



NATIONAL BANK OF THE
REPUBLIC OF MACEDONIA

STRATEGY FOR DEVELOPMENT OF THE PAYMENT SYSTEM OF THE REPUBLIC OF MACEDONIA IN THE PERIOD 2013-2017

(Adopted at the 21st session of the NPSC, 26.03.2013)

Emilija Nacevska
President
of the National Payment Systems Council

**National Bank of the Republic of Macedonia,
Skopje, May 29, 2013**



Structure

- ☐ **Introduction**
- ☐ **Vision, mission and principles**
- ☐ **Features of the payment system**
- ☐ **Strategic directions**
- ☐ **Further activities**



INTRODUCTION

- ♦ A brief overview of the development after the major reform of the payment system in the country in 2001, which:
 - enabled decentralization of payments and
 - laid the modern and market-oriented systems for payment and clearing and electronic settlement
- ♦ January 2001 – at international level, the Committee on Payment and Settlement Systems (CPSS) published the basic standards for stability, reliability and efficiency of systemically important payment systems, the so-called Basel Core Principles
- ♦ National systems - partially compliant with international standards (legal, operational and financial risks)
- ♦ Reasons:
 - operation and oversight of the systems were not included in the legal framework
 - forced collection of guarantees and non-standardized court decisions



INTRODUCTION

- ♦ October 2004 - by an Agreement among MoF, NBRM and BA, a National Payment Systems Council (NPSC) was established, as a consultative and coordinating body (contribution to the standardization of final court decisions, suspension of guarantees, etc.)
- ♦ August 2007 - NPSC adopted the first national Strategy for the development of the payment system of the Republic of Macedonia by 2011 - www.nbrm.mk (overcoming the weaknesses in the legal framework and familiarizing with the standards and schemes of SEPA)
- ♦ August 2012 - Report on the implementation of the Strategy for the development of the payment system of RM by 2011-www.nbrm.mk (most activities are implemented)
- ♦ Strategic directions for the period 2013 - 2017 start from:
 - the identified needs for further development of the payment infrastructure and improvement of the legal framework
 - the requirements for admission to the EU in the field of payment systems



1. VISION, MISSION AND PRINCIPLES

Vision **for the development by 2017**

Modernization and improvement of the operation of payment, clearing and settlement systems through the application of latest technological developments and gradual harmonization with the standards and rules of operation in the EU



- greater reliability and efficiency of payments
- greater acceptance of cashless instruments
- gradual fulfillment of the requirements for integrating into SEPA



1. VISION, MISSION AND PRINCIPLES

Mission

Save and efficient national payment system in line with international and European work standards and vast acceptance of cashless instruments



- support of the financial stability and economic activity in the country and
- easy and efficient integration into SEPA



1. VISION, MISSION AND PRINCIPLES

Principles

- ♦ The realization of the vision and the mission requires a **coordinated approach to the activities of all stakeholders**
- ♦ NPSC - forum at which the issues regarding the national payment system will be reviewed, agreed and channeled
- ♦ Firm adherence to the following principles:
 - **Consultation** of the institutions with all stakeholders through the NPSC ➡ opinions and recommendations before making decisions
 - **Subsequent action planning** and **continuity** of projects agreed at the NPSC ➡ adequate human and financial resources in the institutions



2. PS FEATURES

- ♦ **Analysis of the manner of execution of payments**
first level - payments of non-banking entities without the mediation of banks (in cash) and through banks (cashless) by types of instruments (paper or electronic)
second level - interbank gross and net settlements and transfer of funds (second stage of bank cashless payments)
- ♦ **The results of the analysis - the basis for setting the strategic directions** (the main findings are given before each strategic direction)



3. STRATEGIC DIRECTIONS

Eight (8) strategic directions:

3.1 Legal framework - harmonization with EU legislation

3.2 Payment statistics - improvement of the national payment statistics and compliance with the methodology for the payment statistics of the ECB

3.3 Systems for payment, clearing and settlement of transactions in the country - analysis and gradual implementation of international and European standards and codes of practice

3.4 Internal payment system for public authorities and institutions (TA and HTA) - greater functional connectivity with other payment systems in the country and inclusion of the data in the payment statistics of the country



3. STRATEGIC DIRECTIONS

3.5 External payments - increased efficiency through the gradual phasing out of the banks' obligation to report on international payment transactions for the needs of the balance of payments statistics

3.6 Oversight of the payment and settlement systems - further harmonization with the international methodology and standards for operations of the payment and securities settlement systems

3.7 Increase in cashless payments

3.8 Strengthening of the institutional capacity - providing technical assistance and professional development of staff through various forms of international cooperation and through the EU accession instruments



3.1. Legal framework

Harmonization with EU legislation

- **Constant preparation of the institutions and strengthening of their capacity** to incorporate the European into the national legislation and its implementation and strengthening of the national legal framework.
- **Planned activities**
 - Development of an **Action Plan for gradual and coordinated incorporation of the EU legislation into the national**;
 - Establishment of **multi-institutional working groups** for studying the EU legislation and drafting of proposals;
 - **Tracking the mutual compatibility of the individual laws from the national legislation** and the mutual compatibility of the by-laws of the relevant institutions and submitting proposals for overcoming possible non-compliance.
- **Expected contribution** from the approved technical assistance from the EU through IPA
 - NBRM (needs analysis to join the ESCB - priorities in the area of payment systems and directions for further harmonization) and
 - MFRM (incorporating the PSD of the internal market)



3.2. Payment statistics

Improving the national payment statistics billing and harmonization with the methodology for payment statistics of the ECB

- **Current situation**
 - National payment statistics – NBRM since 2005
 - In 2012 a comparative analysis of the national payment statistics with the payment statistics of the ECB was made
- **Planned activities:**
 - Development of **methodology**;
 - Drafting of **by-laws**;
 - **Presentation** of the new framework for payment statistics;
 - Initiative **to start a survey to collect information from users of payment services.**



3.3 Systems for payment, clearing and settlement of transactions in the country

Analysis and gradual implementation of international and European standards and codes of practice

3.3.1. Payment instruments - revision of existing and introduction of new payment instruments based on the standards and rules of SEPA and setting electronic payments schemes

3.3.2. Clearing and settlement systems - gradual implementation of international and European standards and codes of practice

3.3.3. Payment cards and systems for clearing and settlement of transactions – consolidation of the operations with cards and gradual harmonization with the standards and rules of SEPA



3.3.1. Payment instruments

Revision of existing and introduction of new ones based on the standards and rules of SEPA and setting the electronic payments schemes

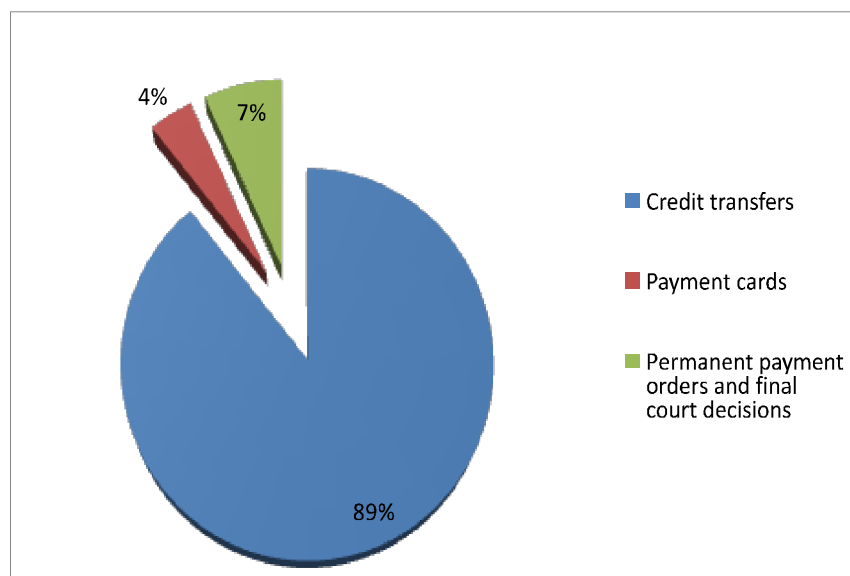
- **Current situation**
 - **Credit transfers** - the most widely used cashless payment instrument, accounting for 89% in 2012 (69% with paper orders);
 - **Payment cards** - mostly for cash withdrawal from ATMs (79% of the value of transactions with cards);
 - **Direct debits** – they are not defined by the regulation nor there are formal legal obligation schemes and contracts for their acceptance (WG for direct debits – draft project for introducing a national direct debit scheme based on the standards and rules of SEPA, actively supported by KIBS AD Skopje).
- **EU Regulation 260/2012** (March 2012) for setting technical and business requirements for credit transfers and direct debits in Euros - application of international standards



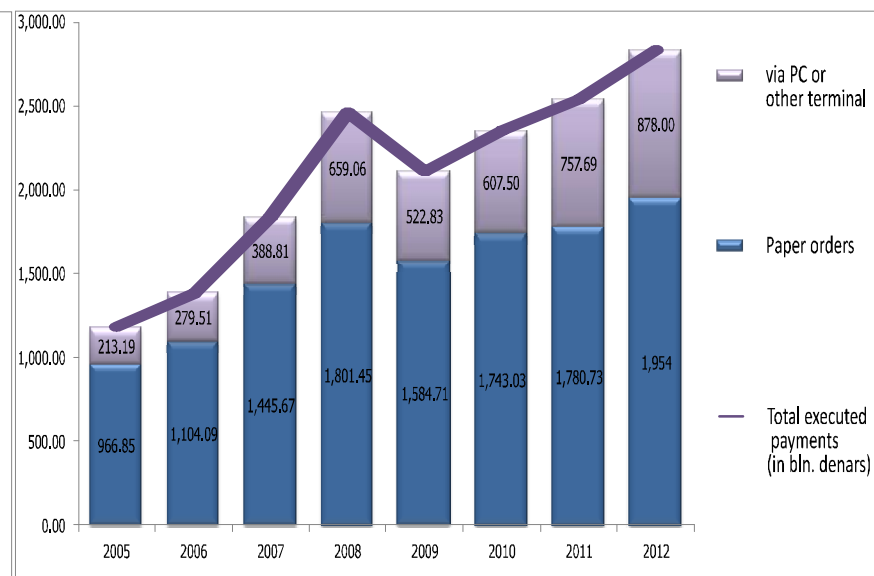
3.3.1. Payment instruments

Revision of existing and introduction of new ones based on the standards and rules of SEPA and setting the electronic payments schemes

Use of payment instruments by non-banking entities in 2012 (in%)



Value of completed transactions with credit transfers (in billions of denars)





3.3.1. Payment instruments

Revision of existing and introduction of new ones based on the standards and rules of SEPA and setting the electronic payments schemes

- **Planned activities**

- Revision of the prescribed payment instruments and considering the possibility for **setting up a single payment instrument for payments with credit transfers** from the accounts of non-bank entities to the private and public sector, based on the European experience, the standards and rules of SEPA, and Regulation 260/2012;
- Changes in by-laws on payment instruments in the country to allow the **introduction of a direct debit instrument**, and its setting based on the European experience, the standards and rules of SEPA and Regulation 260/2012;
- Development of a **national scheme for electronic credit transfers and direct debits** to carry out payments in the country, based on the European experience and the standards and rules of SEPA.



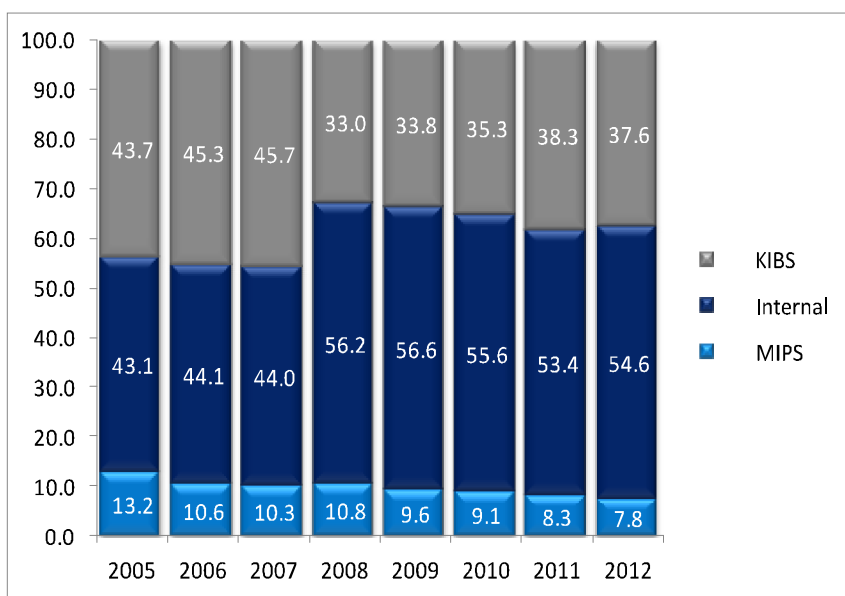
3.3.2. Clearing and settlement systems

Gradual implementation of international and European standards and codes of practice

Payment operations in Denars in MK

	2005	2006	2007	2008	2009	2010	2011	2012
Total executed payments (in mlrd. denars)	1,585.24	1,915.06	2,604.80	3,236.80	2,887.35	3,231.75	3,589.82	4,298
MIPS	787.72	1,019.46	1,452.75	1,669.56	1,392.85	1,707.70	1,965.06	2,563
KIBS	135.77	147.9	166.8	199.82	217.06	223.11	239.13	255
Internal	661.75	747.7	985.25	1,367.42	1,277.44	1,300.94	1,385.63	1,479
Number of transactions	21,322,900	23,150,209	27,418,232	45,305,584	49,204,300	51,561,024	60,922,396	63,163,703
MIPS	2,818,345	2,453,169	2,831,339	4,906,672	4,718,965	4,676,957	5,045,886	4,930,849
KIBS	9,324,004	10,478,451	12,528,630	14,941,822	16,623,623	18,199,316	23,320,177	23,771,404
Internal	9,180,551	10,218,589	12,058,263	25,457,090	27,861,712	28,684,751	32,556,333	34,461,450
Average value per transaction (in denars)								
MIPS	279,497	415,568	513,095	340,262	295,161	365,131	389,438	519,847
KIBS	14,562	14,115	13,314	13,373	13,057	12,259	10,254	10,721
Internal	72,082	73,171	81,707	53,715	45,849	45,353	42,561	42,931

Number of transactions (%)





3.3.2. Clearing and settlement systems

Gradual implementation of international and European standards and codes of practice

- **Current situation**
 - Electronic clearing and settlement – since 2001
 - Different rules and standards in different systems (MIPS, KIBS and internal systems of banks)
- **EU/260/2012** - application of international standards ISO
- **Planned activities**
 - Analysis of the situation, possibilities and costs for banks and operators of individual clearing and settlement systems for **uniform application of technical standards for work of the international standardization bodies**, which in accordance with Regulation 260/2012 are binding for the EU Member States (ISO 13616 for international identification number of a bank account - IBAN, ISO 9362 for bank identification number - BIC and ISO 20022 for universal payment messages of the financial industry - UNIFI);
 - Development of an **agreed timetable for gradual implementation** of the international standards on the basis of the analysis.



3.3.3. Payment cards and systems for clearing and settlement of transactions

Consolidation of operations and gradual harmonization with the standards and rules of SEPA

- **Current situation**
 - Card operations are present in all private commercial banks (14 banks issue international credit cards, and 5 banks issue also domestic credit cards);
 - For transactions with domestic cards, the clearing (making the net settlement positions) is made by the card operator "CaSys" and the settlement is made by MIPS;
 - For all transactions in the country with international payment cards issued by domestic banks, the authorization and clearing are made abroad through the systems of "MasterCard Worldwide" and "Visa International";
 - All transactions with branded cards of "Visa International" and "MasterCard Worldwide," issued by domestic banks in the country are being settled in Denars;
 - Using services from foreign processors to perform payment transactions in the country with international credit cards makes the operations with payment cards more expensive;

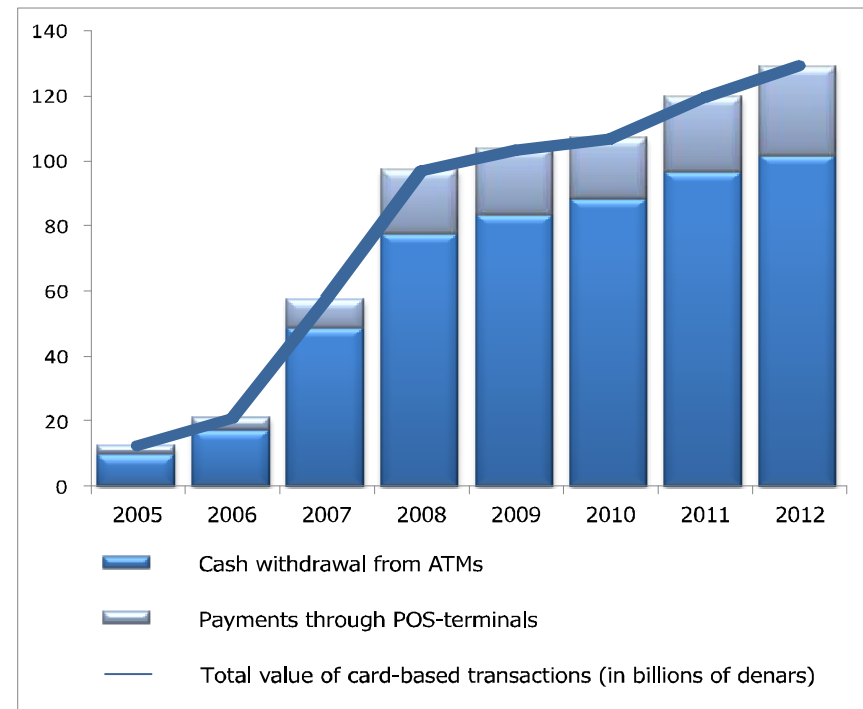


3.3.3. Payment cards and systems for clearing and settlement of transactions

Consolidation of operations and gradual harmonization with the standards and rules of SEPA

- ✓ Upward trend (the number of cards at the end of 2012 was 1,507,142 and is 3.6 times higher compared to the end of 2006)
- ✓ Growth in the value of card payments through POS terminals (in 2012 by 6.9 times higher compared to 2006), but still low
- ✓ Cards still mostly used for cash withdrawal from ATMs (79% of the value of transactions with cards in 2012)
- ✓ ATMs with function to raise cash, but not to deposit, and lately also transfer of funds within the same bank

Value of transactions with payment cards (in billions of denars)





3.3.3. Payment cards and systems for clearing and settlement of transactions

Consolidation of operations and gradual harmonization with the standards and rules of SEPA

- **Planned activities**
 - **Comprehensive analysis of the cost of card operations in the country** with certain types of foreign brands of credit cards and considering the need and feasibility of **setting up a national system for processing** (authorization and clearing) of transactions with payment cards in Denars;
 - Development of a **national scheme for payments with credit cards in the country**, based on the European experience, standards and rules of SEPA.



3.4 Internal payment system for public authorities and institutions (TA and HTA)

Increased functional connectivity with other payment systems and inclusion of data in the payment statistics of the country

- **Current situation**
 - The entire payment for the needs of budget users and public health institutions is made by TA (since 2001) and HTA (since 2010);
 - Use of different payment instruments to carry out payments in the internal systems of TA and HTA from the payment instruments used by other economic operators in the country (reason: the need for more detailed data and information on tracking budgets);
 - Own standards and rules for execution of payment transactions in TA and HTA;
 - The statistical information system of the country is lacking data and information on payment transactions in TA and HTA.



3.4 Internal payment system for public authorities and institutions (TA and HTA)

Increased functional connectivity with other payment systems and inclusion of data in the payment statistics of the country

- **Planned activities**
 - **Revision of the standards and rules** for execution of payment transactions in TA and HTA in order to achieve their compliance with the standards and rules prescribed by Regulation 260/2012;
 - **Modernization of TRIS and ZIS** (software solution, web-based functionalities, electronic connectivity with budget users, electronic submission of payment requests, etc.);
 - **Reclassification of accounts** within the TA and new encoding of data in TRIS;
 - Development of a system for **including data from payment transactions executed through TA and HTA in the payment statistics of the country.**



3.5 External payments

Increasing efficiency through the gradual abolition of the banks' obligation to report for the needs of the balance of payments statistics

- **Current situation**
 - Payments (transactions) between residents and non-residents are not completely free (Law on Foreign Exchange Operations);
 - Obligations for banks to make control prior to the payment and report on the international payment transactions (ITRS) for the needs of the balance of payments statistics;
 - Payment orders, beside the elements necessary for performing international payments (via SWIFT), also contain additional data and information for the needs of the national legislation;
 - Mainly on paper and by using double orders for Denar payments
- **EU/260/2012 - in order to reduce the cost of cross-border payments, Member States have to abolish the ITRS until 1.2.2016**



3.5 External payments

Increasing efficiency through the gradual abolition of the banks' obligation to report for the needs of the balance of payments statistics

- **Planned activities**
 - Considering the possibilities for increasing the efficiency of external payments by **analyzing the necessary resources and capacity to shift from indirect to direct method of collecting data for compiling the balance of payments** of the Republic of Macedonia;
 - Development of an **Action Plan for gradual decrease, until the complete removal, of the obligation on banks to report** for the needs of the balance of payments statistics;
 - **Revision of the prescribed payment instruments and their compliance with** the standards and rules of SEPA for credit transfers and Regulation (EC) 260/2012.



3.6. Payment and settlement system oversight

Further harmonization with the international methodology and standards on operating of the payment and securities settlement systems

- **Current situation**
 - ✓ Implementation of the international oversight standards for systemically important payment systems (2007);
 - ✓ On international level (CPSS & IOSCO, 2012) - new unified international standards for payment, clearing and settlement systems, for securities settlement systems and for central counterparties, the so-called "Principles for Financial Market Infrastructures".



3.6. Payment and settlement systems oversight

Further harmonization with the international methodology and standards on operating of the payment and securities settlement systems

- **Activities planned**
 - ✓ **Harmonization of the national standards with the new international standards** for operation of payment, clearing and settlement systems;
 - ✓ **Implementation of the international standards in the operation of the securities settlement systems;**
 - ✓ **Consistent implementation of the CPSS-IOSCO principles;**
 - ✓ **Improvement of the cooperation between NBRM and SEC** in order to attain larger coordination of the oversight activities.



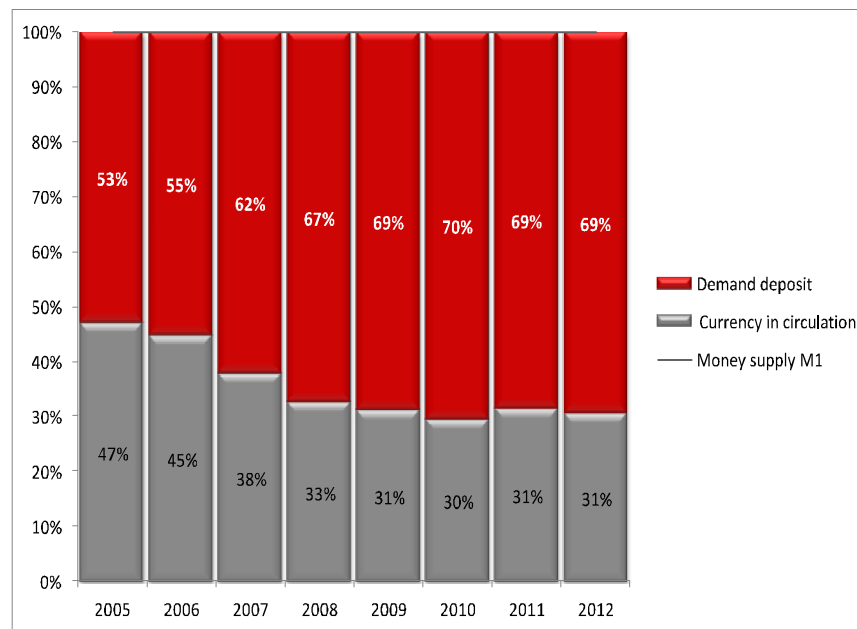
3.7. Larger use of the cashless payments

- **Current situation**
 - ✓ Downward trends with the indicators for cash and cash payments after the intensive measures in 2007-2009 period (transaction accounts, cashless payment of wages and retirement pay, campaigns for card-based payments and e-banking, etc.);
 - ✓ The share of the cash in the money supply M1 of 45% in December 2006 reduced to 31% in February 2009 (decrease of 14 p.p.);
 - ✓ Reduced share in the cash payments to/from bank accounts in the total transactions by 7 p.p. in 2012 relative to 2006;
 - ✓ The use of cash remains high – the share of cash in M1 in 2012 equals about 30% (from 10% to 25% in the developed countries).
- **Experience of the EU countries** – the administrative measures for lower cash use are not efficient; activities for wide and efficient use of the cashless instruments; cashless payment of public duties and services, etc.

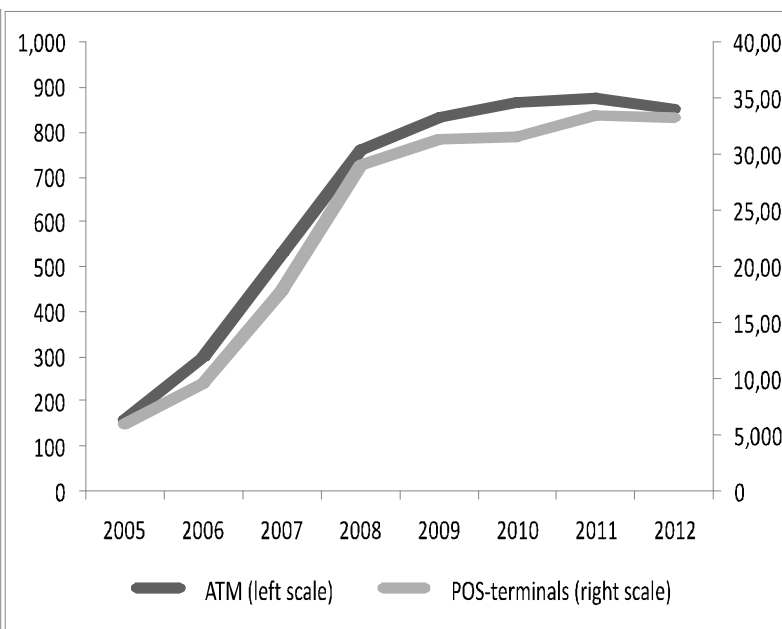


3.7. Larger use of cashless payments

Share of the currency in
circulation in the money supply
M1
(in %)



Payment cards devices





3.7. Larger use of cashless payments

- **Activities planned**
 - ✓ Larger use of payment cards for payment of duties and public services by **installing POS devices with larger number of central and local government bodies, institutions and public offices** performing such activities;
 - ✓ **Increasing the possibility for paying the duties to Government and public services via mobile phones and internet;**
 - ✓ Providing **wider coverage of the country with ATMs and POS-terminals;**
 - ✓ Increase in the number of **multifunctional ATM-terminals.**



3.8. Strengthening of institutional capacities

Ensuring technical assistance and professional development of the employees through various forms of international cooperation and through accession instruments of EU

- **Current situation**
 - ✓ Technical assistance and training of staff (international and bilateral cooperation – seminars, conferences and workshops, of which EU TA – IPA, TAIEX, etc. are of higher importance).
- **Achievements:** increased knowledge and raised awareness of international and European operating standards and SEPA rules, the possibility to exchange experiences with the representatives of the central banks of the region.



3.8. Strengthening of institutional capacities

Ensuring technical assistance and professional development of the employees through various forms of international cooperation and through accession instruments of EU

- **Activities planned**
 - ✓ Continuation of the activities for ensuring **technical assistance and training of the employees through various forms of international cooperation** (seminars, conferences organized by the international institutions, foreign central banks, bilateral technical assistance);
 - ✓ Intensification of the activities for **EU technical assistance through larger use of pre-accession instruments and funds** intended for the Republic of Macedonia;
 - ✓ **Organization of national seminars, workshops, conferences**, etc., intended for transfer and exchange of theoretical knowledge and practical experience of employees.



FUTURE ACTIVITIES

- **Statement of acceptance of the strategic framework** by the major carriers of the development of the national payment system and founders of the NPC: Ministry of Finance, the National Bank and the Banking Association
- **Action plan for practical implementation of the activities planned by the strategic directions** (timeframe and carriers) – NPC on the following session after previous consultations and mutual reconciliation of the institutions being held



NATIONAL BANK OF THE
REPUBLIC OF MACEDONIA

THANK YOU FOR YOUR ATTENTION