.g. participation criteria or fee level.

The major payment systems in Poland include:

- SORBNET, operated by the National Bank of Poland,
- ELIXIR, operated by the National Clearing House (until July 2004, the National Clearing House also operated the SYBIR system),
- the National Clearing System (Krajowy System Rozliczeń – KSR), operated by PolCard S.A.

In Poland, the payment systems are vital to the development of the financial sector. The rapid growth of payment systems and the increase in their importance can be proven with the statistical figures on the value of transactions cleared in the main payment systems in Poland.

<table>
<thead>
<tr>
<th>SORBNET</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>3.0 trillion zloty</td>
</tr>
<tr>
<td>2003</td>
<td>20.2 trillion zloty</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>ELIXIR</th>
<th>VALUE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>0.4 trillion zloty</td>
</tr>
<tr>
<td>2003</td>
<td>1.7 trillion zloty</td>
</tr>
</tbody>
</table>
Within the last 6 years, the value of transactions performed in SORBNET reported an almost 7 times growth, while ELIXIR reported a 4 times growth.

In 2003, operations amounting to a value of 87.5 billion zloty were cleared via the four below-listed systems on a daily basis, which accounted for 11% of GDP. This translates into transactions of a value equivalent to the annual GDP being processed within every 9 days, over 91% of which are in SORBNET. The value of transactions cleared annually in the SORBNET system exceeds the annual GDP more than 24 times.

The below-presented figures demonstrate the increasing role of the payment systems in the financial market operation, and justify the interest of the National Bank of Poland in a smooth and sound operation of the systems.

Table 1. Major payment systems in Poland – volumes and values, 2003

<table>
<thead>
<tr>
<th>Payment systems</th>
<th>Volume /thousands of transactions/</th>
<th>Value /PLN billion/</th>
<th>Average value of a transaction /PLN thousand/</th>
<th>Ratio of total value of transactions to GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>SORBNET</td>
<td>752</td>
<td>20,189.20</td>
<td>26,843.81</td>
<td>24.78</td>
</tr>
<tr>
<td>ELIXIR</td>
<td>520.066</td>
<td>1,786.70</td>
<td>3.43</td>
<td>2.1</td>
</tr>
<tr>
<td>SYBR</td>
<td>105.872</td>
<td>63.94</td>
<td>0.60</td>
<td>0.07</td>
</tr>
<tr>
<td>KSR</td>
<td>28.209</td>
<td>4.82</td>
<td>0.17</td>
<td>0.005</td>
</tr>
</tbody>
</table>

1.2. Objectives of central banks’ oversight

Central banks oversee payment systems with the overall objective to ensure their safety and efficiency.

The key objectives of central banks’ oversight include:

• Maintenance of financial stability in the financial sector

Central banks are interested in efficient and sound operation of the systems, which affect the stability of the financial sector. Any financial market transactions (e.g. money market, T-bill, stock and bond markets) are settled by the payment systems. Participants of the markets trust the efficient operation of the systems and, when entering into transactions, anticipate inflows of funds. Any disruptions to the flow of funds caused by the inefficiency of domestic payment systems may bring adverse consequences for the system participants.

• Protection and ensuring the transmission channels for monetary policy transmission

Central banks tend to use a variety of instruments, e.g. open market operations, to conduct their monetary policies. Performing the transactions of purchase or sale of securities depends on the efficient operation of the payment system in which the payment leg of the transaction will be settled.

• Ensuring the effectiveness and efficiency of payment systems, and their compliance with legal regulations

Central banks strive to prevent occurrences of any technical or organisational disruptions in the operation of the system. They also aim at ensuring effective and transparent governance arrangements of the system. A sound and solid legal basis is another important aspect of the systems’ operation.
Oversight of payment systems as a function of central banks

1. THE ROLE OF THE NATIONAL BANK OF POLAND IN THE OVERSIGHT OF PAYMENT SYSTEMS

• Maintenance of public confidence in payment systems, payment instruments and national currency. Payment systems enable banks’ customers to transfer funds (e.g. at purchases of goods and services, payments of remuneration, bills and taxes). Safe and timely performance of such payments contributes to increasing confidence of the general public in the payment systems, payment instruments and — in a broader context — in the national currency.

An increase in the volume and value of transactions cleared in the national payment systems makes any; even very brief disruptions in their operation become a threat to the stability of the financial system, and expose the system participants to certain risk. A lack of financial markets stability may result in a loss of bank customers’ confidence in non-cash payment instruments.

Disruptions in the payment system operations may expose the system participants to the following types of risk:

• **Credit risk** – the risk that a counterparty will not settle an obligation in full, either when due or at any time thereafter.

• **Liquidity risk** – the risk that a counterparty (or payment system participant) will not settle an obligation for full value when due affecting the expected liquidity of the receiving party. Liquidity risk does not imply that a counterparty or participant is insolvent since it may be able to settle the required debit obligations at some unspecified time thereafter.

• **Operation risk** – the risk of human error or a breakdown of hardware, software or telecommunication systems that are crucial for the payment systems, or due to a terrorist attack. Operational risk may lead to some unexpected losses suffered by the system participants.

• **Legal risk** – the risk that misinterpretation of laws and regulations or legal uncertainty will result in unexpected financial difficulties or losses for the payment system or its participants.

Taking into consideration some potential consequences should any of the above-listed risks materialise, system risk can also be distinguished.

• **Systemic risk** – the risk that the failure of one participant in a payment system to meet its required obligations will cause other participants to be unable to meet their obligations when due. Such a failure may cause significant liquidity or credit problems and, as a result, might threaten the stability of financial markets.

In practice, the particular types of risks in the payment systems cannot be completely eliminated. Creating a fully safe system would require the system participants to bear unreasonably high costs, as compared to the effectiveness of the system. However, it is of crucial importance that the payment system operators and their participants are aware of the risks, are able to assess their scale, and thus accept a certain admissible degree of risk.

1.3. International initiatives in the field of oversight over payment systems

An increase in the volume and value of settled transactions, as well as development of IT technologies and new payment instruments, gave rise to some essential changes in the operation of the payment system, in line with the increasing awareness of risks related to possible disruptions in the operation of the systems. In extreme cases the disruptions may cause financial crises, while payment systems may serve as a mechanism transferring any disruptions between particular markets. In order to ensure efficient and sound operation of the financial system, central banks, together with the institutions such as the BIS, the International Monetary Fund (IMF) and the ECB
have taken steps towards the determination of the influence that the payment systems have on the
stability of markets and financial systems. On the initiative of the central banks of the G 10 Group,
under the auspices of the BIS, a working group was formed. The group prepared the Lamfalussy
Report (“Lamfalussy report” CPSS Report of the Committee on Interbank Netting Schemes of the
Central Banks of the Group of Ten Countries), published by the BIS in 1990. The report focused on
issues related to the risks in net settlement systems and the influence these risks may have on the
financial stability. It contained 6 minimum standards to be met by cross-border and multi-currency
netting and settlement systems in order to reduce risks. The report emphasizes the issues related to
the oversight of national payment systems. It set out the principles for co-operation between
central banks for the oversight of cross-border and multi-currency netting and settlement systems
and the principle of distribution of competences between the central banks and banking
supervision. For many years, the recommendations contained in the report were commonly
recognized as the minimum standards of a sound payment system, and served as the starting point
for subsequent reports elaborating on those standards and creating new ones, following the
progress in the development of the systems.

Another international initiative aimed at defining the payment system risks was the
establishment in January 1991 of a Working Group for Payment Systems by the Committee of
Governors of the central banks of the EU Member States. The Group’s task was to describe the
operating rules of the payment systems existing at that time in the EU countries, and to identify
their risks. The description was included in the so-called Blue Book, published in 1996. However in
September 1992, a report entitled Issues of common concern to EC central banks in the field of
payment systems, devoted to risks connected with payment systems was prepared. The report
served as a basis for the report of the Working Group for Payment Systems, entitled Minimum
Common Features for Domestic Payment Systems, published in November 1993. The report listed
ten minimum principles which, when introduced, contribute to an improvement in the effectiveness
and soundness of payment systems. The principles applied, among other things, to the following
issues: access criteria, risk management, legal issues, standards and infrastructure, pricing policy,
and opening hours. In the part devoted to risk management, the principles forced the EU Member
States to create real-time gross settlement systems (RTGS), designated to settle high-value
payments, which in consequence led to the establishment of a Trans-European TARGET system. The
principles expressed in the report did not refer directly to the oversight of payment systems by
central banks. However, it should be kept in mind that the banks were performing that function
upon publication of the report, which is evidenced by both the provisions of principle 6 and the
postulate, included in the report, to entrust the central banks, within the scope of their oversight
function, with the responsibility of meeting the minimum standards by their national payment
systems. It is worth adding that in 1996, standard 7 referring to the legal problems was extended
with the following contents: EU central banks which feel that they lack sufficient oversight powers
to implement the principles formulated in this report, may endeavour to obtain them, thus
formalizing the rank of the oversight function of the central banks.

The report played an important part in the development of payment systems both in the
European Union member states and in the countries reforming their payment systems in order to
meet EU requirements. Modifications in the operation of financial markets and activities related to
the enhancement of the payment systems contributed to the report entitled Core Principles for
Systemically Important Payment Systems by the Committee on Payment and Settlement Systems,
published in January 2001, which expanded on Lamfalussy’s report. The report contains the ten
Core Principles and the four principles relating to the responsibility of central banks in applying the
Core Principles (referred to as Responsibilities). Responsibilities A and C, relate directly to oversight:

Responsibility A – “A central bank should define clearly its payment system objectives and
should disclose publicly its role and major policies with respect to systemically important payment
systems”.

1“Core Principles for Systematically Important Payment Systems”, BIS, January 2001 also available on the NBP web site:
Responsibility C – “A central bank should oversee compliance with the Core Principles by systems it does not operate and it should have the ability to carry out this oversight.”.

The report states explicitly that the soundness and effectiveness of payment systems rank among the core objectives of the public policy. In this context, the importance of the leading role of central banks in the oversight of payment systems was emphasised, as arising from the impact the systems have on financial stability, implementation of monetary policy and public confidence in the currency, which comes as one of the key competences of central banks.

The clarifications contained in the report and referring to the central bank oversight of payment systems stress that the main responsibility for the system’s compliance with the Core Principles is taken by the system designer and system operator.

The main oversight instruments include:

- collection of information,
- analysis of information (including identification of the systemically important payment systems),
- taking appropriate actions, among other things publishing the oversight objectives and the policy of the central bank in this area.

These instruments can be supported by some specific official authorisations to collect information and to initiate actions, such as granting licenses, recommending modifications in the system principles, applied procedures and imposing financial penalties.

The nature of the Core Principles is global in the sense that they are intended to be applied in systemically important payment systems all over the world. The Principles support the definition of the role and scope of responsibility of payment system operators and their participants, as well as set certain minimum standards to be met by the system operators.

The above-mentioned Core Principles have been officially accepted by the European Central Bank and constitute the basis for the assessment of the national payment systems performed by particular central banks. In addition, the International Monetary Fund and the World Bank use the Core Principles to assess the payment systems of particular countries under the Financial Sector Assessment Program (FSAP).

In January 2001, the European Central Bank included the Core Principles in a collection of minimum standards applied by Eurosystem in the implementation of the common policy of the payment system oversight.

Oversight of payment systems by central banks is not limited to the high value payment systems, as the European Central Bank, acting jointly with the EU central banks, has developed a common methodology for classification of the euro retail payment systems and the oversight standards for these systems.

The standards have been compiled in the document Oversight Standards for Euro Retail Payment Systems and approved by the ECB Governing Council in June 2003. They classify the retail payment systems into the following groups (indicating which of the Core Principles are to be met by them):

- systemically important payment systems – SIPS, which should comply with all of the Core Principles. The systems are: the Polish ELIXIR, the French SIT - Systeme Interbancaire de Telecompensation, the Dutch Clearing and Settlement System “Interpay”, the Irish IRECC – Irish Retail Electronic Payments Clearing Company and IPCC – Irish Paper Credit Clearing Company, the Luxembourg LIPS-NET – Luxembourg Interbank Payment System and the Finnish PMJ,

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2 “Oversight standards for euro retail payment systems”, ECB, June 2003; also available on the NBP web site: www.nbp.pl.
Oversight of payment systems as a function of central banks

• prominent importance payment systems – PIPS, which should comply with only six Core Principles, i.e. no. 1, 2, 7, 8, 9 and 10,

• other retail payment systems, which do not require analysing in terms of the Core Principles, and the requirements towards which can be defined by the national central bank.

Both the Lamfalussy’s standards and the oversight standards have been widely applied in cross-border and multi-currency net settlement systems, as well as in all types of domestic payment and settlement systems.

1.4. Oversight vs. supervision

Oversight of payment systems shall be construed as a public policy activity aimed at promoting soundness and effectiveness of payment systems, and in particular at reducing risk in the system.

The scope of oversight of systems carried out by central banks differs from that of supervision, carried out by banking supervision institutions (including central banks).

Supervision:
• consists in supervising particular institutions (banks, credit institutions),
• consists in controlling prudent management and risk in the supervised institutions,
• is carried out by the central bank or other supervising authorities,
• is carried out on the grounds of detailed legal regulations,
• consists the performance of detailed inspections in the supervised institutions,
• is mainly aimed at ensuring soundness of the funds deposited in banks by the customers.

Oversight:
• consists in overseeing systems but not their participants,
• is aimed at ensuring efficient functioning of payment systems,
• consists in analysing and examining of the design and operation arrangements,
• in some countries it is carried out on the grounds of legal regulations and with the use of instruments specified in the regulations; whereas in many countries it is carried out without any official, legal grounds, and is based on the moral suasion of the central bank and its function as the initiator of activities taken by the banking sector,
• is not limited to banks and financial institutions,
• is carried out solely by central banks.

Oversight and supervision share a goal of ensuring stability of the financial system of a given country, including the effectiveness and efficiency of monetary settlements.
Principles of oversight of payment systems in Poland

2.1. Legal basis for the oversight of payment systems

The NBP’s role in the area of payment systems was defined in Art. 3.2 of the Act on the National Bank of Poland of August 29, 1997 (Dziennik Ustaw No. 140/1997, item 938, as amended). It consists in organising monetary settlements and establishing conditions necessary for the development of the banking system.

The main principles of the oversight of payment systems in Poland are stipulated in the Act on the Settlement Finality in Payment Systems and Securities Settlement Systems and on the Rules of Oversight on These Systems (Dziennik Ustaw No. 123/2001, item 1351, as amended) of August 24, 2001. The provisions of the Act with respect to the oversight came into force as of January 1, 2002.

In accordance with the provisions of Art. 16 of the above-mentioned Act, operation of a payment system, with the exception of the systems operated by the NBP, requires the authorization of the President of the NBP. The President’s authorisation is also required in the case of introducing any modifications to the operational rules of payment systems.

The provisions of Art.17 of the Act stipulate that an entity intending to operate a payment system shall apply to the President of the NBP for the approval no later than 3 months before the scheduled launch of the system. The application shall determine the system’s name and rules of its operation, and shall have documents enclosed presenting:

- the system operator’s tasks,
- access criteria,
- the trigger points for irrevocability,
- the trigger points for finality of settlement,
- rules for transferring, entering and executing settlement instructions,
- the principles of mutual liability of the system participants and the system operator, as well as the legal status of the entity intending to operate the system.

Moreover, the applicant shall present a list of the system participants, and further on report any changes in the list.

On the grounds of the received information, the National Bank of Poland assesses the operational rules of the system, in terms of their compliance with Polish law and ensuring efficient and safe operation of the system.

Should, as the result of the assessment, the NBP state that the system does not comply with the above-indicated requirements, the President of the NBP refuses to grant their approval for the operation of the system.

The President’s approval for operating a payment system is only required for newly established payment systems. By virtue of Art. 27 Section 2 of the Act, the systems in operation on the day of the Act coming into force were obliged to submit the relevant documentation to the NBP (similarly as in the case of the applicant), necessary to assess the system’s operational rules in terms of their compliance with Polish law and ensuring efficient and safe operation of the system.
In case of any incompliance of the system found, the President of the NBP is entitled to issue a recommendation for adjusting the system to the requirements specified by the NBP, or request to close the system.

The Act imposes penalty fees on the entities that fail to comply with its provisions i.e. operating a system or modifying its functioning without the required approval, fail to fulfil the obligation of closing the system when required, or providing necessary documents or information.

Furthermore, the President of the NBP oversees the authorisation and clearing systems operated by non-bank acquirers, according to principles similar to those binding for payment systems. The oversight powers of the NBP President over the authorisation and clearing systems are outlined in the provisions of Art. 67 of the Act on Electronic Payment Instruments of September 12, 2002 (Dziennik Ustaw No. 169/2002, item 1385, as amended).

2.2. Criteria applied in the assessment of the overseen payment systems

At the meeting on April 22, 2004, the Management Board of the NBP approved the document “Policy of the National Bank of Poland in the Area of Payment Systems Oversight” (enclosed), which defines the objectives of the oversight, its legal basis as well as the criteria and instruments of its conduct.

The criteria applied by the National Bank of Poland when assessing the rules of operation of payment systems, stemming directly from the objectives specified in section 1.2., include:

1) compliance with Polish law,
2) safety of the system’s operation,
3) efficient operation of the system.

It was agreed that the generally accepted international standards and EU requirements, particularly the requirements of the European Central Bank, will constitute a point of reference for the assessment of a system’s compliance with criteria no. 2 and 3.

The international standards used by the NBP in the assessment of the efficiency and safety of payment systems are based on the following documents:

- Core Principles for Systemically Important Payment Systems report, prepared by the Committee on Payment and Settlement Systems at the Bank for International Settlement. The report contains 10 core principles which should be met by payment systems that are considered systemically important by the national central bank, and four principles defining responsibilities and duties of central banks with respect to such systems (cf. Appendix).

- Oversight Standards for Euro Retail Payment Systems report, published by the European Central Bank. The report introduces a division of the euro retail payment systems into Systemically Important Payment Systems – SIPS, systems of prominent importance and the remaining systems, the requirements to which may be defined by the national central bank.

2.3. Forms of oversight

The NBP oversees payment systems by:

- assessing the operational rules of the payment systems

On the basis of the assessment, the President of the NBP may issue recommendations (e.g. to modify the operational rules of the system) and decisions (e.g. on authorising the
operation of a system or on closing it). The assessment is based on a detailed questionnaire on payment systems, prepared by the NBP for the applicants and the existing operators of payment systems. The scope of the questionnaire covers all the essential issues relevant to the assessment of payment systems, in particular those covered by the Core Principles. The questionnaire enables system operators to gather information required by the provisions of the Act on the Settlement Finality in Payment and Securities Settlement Systems and on the Rules of Oversight on These Systems. On the basis of the information provided by operators, the NBP can perform a comprehensive assessment of operational rules of payment systems against the criteria listed in section 2.2. The full text of the questionnaire is available on the NBP web site.3

- ongoing cooperation with systems' operators and participants

In July 1998, the Payment Systems Council was established, to act as the opinion-giving and advisory body to the Management Board of the NBP. The Council consists: the First Deputy President of the NBP (the Chairman), the President of the Management Board of the Polish Banks Association (Deputy Chairman), presidents of five commercial banks, the Chairman of the Securities and Exchange Commission, a representative of the Ministry of Finance and presidents of the Management Board of the National Clearing House (KIR), the National Depository for Securities (KDPW), PolCard SA, the Director General of the Polish Post (Poczta Polska). The Secretary of the Council is the Director of the Payment System Department of the NBP Head Office. At the meetings of the Payment System Council, the representatives of the above-listed institutions have an opportunity to discuss current problems, exchange their views and agree on directions of the system development. The tasks of the Council include:

- analysis and assessment of the Polish payment system and related legal regulations,
- formulation of proposed steps towards adjusting the Polish payment system to EU requirements, minimizing the systemic risk (in the payment system), streamlining the payment operations, enhancing the system soundness and the promotion of non-cash payments,
- taking steps towards integrating the payment system-related actions taken by the banking sector.
- collecting statistical data and information

The NBP collects some statistical data on the operation of payment systems in Poland, as well as information on incidents in payment systems from the banking sector and the operators of payment systems. In accordance with the Act of September 12, 2002 on Electronic Payment Instruments and the implementation of its provisions effective October 12, 2003, the reporting requirement to the NBP applies to:

- payment card issuers (banks and non-bank institutions) – including information on types and number of issued payment cards and transactions performed with the cards,
- acquirers – including information on the card acceptance network and transactions performed in the network.

From May 1 2004, the reporting requirement has been extended to include e-money institutions, regarding information on the types and number of e-money instruments issued, and transactions performed with these instruments.4

These institutions shall report on any fraud transactions (transactions aimed at breaching or by-passing legal regulations or the principles of fair trading).

3 The survey for the payment systems, together with methodological comments on how to fill in the survey is available on the NBP web site: www.nbp.pl
4 In accordance with the Act on Electronic Payment Instruments, e-money institutions may be set up in Poland starting from May 1, 2004; however, no such entity has been established so far.
The NBP uses this data to prepare its quarterly report on monetary and interbank settlements, quarterly report on incidents in the payment system (addressed exclusively to a limited group of recipients) and a semi-annual assessment of the operation of the Polish payment system.

• analysing the safety, performance and efficiency of the systems,
• initiating activities in support of the development of sound, safe and efficient payment systems.

The oversight of payment systems serves to develop concepts of modifications increasing smooth operation, performance and soundness of a payment system as a whole. With a view to the statutory responsibility for the arrangement of monetary settlements, the NBP performs some actions of regulative nature (including initiation and issuing opinions on relevant amendments to legal regulations and fulfils the few statutory delegations granted to the NBP governing bodies). In addition, following the example of other central banks, the NBP strives to fulfil its statutory tasks related to the payment systems by indirectly influencing the system participants, in particular by exerting the so-called moral suasion. It constitutes an important, and in some countries even the main, tool of the central bank in overseeing payment systems. The NBP makes an effort to apply this form of oversight chiefly by preparing recommendations and materials for the Payment Systems Council, and by active participation in the works of various bodies operating predominantly under the auspices of the Polish Banks Association, including: the Steering Committee for the Development of Banking Infrastructure and the Payment Systems Committee, working groups for the Standardisation of Banking Documents, for the Introduction of Interbank Settlement Enhancement Mechanisms, for Electronic Data Archiving, for the IBAN Standard, and the Technical Committee no. 271 for Banking and Banking Financial Services. Moreover, the NBP delivers lectures and speeches at the meetings of the representatives of the banking sector. Furthermore, the NBP publishes its studies and analyses on the Polish payment system, which contribute to extending knowledge on the subject and understanding of the rules underlying the operation of payment systems as well as possible system risks.

2.4. Organisation-related aspects of payment system oversight

Following the example of many central banks worldwide, including the European Central Bank, the tasks of overseeing the national payment systems are performed, together with other tasks related to the Polish payment system, in one organisational unit of the NBP Head Office, i.e. the Payment System Department. In this respect, the Payment System Department maintains a close working relationship with other departments of the NBP Head Office and the General Inspectorate of Banking Supervision.

2.5. Co-operation with other central banks and other foreign institutions in terms of the oversight of payment systems

In the process of overseeing payment systems, the NBP co-operates with the following foreign institutions:

• the European Central Bank (including participation in the ECB working groups which deal also with the oversight of payment systems, issuing opinions and analysing reports and studies of the ECB on the topic, as well as editing and forwarding statistical data for the periodical ECB publication, the so-called Blue Book),
• the Bank for International Settlement (including analysis and issuing opinions on the BIS reports and recommendations, and co-operation in the development of the periodical report on E-money by the BIS),

• central banks of other countries (including the exchange of information and experience on the oversight of payment systems).

2.6. Principles of informing on exercising oversight of payment systems by the NBP

The National Bank of Poland pursues the objective of exercising oversight of payment systems in accordance with the principles of transparency and public disclosure of NBP’s actions in this respect.

The NBP reports on the performance of that function in the NBP Annual Report, the annual Report on the NBP Operations and in the semi-annual assessment of the Polish payment system operation prepared by the Payment System Department. Moreover, some statistical data collected from the payment system operators, as well as summary data collected from issuers of payment cards and acquirers are used for preparing the quarterly reports on monetary and interbank settlements, which are also available on the NBP web site.
1. NBP objectives in the oversight of payment systems

The main objectives of the NBP oversight of payment systems are:

• to maintain stability of the financial sector by ensuring the effectiveness and reliability of payment systems and their conformity with legal provisions,
• to maintain public confidence in payment systems, payment instruments and the domestic currency,
• to ensure and protect transmission channels of monetary policy.

2. Legal basis for the oversight of payment systems


The operating of a payment system, with the exception of systems provided by the NBP, requires the approval of the President of the NBP, in accordance with Art.16 of the above mentioned Act. Approval is also necessary for the introduction of changes to the operational rules of payment systems.

On the basis of similar principles, as in the case of payment systems, the President of the NBP provides oversight of the authorisation and clearing systems conducted by acquirers who are not banks. The oversight authority of the NBP President over the authorisation and clearing systems derives from Art. 67 of the Act on Electronic Payment Instruments of 12 September 2002 (O.J. No 169, item 1385).

3. Assessment criteria of payment systems oversight

The criteria applied by the National Bank of Poland in assessing the operational rules of payment systems are:

1) compliance with Polish legal provisions,
2) safety of the system’s operation,
3) efficiency of the system’s operation.

Document approved by the Management Board of the National Bank of Poland in April 2004.
A starting point for assessing the fulfillment by the payment system of criteria 2 and 3 shall be the generally accepted international standards and European Union requirements and in particular those of the European Central Bank.

The sources of international standards that are used by the NBP in assessing the safety and efficiency of payment systems are the following documents:

1) Report on Core Principles for Systemically Important Payment Systems, prepared by the Committee for Payment and Settlement Systems at the Bank for International Settlements6 (a list of core principles for important payment systems and responsibilities of the central bank in their application is contained in the annex 2),

2) Report on Oversight Standards for Euro Retail Payment Systems, published by the European Central Bank7. It includes a classification of the above mentioned systems into Systemically Important Payment Systems - SIPS, prominent importance systems and remaining systems whose detailed requirements may be specified by the domestic central bank.

The standards described in both of the above mentioned documents were formally accepted by the European Central Bank and constitute a basis for the assessment of domestic payment systems conducted by individual central banks within the framework of the Eurosystem.

4. Forms of oversight

The National Bank of Poland oversees payment systems by:

a) assessing the operational rules of payment systems,

b) ongoing cooperation with systems’ operators and participants,

c) collection of statistical data and information,

d) fulfilling the role of an initiator of activity for the purpose of developing safe and efficient payment systems.

5. Co-operation with other central banks and other foreign entities in the area of oversight of payment systems

In the process of overseeing payment systems the NBP cooperates with the following foreign institutions:

• European Central Bank (including participation in ECB working groups which deal also with issues of payment systems oversight, providing opinions and analysis of ECB reports and research papers regarding the mentioned subject and preparing and transferring statistical data for ECB periodical publications, the so-called Blue Book),

• Bank for International Settlements (through analysis and providing opinions on BIS reports and recommendations and cooperation with the BIS in the preparation of a periodical report on electronic money),

• central banks of other countries (through exchange of information and experience regarding the provision of payment systems oversight).

6 “Core Principles for Systemically Important Payment Systems”, BIS, January 2001, which is a publication also available on the NBP website: www.nbp.pl

7 “Oversight Standards for Euro Retail Payment Systems”. ECB, June 2003, which is a publication available on the same NBP website address as above.
6. Information on payment systems oversight performed by the NBP

In accordance with the principle of public disclosure and transparency of activities in the area of oversight, the NBP plans to present information on the subject of fulfilling this role in the NBP Annual Report and the annual Report on the NBP Operations. In addition, some of the statistical data collected from payment systems operators, summary data collected from payment card issuers and acquirers are used in preparing quarterly information about retail and interbank settlements which are available on the NBP website\(^8\).

\(^8\) www.nbp.pl
The Core Principles and central bank responsibilities
Public policy objectives: safety and efficiency in systemically important payment systems

Core Principles for systemically important payment systems

I. The system should have a well-founded legal basis under all relevant jurisdictions.

II. The system’s rules and procedures should enable participants to have a clear understanding of the system’s impact on each of the financial risks they incur through participation in it.

III. The system should have clearly defined procedures for the management of credit risks and liquidity risks, which specify the respective responsibilities of the system operator and the participants and which provide appropriate incentives to manage and contain those risks.

IV. The system should provide prompt final settlement on the day of value, preferably during the day and at a minimum at the end of the day*.

V. A system in which multilateral netting takes place should, at a minimum, be capable of ensuring the timely completion of daily settlements in the event of an inability to settle by the participant with the largest single settlement obligation.

VI. Assets used for settlement should preferably be a claim on the central bank; where other assets are used, they should carry little or no credit risk and little or no liquidity risk.

VII. The system should ensure a high degree of security and operational reliability and should have contingency arrangements for timely completion of daily processing.

VIII. The system should provide a means of making payments which is practical for its users and efficient for the economy.

IX. The system should have objective and publicly disclosed criteria for participation, which permit fair and open access.

X. The system’s governance arrangements should be effective, accountable and transparent.

Responsibilities of the central bank in applying the Core Principles

A. The central bank should define clearly its payment system objectives and should disclose publicly its role and major policies with respect to systemically important payment systems.

*Systems should seek to exceed the minima included in these two Core Principles.
B. The central bank should ensure that the systems it operates comply with the Core Principles.

C. The central bank should oversee compliance with the Core Principles by systems it does not operate and it should have the ability to carry out this oversight.

D. The central bank, in promoting payment system safety and efficiency through the Core Principles, should cooperate with other central banks and with any other relevant domestic or foreign authorities.