



**NATIONAL BANK OF SERBIA**

PAYMENT SYSTEM DEPARTMENT

**PAYMENT SYSTEM  
OVERSIGHT – 2013**



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## Introduction

Payment systems, in their narrow sense, are sets of systems that allow for transfer of funds under written and standardised procedures and rules pertaining to all participants in this transfer. The fundamental purpose of payment systems is to enable safe and efficient performance of payment transactions resulting from economic activities of various entities.

Depending on the value of payment transactions executed in payment systems, distinction can be made between the following:

- Large Value Payment Systems – for execution of large-value payment transactions;
- Retail Payment Systems – for execution of small-value payment transactions;

In contrast to large-value payments, retail payments are not directly linked to financial market transactions, and entities engaged in their execution are usually citizens or legal entities, which do not classify as financial institutions.

With regard to the manner of settlement of payment transactions, payment systems are usually divided into:

- Systems whereby settlements are executed in real time and gross amount (RTGS – Real Time Gross Settlement Systems) and
- Systems whereby settlements are executed in designated time and net amount (DNS – Designated-time Net Settlement Systems).

It is of key importance for the economy of a country that systemically important payment systems, the failure of which could cause serious disruption to the financial system, are well regulated.

The importance of these systems is best observed in times of financial and economic crisis, when their reliable and efficient operation helps suppress the impact of the crisis on the economy and society as a whole.

For the purposes of adequate risk management and a more efficient execution of payment transactions, most countries have introduced payment systems whereby transactions are performed in real time and gross amount (RTGS systems). Such systems are among the key elements of financial market infrastructures in these countries.

Nevertheless, it should be emphasised that national payment systems have unique features that reflect financial market development, legal framework, business practice, as well as historical and cultural factors.

One of the fundamental functions of central banks is to maintain the safety and efficiency of payment systems. The National Bank of Serbia performs this role in accordance with the Law on the National Bank of Serbia, the Law on Payment Transactions and supporting regulations, assuming the role of a payment systems operator, overseer and development catalyst. These roles are intertwined and

complementary, reaching towards the same goal – safe and efficient payment systems in the Republic of Serbia.

Reports on annual activities undertaken by the National Bank of Serbia within payment system oversight in 2013 primarily seek to:

- ensure transparency, one of the fundamental principles for payment system oversight set forth by the Bank for International Settlement and
- provide better understanding of the requirements and standards that payment systems should be aligned with.

## **1. Scope, activities and oversight principles**

### **1.1. Scope**

Through its role of the overseer, the National Bank of Serbia promotes safety and efficiency of payment systems, contributing to the safekeeping and strengthening of the financial system.

While performing its oversight duty, and in particular the assessment of payment systems compliance with the set requirements and standards, the National Bank of Serbia takes a proactive approach to ensure safe and stable functioning of payment systems.

In this regard, the scope of oversight of payment systems includes systems for transfer of funds and payment instruments initiating payment transactions executed in these systems.

The oversight activities address payment systems as a whole, and not individual participants.

The system operator is responsible for stable and safe functioning of an individual payment system. Nonetheless, the NBS needs to be certain that payment systems are reliable, regardless of the operator, particularly with respect to systemically important payment systems.

Although there are various criteria to determine importance, a payment system will generally be considered of systemic importance if it has recorded the highest total value of transactions between the participants, if it helps implement monetary policy measures or if it allows for the final settlement of liabilities and receivables arising from other payment systems or financial instrument settlement systems. To ensure confidence in the functioning of payment systems, settlement of payment transactions ought to be timely, as participants and the market may otherwise face various types of risk.

Payment instruments oversight includes supervision of the safety and efficiency of payment instruments, as these features help safeguard public confidence in the national currency and the efficiency of the overall economy.

Oversight activities may include assessment of rules regulating the use of payment systems that allow the execution of payment transactions.

## 1.2. Oversight activities

The oversight role comprises the following activities:

- Monitoring of payment systems functioning;
- Assessment of compliance of payment systems with the requirements and standards set;
- Initiating changes to payment systems;
- Monitoring the manner of payment instrument use with a view to ensuring their safety and efficiency.

To understand the overall functioning of a payment system it is best to gather information through monitoring. Such information may be obtained from the publicly available documents on individual payment systems, documentation of the system operator determining rules and obligations of the participants, regular and *ad hoc* reports on the payment system functioning, etc. Information gathered during the monitoring process may serve not only for various analyses of payment system functioning, but may also be used as a benchmark when assessing compliance of these systems with the requirements and standards set. Should it be established that an individual payment system does not fully comply with the requirements and standards, the central bank may propose certain amendments from within its scope of authority.

The growing importance of payment systems for a country's economy has increased the competence of central banks regarding the oversight role. This will be discussed at more length in the part pertaining to the activities undertaken by the National Bank of Serbia in 2013 aimed at a new regulatory framework for payment systems.

## 1.3. Oversight principles

The oversight of payment systems is carried out in line with the applicable regulations, while observing general oversight rules set by the Bank for International Settlement resting upon the following principles:

- Transparency of the oversight policy, along with the requirements and standards applied;

- International standards for safe and efficient functioning of payment systems and their application as regards the oversight role;
- Authorisation for gathering information and initiating necessary changes, and an appropriate oversight organisation;
- Consistent implementation of requirements and standards on comparable payment systems;
- Cooperation with other competent bodies and central banks.

It is especially important that central banks adhere to international standards for payment systems functioning. With this in mind, the requirements and standards applied to payment systems in Serbia are based on international standards laid down by the Bank for International Settlement and standards implemented by the European Central Bank. The said standards were established by the Decision on Oversight of Payment, Clearing and Settlement Systems<sup>1</sup>.

In 2012, the Bank for International Settlement published a set of new principles for financial market infrastructures,<sup>2</sup> including payment systems, with a view to increasing the safety and stability of the systems. Central banks are expected to adopt and consistently implement new oversight principles, to monitor adherence to these principles, and to work together on promotion of the safety and efficiency of the objectives of the said infrastructure.

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<sup>1</sup> [http://www.nbs.rs/export/sites/default/internet/latinica/20/plp/pp\\_nadgledanje\\_platnih\\_sistema.pdf](http://www.nbs.rs/export/sites/default/internet/latinica/20/plp/pp_nadgledanje_platnih_sistema.pdf).

<sup>2</sup> *PFMIs – Principles for financial market infrastructures – BIS.*

## 2. Assessment of RTGS system of the National Bank of Serbia

Decision on Oversight of Payment, Clearing and Settlement Systems establishes the following principles on which payment systems should rest:

	PRINCIPLE	EXPLANATION
I.	<i>Payment system should have a well-founded legal basis providing for the rights and obligations of the payment system operator and participants;</i>	<i>When assessing compliance with this principle, a particular emphasis will be placed on regulations relating to the functioning of an individual payment system, and the rights and obligations of the payment system operator and participants. .</i>
II.	<i>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 (credit risk and liquidity risk) they incur through participation in it;</i>	<i>This principle serves to determine whether rules and procedures regulating financial risks management in the financial system are transparent and comprehensible to participants.</i>
III.	<i>Payment system should have clearly defined procedures for the management of financial risks, which specify the respective responsibilities of the system operator and the participants in terms of managing such risks;</i>	<i>This principle emphasises the significance of the quality of rules and procedures for financial risk management in the payment system, as well as the importance of securing instruments that enable participants to monitor and manage risks they face in such systems.</i>
IV.	<i>Payment system should provide prompt final settlement on the value date, preferably in the course of the day and at a minimum at the end of the day;</i>	<i>Compliance with this principle is determined through an in-depth analysis of rules pertaining to payment execution in the system. The assessment further includes analysing adherence to the system's timetable and determining the volume of information available to participants with regard to the status of their payments.</i>

V.	<i>Payment system in which multilateral netting takes place should, at a minimum, be capable of ensuring timely completion of daily settlements in the event of an inability of a participant to settle the largest single multilateral negative net amount.;</i>	<i>This principle includes the assessment of whether the system in which multilateral netting takes place is capable of ensuring timely completion of daily settlements in the event of inability of the participant to settle its largest net negative position.</i>
VI.	<i>Assets used for settlement should be a claim on the settlement institution;</i>	<i>This principle seeks to eliminate or reduce financial risk that may arise from the choice of the settlement instrument, i.e. of the institution where settlement between participants in the system takes place.</i>
VII.	<i>Payment system should ensure a high degree of security and operational reliability, and should have contingency arrangements for timely completion of daily processing;</i>	<i>In order to assess whether requirements set by this principle are fulfilled, it is necessary to assess the adequacy of the framework ensuring safety and operational reliability of the system, as well as the mechanisms used for operational continuity, with a particular emphasis on implementation of relevant procedures in emergency situations.</i>
VIII.	<i>Payment system should provide a means of making payments and a level of service which is practical and cost-effective for the participants and their customers;</i>	<i>Assessment of the payment system's compliance with this principle places a particular emphasis on an analysis of procedures used to continuously monitor the needs and requests of participants in the system, as well as the transparency of the fee policy.</i>
IX.	<i>Payment system should have clearly-defined (transparent) and publicly disclosed criteria for participation;</i>	<i>The main aspects assessed under this principle relate to transparency and objectiveness of the criteria for participation in the payment system, including regular monitoring of the fulfilment of the criteria.</i>
X.	<i>Payment system's governance arrangements should be effective, accountable and transparent.</i>	<i>Requirements set by this principle relate to transparency and effectiveness of the governance system.</i>

Systemically important payment systems should comply with all the principles applicable to the system determined by its basic features.

A comprehensive assessment of the compliance of the RTGS system of the National Bank of Serbia (hereinafter: RTGS NBS system) with the requirements and standards for the functioning of systemically important payment systems was carried out in 2013 within the payment system oversight at the NBS.

The assessment was conducted pursuant to the Decision on Oversight of Payment, Clearing and Settlement Systems and the Methodology<sup>3</sup> which, among other, regulates more closely the manner of assessment.

## 2.1. Main features of the RTGS NBS system and its systemic importance

As a part of the technically-technologically integrated RTGS and clearing systems of the National Bank of Serbia, the RTGS NBS system provides the service of transferring dinar funds between the participants, in real time and gross amounts. This system was established by the central bank, based on the Law on Payment Transactions and the supporting regulations, and was put in operation on 6 January 2003.

Interbank payment transactions exceeding RSD 250,000 (large payments) should be executed in the RTGS NSB system. Not only does the NBS use this system to implement monetary policy measures, but it is also used to perform settlements stemming from other payment systems and systems for financial instruments settlement. The RTGS NBS system is, hence, of systemic importance for the Serbian economy and lies at the centre of the payment transactions system.

Compliance assessment showed that a total of 36 participants partook in the RTGS NBS system, among which were:

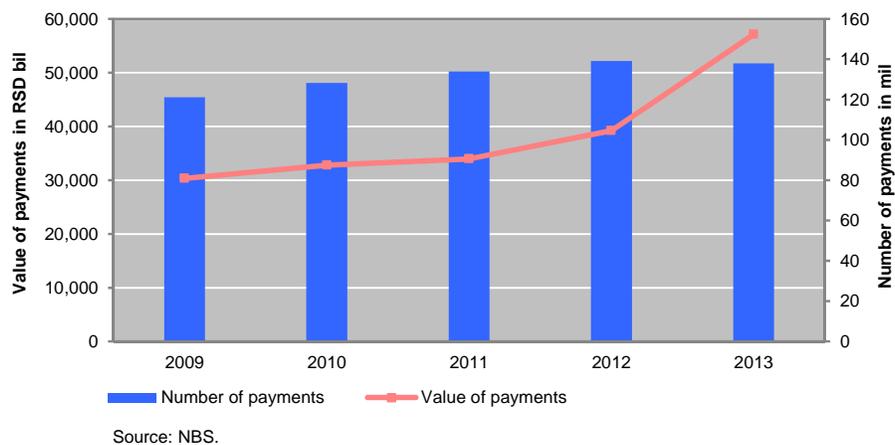
- The National Bank of Serbia;
- Banks holding operating license granted by the NBS ;
- The Republic of Serbia – the ministry in charge of finance;
- The Central Securities Registry, Depository and Clearing House;
- The Association of Serbian Banks.

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<sup>3</sup> Methodology for the assessment of payment system compliance:  
<http://www.nbs.rs/internet/cirilica/35/nadgledanje/index.html>

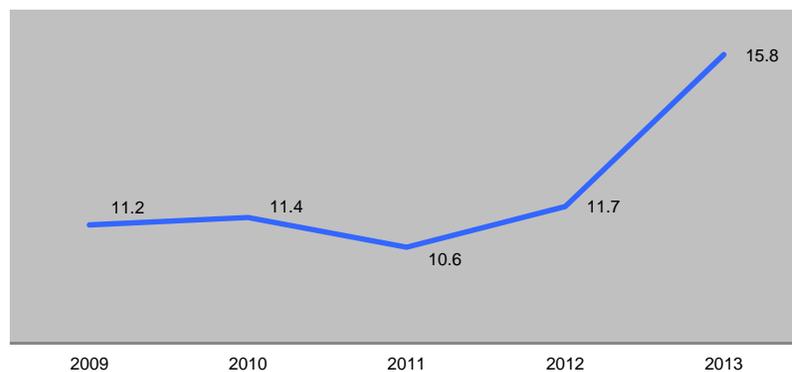
Abiding by the Operating Rules for the RTGS NBS system, the said participants perform payment transactions through an exchange of electronic messages under SWIFT standard, on each working day from 9:00 to 18:00. The settlement of these transactions is carried out via the participants' accounts with the National Bank of Serbia. Albeit the RTGS NBS system serves for interbank payment transactions exceeding RSD 250,000, retail payments may also be performed in real time and gross amount.

Chart 1. Value and number of executed payments in the RTGS NBS system



The ratio of the value of payments executed via this system (the overall value of transactions) to the gross domestic product (GDP) of the country is an indicator of the importance of the RTGS NBS system for the Serbian economy. The said ratio shows the number of times by which the overall value of transactions exceeds the annual GDP, i.e. the number of times payments executed in the RTGS NBS system within one year equal the value of the annual GDP (Chart 2).

Chart 2. Ratio of RTGS NBS payments value to GDP value



Source: NBS and Statistical Office of the Republic of Serbia.

The overall value of transactions in the RTGS NBS system in 2013 exceeded the annual GDP estimate approximately 15.8 times. In other words, payment transactions executed in the RTGS NBS system in 2013 reached the value of the estimated annual GDP in around 16 days.

It may, therefore, be concluded that the RTGS NBS system is the “heart” of dinar payment transactions in Serbia, with the final settlement of all interbank payment transactions being performed in this system. Its safe and efficient functioning is of key importance for cash flows in the country.

## 2.2. RTGS NBS system compliance with principles

RTGS NBS system assessment showed compliance of the system with the principles set forth by the decision regulating oversight of payment, clearing and settlement systems. Based on the conducted in-depth analysis of the gathered information and documentation pertaining to the functioning of the system,<sup>4</sup> the following conclusions have been drawn with respect to individual principles:

<b>I.</b>	<b><i>Payment system should have a well-founded legal basis providing for the rights and obligations of the payment system operator and participants</i></b>
	<p>Regulations pertaining to dinar payments are the legal grounds for establishment of the RTGS NBS systems. The Law on Payment Transactions, Decision on the Settlement and Clearing and Functioning of Clearing Accounts of Banks with the National Bank of Serbia and Operating Rules for Real Time Gross Settlement are the most significant regulations pertaining to the functioning of this system and the rules and obligations of the participants. Pursuant to the agreement with the NBS, participants in the RTGS NBS system are obliged to adhere to the said operating rules. Regulations governing the RTGS NBS system are transparent to all participants and other interested parties and are published on the website of the NBS.</p> <p>With regard to the initiation of accession negotiations of the Republic of Serbia with the EU, the NBS also implements activities relating to the alignment of the national legislature with the EU <i>acquis</i>, in the part appertaining to the implementation of regulations covering payment systems – Directive 98/26/EC on the settlement finality in payment and securities settlement systems. Transposition of provisions of this Directive will additionally enhance the legal grounds for functioning of the payment system in Serbia, by broadening the legal expertise and preventing potential systemic risk arising from the participants’ inability to perform settlement.</p>

<sup>4</sup> Assessment results were published bearing in mind confidentiality of certain data and information.

<p><b>II.</b></p>	<p><i>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 (credit risk and liquidity risk) they incur through participation in it</i></p>
	<p>The operating rules and procedures of the RTGS NBS system provide the basic information to the participants regarding its features and the financial risks they are exposed to in that system. These rules may be further improved in order to help participants to better understand the impact of this system on the exposure to financial risks and their rights and obligations pertaining to risk management.</p>
<p><b>III.</b></p>	<p><i>The system should have clearly defined procedures for the management of financial risks, which specify the respective responsibilities of the system operator and participants in terms of managing such risks</i></p>
	<p>Payment orders are settled in the RTGS NBS system immediately upon their receipt – by simultaneously crediting and debiting the participants’ accounts kept with the NBS and used for settlement of payments (settlement accounts) up to the level of the coverage in those accounts. Hence, the participants only face liquidity risk.</p> <p>The RTGS NBS system offers its participants the queuing option in order to overcome problems arising from the lack of liquidity in settlement accounts. Orders without sufficient coverage in the settlement account which are in a priority group, as determined by the system’s rules of operation, are placed in a queue so that they can be executed according to priority and sending time, once sufficient funds are credited to the account. Hence, the participants are aware that no transfer order will be settled if a higher priority order is queued.</p> <p>Furthermore, the RTGS NBS system enables participants to monitor their account balance, executed payment orders, payment orders in the queue, and other parameters relevant for adequate liquidity management, in real time.</p> <p>Although participants in the RTGS NBS system manage their liquidity risk independently, the National Bank of Serbia continuously monitors the settling of payment transactions and is therefore able to react on time in case any liquidity problems are encountered by the participants. The RTGS NBS system has a mechanism for breaking <i>gridlock</i> situations occurring when the queue is blocked due to insufficient funds in the settlement accounts. When the system detects a potential <i>gridlock</i> situation, an appropriate algorithm is initiated to resolve it.</p> <p>The policy on fees charged for RTGS NBS system services stimulates participants to submit their payment orders earlier during business hours so as to ensure smooth processing of these orders during the working day. There are three periods with rising fees for executing orders. In addition to that, the NBS charges fees for small-value payments at the same rate charged for clearing payments. This enables participants to, depending on their needs and liquidity risk exposure,</p>

	<p>choose the manner in which they will make small-value payments. If their liquidity levels are high, they can execute these orders in real time on the gross principle, ensuring that their customers make payments quickly and efficiently, or if they have insufficient liquid assets, these orders can be processed in the clearing system.</p> <p>For the purpose of maintaining bank liquidity and in accordance with regulations, the NBS extends loans for maintaining daily liquidity against the collateral of eligible securities with relevant percentage of downward adjustments to the nominal value of those securities.</p> <p>The NBS also uses specialized software developed by the central bank of Finland – BoF-PSS2 which simulates various scenarios in the RTGS NBS system. This software was used to conduct an analysis of liquidity risk manifestation in the system stemming from operational problems of participants determined to be important, based on the number and value of transactions (<i>individual node risk</i> – concentration of payments according to the number and value at some participants), as well as of the effect of the application of the <i>stop-sending</i> rule. The above analysis is available on the website of the National Bank of Serbia.</p>
<b>IV.</b>	<b><i>The system should provide for prompt final settlement on the value date, preferably in the course of the day and at a minimum at the end of the day</i></b>
	<p>The RTGS NBS system payment orders are finally settled on the value date, in the course of the day in real time and on the gross principle. Orders made by the participants are processed and settled right after their receipt in the system, up to the level of the coverage in the participant’s settlement account.</p> <p>Business days and standard working hours of the system are clearly specified, disclosed and strictly observed. The NBS may, if necessary, or at the request of a participant with operational problems, change the RTGS NBS system’s daily timetable, extending its operation by up to 60 minutes.</p>
<b>V.</b>	<b><i>In the event of an inability of the participant to settle the largest single settlement obligation, a system should, at a minimum, be capable of ensuring timely completion of daily settlements</i></b>
	This principle does not apply to the RTGS NBS system, since multilateral netting does not take place in it.
<b>VI.</b>	<b><i>Assets used for settlement should be a claim on the settlement institution</i></b>
	Assets used for settlement in the RTGS NBS system are a claim on the settlement institution – the National Bank of Serbia.
<b>VII.</b>	<b><i>The system should ensure a high degree of security and operational reliability, and should have contingency arrangements for timely completion of daily processing</i></b>

	<p>Ensuring security and operational reliability of the RTGS NBS system and its continuous operation entails employing appropriate systems, policies, processes and procedures by which the NBS manages operational risk which may negatively impact the operation of this system, caused by omissions on the part of employees, deficiencies in the operation of information and other systems, inadequate internal procedures and processes, and unforeseeable external events.</p> <p>The objectives regarding security of the information system necessary for the RTGS NBS system and the set of appropriate controls and procedures for achieving and maintaining the security of that system refer to the observance of regulations governing electronic payments, as well as of principles and standards determined by the policy founded on commonly accepted standards in this area, which regulates information security management at the NBS. Pursuant to the clearly defined responsibilities in the implementation of the said information security policy, and the required security level of the RTGS NBS system, a process of operational risk management has been established and documented within this system, in accordance with the ISO 27000 series of standards. Identified risks, as well as their assessment and measurement, have also been documented using a risk register with risk cards containing pertinent information on each identified risk.</p> <p>In order to adequately manage risks in case of participants' operational problems, the RTGS NBS system's security principles and standards also apply to its participants. Technical requirements which must be met in order to connect to this system have been determined. Since electronic payments are executed through electronic messages in the RTGS NBS system, as per regulations, the format and purpose of these messages have been clearly specified in the NBS instructions. Furthermore, security requirements for the access to the RTGS NBS system and the protection of information transferred in the execution of payment transactions in this system are provided by the NBS, in accordance with regulations.</p> <p>The participants are obliged to appoint an employee who will be in charge of security and protection of communication with the RTGS NBS system (security administrator) who will, among other things, submit monthly reports on the implementation of security measures and the cooperation with the RTGS NBS system to the operator of this system, the NBS.</p> <p>The objectives of operational reliability relate to the degree of quality of services provided by the RTGS NBS system to its participants. This system is highly resilient and its availability was 100% in 2013. In line with international standards and good practice regarding the operation of systemically important payment systems, the primary objective is to ensure system availability to participants within two hours of a risk manifestation which jeopardizes continuous operation of the RTGS NBS system and the degree of service quality.</p>
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	<p>Operational and technical procedures are documented, including the procedures for operational incident management in the RTGS NBS system. Also documented are the procedures for managing the changes in this system for the execution of which a testing environment and production environment have been designated. At the participants' request, the resources of the RTGS NBS system's testing environment may be used to test changes in their own systems. In addition, procedures for regular monitoring of the performance (capacity) of the RTGS NBS system, and of the participants' connection to this system have been established. The RTGS NBS system is subject to regular internal and external audit.</p> <p>In order to ensure the continuity of operations, the architecture of the RTGS NBS system is composed of a primary and secondary (<i>Disaster Recovery</i>) site. The primary and secondary sites are located in geographical areas with different risk profiles. The continuity of operations is managed in accordance with the plan which includes a set of procedures and instructions necessary to ensure the continuous work of the RTGS NBS system. The work of the system is periodically carried out from the secondary site, in order to maintain its functionality</p> <p>The RTGS NBS system boasts a high level of security and operational reliability, as well as appropriate contingency plans to ensure continuous operation. In some segments the NBS is also planning to conduct certain activities which will help maintain the attained degree of secure and stable operation of this system.</p>
<b>VIII.</b>	<b><i>The system should provide a means of making payments and a level of service which is practical and cost-effective for the participants and their customers</i></b>
	<p>The RTGS NBS system settles payment orders in real time and on the gross principle and ensures that large-value payments of customers – participants in the system are processed quickly and securely. Participants in the RTGS NBS system may also process small-value payments of their customers as group payments in real time which can be charged at the same rate charged for clearing payments. One of the primary objectives of the RTGS NBS system is to ensure a high degree of quality and the availability of services which are also cost-effective for the system's participants.</p> <p>In order to ensure transparency, the fees charged for the RTGS NBS system services are published on the NBS website, as part of the Decision on Uniform Fees Charged for Services Provided by the National Bank of Serbia.</p> <p>In making decisions regarding the work of the RTGS NBS system, the NBS also takes into account the opinions of participants in order to appropriately meet their needs. Moreover, in order to ensure the continued quality of services, the NBS keeps track of technical-technological developments and payment system innovations.</p>

<b>IX.</b>	<b><i>The system should have clearly-defined (transparent) and publicly disclosed criteria for participation</i></b>
	<p>The RTGS NBS system has objective and publicly disclosed participation requirements allowing for a fair and open access to various institutions which, in accordance with regulations, may have an account with the NBS. The fulfilment of requirements for participation in the system is ensured by continued monitoring of participants' operations and by obtaining timely and accurate information regarding participation requirements.</p>
<b>X.</b>	<b><i>The system's governance arrangements should be effective, accountable and transparent</i></b>
	<p>The responsibility of the NBS, as the RTGS NBS system operator, in accordance with regulations, is to manage the operation of the system, as well as to maintain and administer the IT infrastructure for the processing of payment transactions in Serbia.</p> <p>The bodies of the NBS and their scope of authority are regulated by the Law on the National Bank of Serbia, while the organisation of work is specified in detail by the By-Law and general internal acts of the National Bank of Serbia. Within the Payment System Department, which is directly accountable for the operation of the RTGS NBS system, work is organised into three separately managed smaller organisational units. By doing so, responsibilities regarding operational procedures and risk management, methodology, development and oversight of the RTGS NBS system are separated at the level of smaller organisational units. All operations performed within the Payment System Department are subject to internal and external audit.</p> <p>Information about the management of the NBS and its organisational structure is published on the official website of the NBS.</p>

### **3. Oversight of the use of payment instruments**

Payment systems are used to enable transfers of financial assets initiated by the use of various payment instruments through which the user issues a payment order, i.e. initiates a certain payment transaction. The efficiency of cash flows and the financial system in general, depend on the efficiency of payment instruments, the degree of their development and the scope of their use. Hence, it is particularly important to create an environment in which economic entities may carry out payment transactions quickly, safely and reliably.

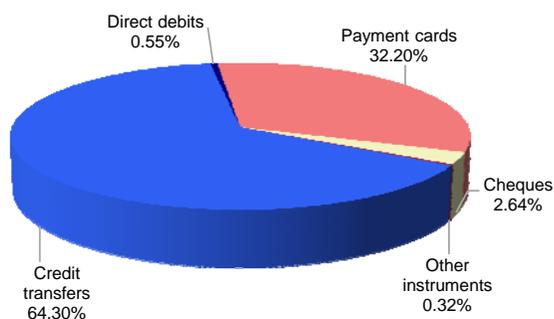
Bearing in mind the importance of payment instruments for the economy of a country, as well as the fact that technical and technological development led to the advent of various types of devices and technologies used to make payments, the

oversight function necessarily entails monitoring of the payment instruments currently in the market so as to ensure their secure and efficient use. Since payment instruments and payment systems are generally exposed to various types of risk, it is necessary to protect their use so as to maintain customer trust. At the same time, it is also necessary to ensure the transparency of costs of their use in order to enable the customers to compare various payment instruments in terms of their costliness and to use them in line with their needs.

Oversight of payment instruments is therefore primarily directed at monitoring the security and efficiency of their use and the adoption and application of standards necessary for the fulfilment of this function.

Payments in the Republic of Serbia can also be made by various cashless payment instruments, such as credit transfer, direct debits, payment cards, cheques, etc.

**Chart 3. Structure of use of payment instruments in 2013**  
(according to the number of processed payment transactions)



Source: NBS.

The dominant payment instrument in 2013 was the credit transfer because it was most often used by legal entities to settle their contracted financial liabilities and by citizens to settle their monetary liabilities (paying for utilities and telecommunications services, electric bills, etc.).

An order to pay by credit transfer may be in paper form or in electronic format. Of the total number of payments performed by credit transfer in 2013 (around 318 mln), 73.9% were conducted by orders in paper form and 26.1% by orders in electronic format (e.g. online banking, mobile banking). However, electronic payments become more significant if observed in terms of the total value of transactions by credit transfer (around RSD 25,459.6 bln), considering that the portion of value of electronically performed credit transfers (49.8%) is roughly the same as the portion of transfers performed against paper orders (50.2%).

Payment cards are the second most used payment instrument. A total of around 159 million transactions were performed with payment cards in 2013, in the value of approximately RSD 638 bln. Debit cards are dominant among payment cards in terms of both the number and value of transactions in 2013.

Cheques, direct debits and other payment instruments account for 3.5% of the total number of payments. The value paid by cheque in 2013 amounted to around RSD 58.3 bln (98.6% of that amount was used to pay goods and services and the average value per cheque equalled RSD 4,404). The amount paid by direct debit in 2013 was close to RSD 59.4 bln, while the value of payment transactions performed using other payment methods (collection of bills of exchange, enforced collection, etc.) in 2013 totalled around RSD 175.3 bln.

Bearing in mind the above, it is extremely important that payment transactions are performed securely, especially when they are processed electronically. Since electronic payments, in line with regulations, are performed by sending electronic messages, electronic payment orders must contain elements for the verification of authenticity of their submitter, for the purposes of security. Taking into account the regulations governing the standards for managing information systems of financial institutions, banks utilise various protection methods on which they agree with their customers in order to ensure the security of electronic payment transactions.

#### **4. Improving the regulations regarding payment systems**

In 2013, the NBS continued its work on the Draft Law on Payment Services which regulates in detail not only payment services and e-money, but payment systems as well. This law will improve the existing legal framework for payment systems by specifying a comprehensive set of rules for establishing and functioning of these systems, and requirements which will be consistently applied in order to advance their secure and stable work. This will also create conditions which are favourable for greater market competition in this area.

This Draft law will govern in particular:

- The main characteristics of the payment system – the concept of payment system, operations performed in it, payment system operator, settlement agent, participants and requirements for participation in this system, as well as the rules of operation of the system;
- payment system operating licence – application for payment system operating licence and the operator’s initial capital;
- payment system operations – requirements for stable and secure operation of the payment system, maintaining the operator’s capital, amendments to the rules of operation of the payment system, assigning certain operations to another person, the availability of data and information concerning the payment system;

- the finality of settlement in an important payment system – the concept of important payment system, irrevocability of netting and transfer orders in the case of an inability to settle liabilities on the part of the participant;
- payment systems operations oversight.

Along with working on the Draft Law on Payment Services in 2013, the National Bank of Serbia started implementing the new principles for the functioning of systemically important payment systems (*PFMIs - Principles for financial market infrastructures – BIS*).