



Central bank vs. commercial banks
Payment transactions and card business – What steps
should we take in future?

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The Law on the National Bank of Serbia clearly defines the role of the NBS in the area of payment operations

Article 4 of the Law on the National Bank of Serbia reads as follows:

Tasks of the NBS shall be:

- 5) to regulate, control and promote unhindered functioning of internal and external payment operations; ...”

Article 59 of the Law on the National Bank of Serbia reads as follows:

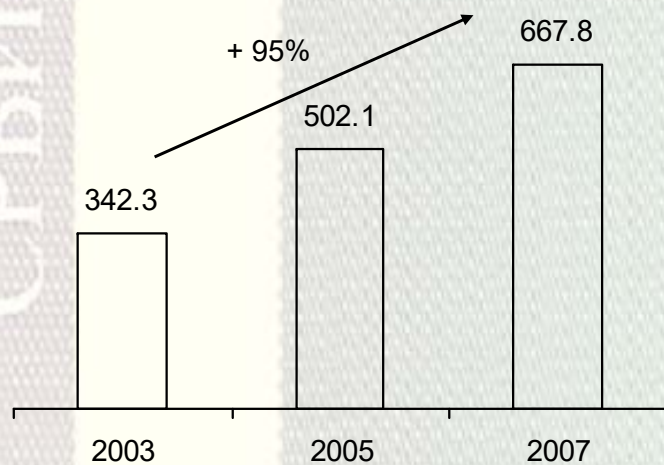
“The NBS shall regulate and promote domestic payment operations, control the execution of payment operations by banks and perform other tasks related to domestic payment operations in accordance with the law.”

Benefits from transferring payment operations to commercial banks are self-evident!

- Establishment of a reliable, efficient payment system – with a 95-minute downtime during 136,500 minutes of production in 2007 (or less than half a minute per day), availability of the system was 99.93%;
- Expansion of bank organizational network - 2,435 business units in 2007 (970 more than in 2003) and 30,246 employees (7,936 more than in 2003);
- Role of the NBS: regulation, development, supervision, running RTGS and clearing system and the system for interbank clearing of foreign exchange payments (between domestic banks and banks from Bosnia and Herzegovina);
- Garnering top ratings from international institutions.

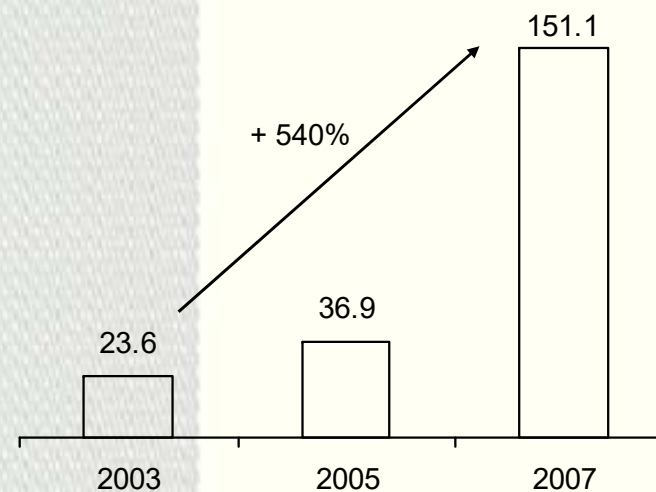
RTGS and clearing system performance...

Average number of
payment orders per day
(in thousand)

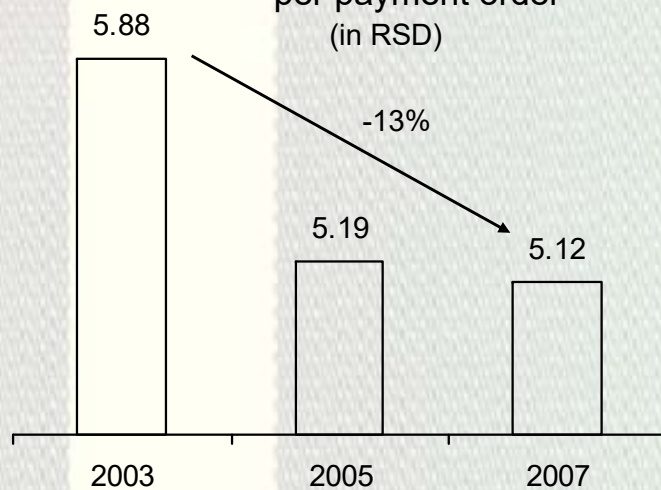


Average daily turnover

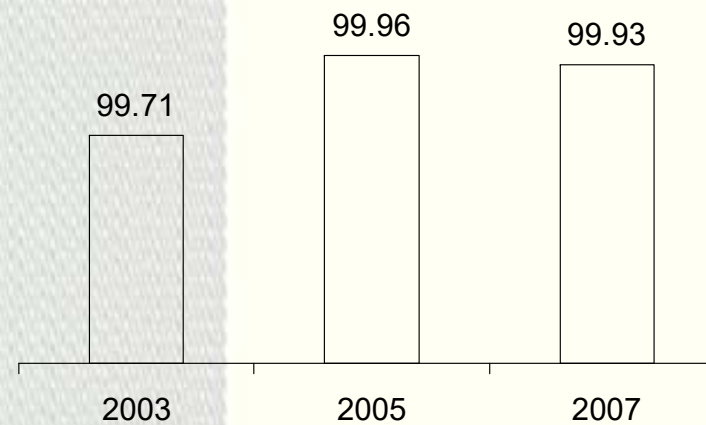
(in RSD billion)



Average processing fee
per payment order
(in RSD)



System availability
(in %)



Fees charged by the NBS

- Clearing fees per order:
 - 1st clearing cycle (9.00-10.30) – 3.0 RSD;
 - 2nd clearing cycle (11.00-12.30) – 3.5 RSD;
 - 3rd clearing cycle (13.00-14.30) – 4.5 RSD.
- RTGS fees per order:
 - 1st cycle (8.00-14.00) – 25 RSD;
 - 2nd cycle (14.00-16.30) – 60 RSD;
 - after 16.30 – 120 RSD.
- Fees charged by the NBS are lower now than on 6 January 2003!


Comparative overview of fees charged in the neighbouring countries!

(in RSD)	Romania	Bosnia&Herz.	Montenegro	Bulgaria	Croatia	Serbia
Clearing	17.25		8.2	-	-	
1 st cycle		2.10				3.0
2 nd cycle		2.94				3.5
3 rd cycle		4.20				4.5
		+ 210.1 per file				
RTGS			120.0			
1 st cycle		50.42		52.0	Up to 1,000	25.0
2 nd cycle		126.05		84.0	orders per month	60.0
3 rd cycle				126.0	– 90.32; over	
4 th cycle				52.0	1,000 orders –	120.0
					67.74	

Our past achievements encourage us to continue with **the changes in the payment system**

Current situation

- Majority of banks still charge relatively high fees for electronic money transfer – up to 0.5% per order!
- Though the volume and the average value of payments have increased significantly, fees charged by banks have remained unchanged!
- Current arrangements discourage transfer of larger amounts via accounts of natural persons as the fee ceiling is usually not set;
- Commercial banks charge more or less equal fees – competition in the payments market is poor;
- Fees charged on the processing of payment orders are set regardless of the actual processing costs.



Role of the NBS: to ensure transparency, competition ... and, if necessary, to enforce administrative measures!

Why did we transfer payment operations to commercial banks?

- To enable banks, instead of the ZOP, to reap monopoly profits?
- To make payment transactions cheaper for the clients?
- To cut the share of cash transactions?
- To reduce tax evasion?
- To enable banks to finally become the “owners” of their clients and obtain full control over their operations?
- ...

The new system for clearing foreign exchange payments sets a good example

- Last year, the NBS began clearing interbank payments in foreign exchange for domestic banks – at a 10 dinar fee per order charged to the sending bank, and no commission charged to the receiving bank;
- As of February 2008, banks from Bosnia and Herzegovina also participate in the clearing of foreign exchange payments – the list of all participating banks from Serbia is available on the NBS website;
- Performance of foreign exchange payments is now much faster and cheaper than through correspondent accounts with foreign banks;
- However, fees and charges have remained at “international” level!

Parameters of analysis

- Amount specified in the payment order: RSD 90; 350; 850; 1,250; 3,750; 7,500; 27,000; 75,000; 175,000; 275,000; 750,000; 2,500,000; 12,500,000; 45,000,000; 110,000,000;
- Minimum and maximum fee in the course of the day, and standard fee at 11.00 o'clock;
- For different services: credits, debits, transfers, internal payment transactions, interbank payment transactions, a different set of services for natural persons, legal entities and entrepreneurs, bank clients and non-bank clients – 16 service categories in total!
- As at 14 March 2008

Examples

- Money transfer:
 - Natural person – crediting of cash payment to an account with another bank
 - for RSD 90 – commission from 7 to 100 dinars (20.66 dinars on average);
 - for RSD 1,250 – commission from 10 to 100 dinars (22.39 dinars on average);
 - for RSD 175,000 – commission from 350 to 8,000 dinars (1,151 dinars on average).
 - Legal entity – cash transfer from one bank account to another – different banks
 - for RSD 175,000 – commission from 15 to 525 dinars (145.17 dinars on average).
- Account closing:
 - Natural person – from 100 to as much as 600 dinars;
 - Entrepreneur or legal entity – from 300 to as much as 1,500 dinars.
- Monthly fees for account maintenance:
 - Natural person – from 0 to 250 dinars;
 - Entrepreneur or legal entity – from 0 to 700 dinars.

Findings of the analysis

- Commissions differ broadly across banks;
- Some banks charge commission as a percentage of the amount specified in the payment order, which results in earning excessive commissions on high-value payments;
- Unreasonably high commissions on internal payments, which account for 52% of total payments, or with some banks, for as much as 87% (accounts of the sender and recipient are maintained with one and the same bank);
- Account closing and maintenance are too costly in some banks, especially for legal entities and entrepreneurs;
- Banks encourage execution of payments through e-banking;
- As fees charged by banks differ broadly, the enterprises and households should shop around more.

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- As of today, all information is available at the NBS website: www.nbs.yu
 - PLEASE NOTE: The level of fees charged on payment services is only one of the aspects of commercial bank operations and banks should aim to provide a more personalized service to their clients!

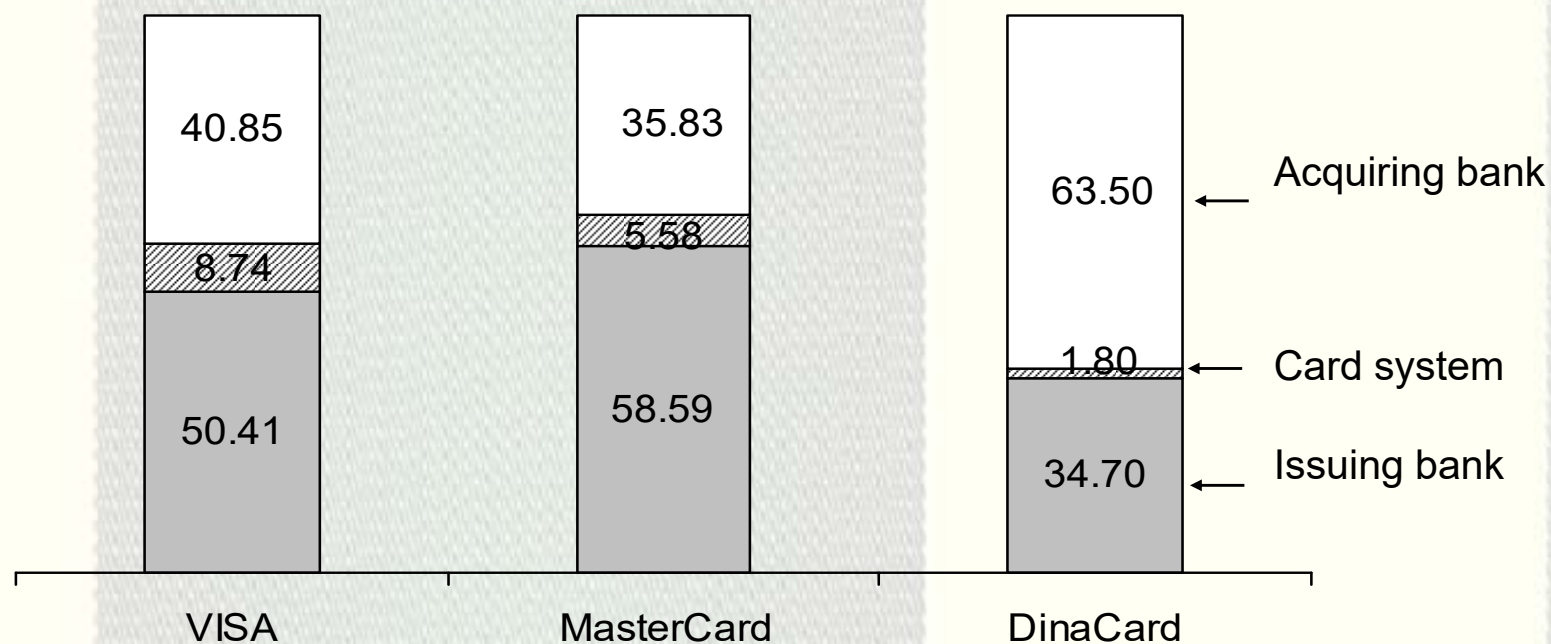
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Example – merchant fee

- In most cases, merchant fee (paid by merchants to acquiring banks) for consumer goods ranges from 1% to 2.5% (petrol stations charge somewhat less) – or comes to as much as 3%;
- Example*:
 - Purchase amount : RSD 5,000
 - Merchant fee: 2% (RSD 100.00)



* Fees charged by the issuing bank, acquiring bank and card system represent approximate amounts.

EU – multilateral interchange fee

- In the past several years, MIF for transactions at retailer outlets trended down (from 2004 to 2007, weighted average MIF declined by 10%);
- The decline in MIF was primarily due to the decisions of the European Commission exerting a significant influence on the regulatory bodies in member countries;
- Pursuant to the EC Decision of 24 July 2002, the EU card systems are obligated to cap fees at the level of costs for specific services.

EU – multilateral interchange fee perspective

- MIF at retailer outlets is expected to decline further, especially in the markets where it has never been reduced:
 1. Research has shown that MIF discourages competition. The number of agencies for the protection of competition and research organizations interested in MIF will increase in the future;
 2. Activities of the European Commission will continue to influence national organizations for the protection of competition;
 3. Pressures from merchant associations regarding the reduction and abolishment of MIF will intensify;
 4. There is a need for the standardization of MIF in the SEPA.

NBS initiative

- Reduction of interbank fee in the bank payment card system for domestic transactions as a pre-requisite for the reduction of costs of payment card acceptance;
- Changing the interbank fee in line with trends prevailing in the EU market.

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Future steps

- Analysis of best practices (Australia, some EU countries)
- Organization of conferences/roundtables
- Strengthening of competition – mobile operators, performance of payment transactions through non-banking institutions;
- Issue of administrative regulations based on EU regulations