

3. Payments

The Bank has a broad responsibility in the area of payments and adopts two different regulatory roles over the payments landscape; i.e. oversight and prudential supervision as described in chart 12 below. Oversight focuses on payment systems, instruments⁽¹⁾ and schemes⁽²⁾ while prudential supervision targets payment service providers (PSPs). These approaches are complementary: while oversight concentrates on the sound and safe functioning of payment systems, payment instruments, payment schemes or other payment infrastructures, prudential supervision pursues safe, stable and secure financial institutions delivering payment services to the users.

The interest of central banks for the payments landscape stems from a connection with various core tasks. Directly or indirectly, payment systems, instruments and services may affect the practical implementation of monetary policy, the financial stability of the country, confidence in the currency, as well as a safe, reliable and competitive PSPs' environment in the country.

Section 3.1 describes the two payment systems which are core for the Belgian payment infrastructure: TARGET2 and the Centre for Exchange and Clearing (CEC). TARGET2 is the large-value payment system connecting Belgian banks with other European ones for processing high-value payments and serves as the basic connecting infrastructure needed for the implementation of central bank monetary policy. CEC is the domestic retail payment system processing intra-Belgian domestic payments. CLS Bank, a payment-versus-payment (PvP) settlement system for foreign exchange (FX) transactions, is included in this section as well.

Prudential supervision of payment institutions (PIs) and electronic money institutions (ELMIs) – a relatively new sector for payment services which may offer since 2009, just like banks, payment services in Europe – is depicted in section 3.2.

As processor and acquirer⁽³⁾ of retail payment instruments in Belgium, Worldline SA/NV is subject to both oversight and prudential supervision by the Bank. Section 3.3 explains this situation and the ongoing changes in the oversight regulatory framework in Belgium. This section looks at the synergies of the oversight and supervisory role a central bank can exert.

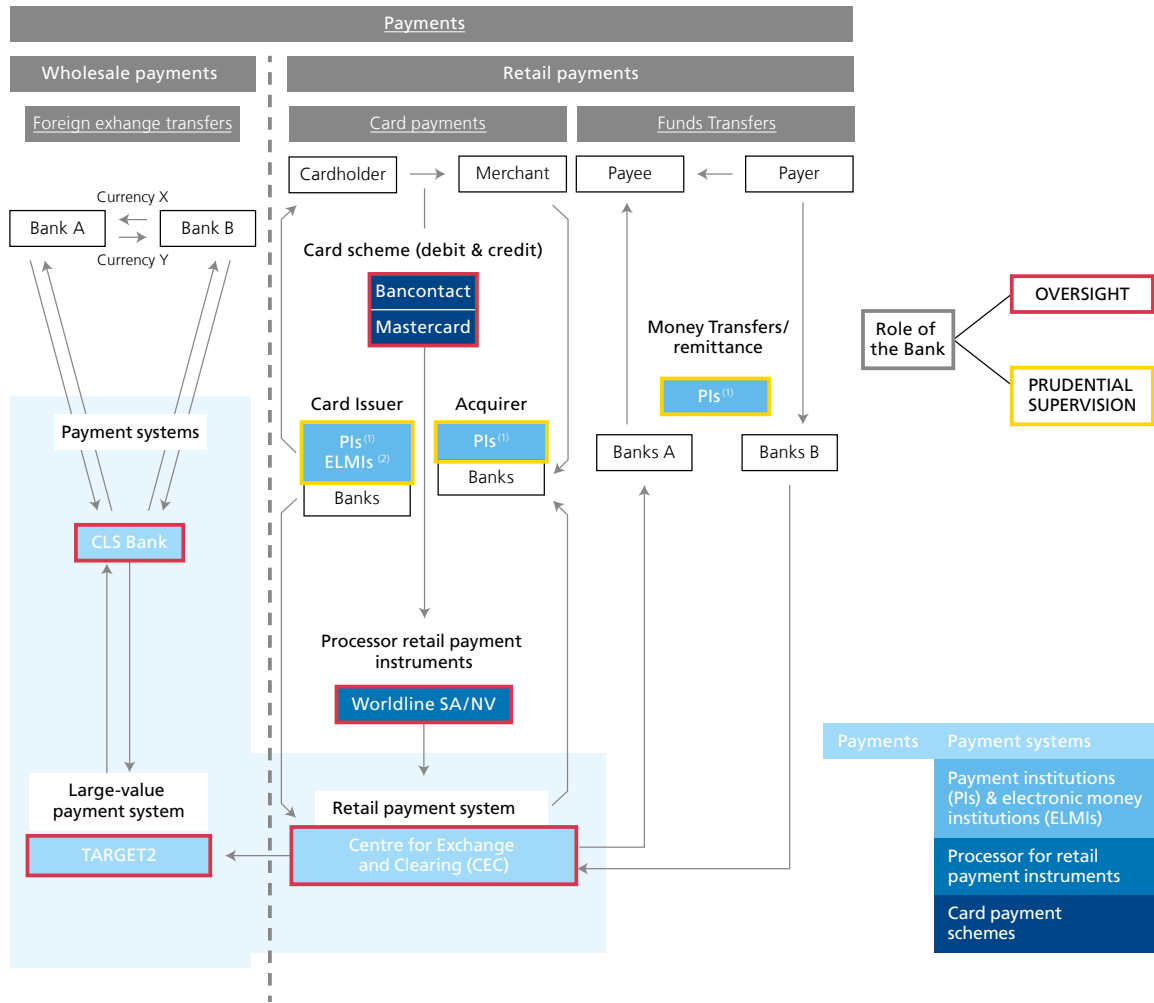
Section 3.4 covers the two payment card schemes overseen by the Bank: the domestic Bancontact scheme and the international Mastercard scheme. The Bank also contributes, indirectly, to other payment instrument oversight through the cooperation within the Eurosystem.

(1) A payment instrument is a tool to initiate payments of which currently the most widely used are credit transfers, cards and direct debits.

(2) A payment scheme is set of rules, practices, standards and/or guidelines for the execution of payment transactions.

(3) Acquiring of card payments is the service whereby a payment service provider contracts with a payee (merchant) to accept and process payment transactions, and guarantees the transfer of funds to the payee (merchant). The processing part is often performed by another entity.

CHART 12 SCOPE OF THE BANK'S OVERSIGHT AND PRUDENTIAL SUPERVISION ROLE IN PAYMENTS LANDSCAPE



(1) Payment Institutions (PIs)

- Card acquiring and processing: Alpha Card, Alpha Card Merchant Services, Bank Card Company, B+S Payment Europe, Instele, Rent A Terminal, Worldline SA/NV
- Money Transfers/Remittance: Africash, Belgian Money Corp, Belmoney Transfert, Gold Commodities Forex, HomeSend, Money International, MoneyTrans Payment Services, Munditransfers, Travelex
- Direct Debit: EPBF
- Hybrid: BMCE EuroServices, Cofidis, eDebex, FX4BIZ, Oonex, PAY-NXT, Santander CF Benelux

(2) Electronic Money Institutions (ELMIs)

- Buy Way Personal Finance, Fimaser, HPME, Imagor, Ingenico Financial Solutions, Ingenico Payment Services, Loyaltex Payment Systems, Orange Belgium, RES Credit

3.3 Processors for retail payment instruments

CHANGES IN REGULATORY FRAMEWORK

The proper functioning of payment systems processing is a primary objective of the oversight of payment systems. With respect to payment instruments, card schemes and their processing, the Bank's oversight is currently based on cooperation, historic relationships with key market participants and the moral suasion exercised by the Bank. Incidents occurring at the dominant domestic payment processor over the last few years seriously impacted the proper functioning of card payment processing in Belgium. They demonstrate that soft-law-based oversight has, in this case, reached its limits and hence cannot always assure robust compliance with applicable oversight standards.

Subsequently, and in accordance with legal initiatives in the euro area, the Belgian Parliament has issued a new law⁽¹⁾ on processors of payment transactions that will significantly strengthen enforcement of the applicable oversight standards on all payment processors that are considered systemically relevant in the Belgian payment transactions market, regardless of where such processor has its registered office. Systemic relevance will be determined based on a threshold amount of Belgian payment transactions, calculated at the level of one particular payment scheme, for which a processor has rendered processing services.

BUSINESS ACTIVITY

Worldline SA/NV is the Belgian subsidiary of the Worldline group (Worldline e-payment services) which is, on its turn, a branch of the French company ATOS. The Worldline group offers payment solutions on a pan-European scale and has many subsidiaries and branches throughout Europe. Worldline SA/NV has systemic relevance from an oversight perspective since it has a systemically significant position in the processing of Belgian debit and credit card payments. New record peaks were registered in December 2016 with more than 8.42 million transactions processed in a single day (about 11.5 % more than the 7.55 million in December 2015), worth over € 630 million. The amounts aggregate all electronic payments, including online payments. At the end of 2016, Worldline SA/NV reported a 10 % increase in online payments, as well as a strong rise (+30 %) in electronic payments for small amounts below € 5.

On 27 September 2016, the Bank approved the contribution in kind of Worldline SA/NV's processing business unit in the Dutch automated clearing house⁽²⁾ Equens SE (NL) in return for which it became a shareholder in Equens SE, which subsequently changed its name to equensWorldline SE. This merger was part of a pan-European merger plan between the French Worldline Group and Dutch ACH Equens SE whereby several Worldline entities (i.e. Belgium, Germany, France and Luxembourg) will jointly transfer their processing business units to Equens SE in return for an aggregate overall stake of roughly 63 % in Equens.

As a result of this merger, the platforms processing the overwhelming majority of Belgium's card payments became legally part of the newly merged company established in the Netherlands. As such, this posed challenges to the continued effectiveness of the Bank's proper oversight on this part of Worldline SA/NV's infrastructure. Accordingly, the Bank took several steps to seek assurance with regard to the ability to maintain and even strengthen its oversight on Worldline SA/NV's processing division.

(1) Law of 24 March 2017 on the supervision of payment transactions processors, Belgian Official Gazette 24 April 2017.

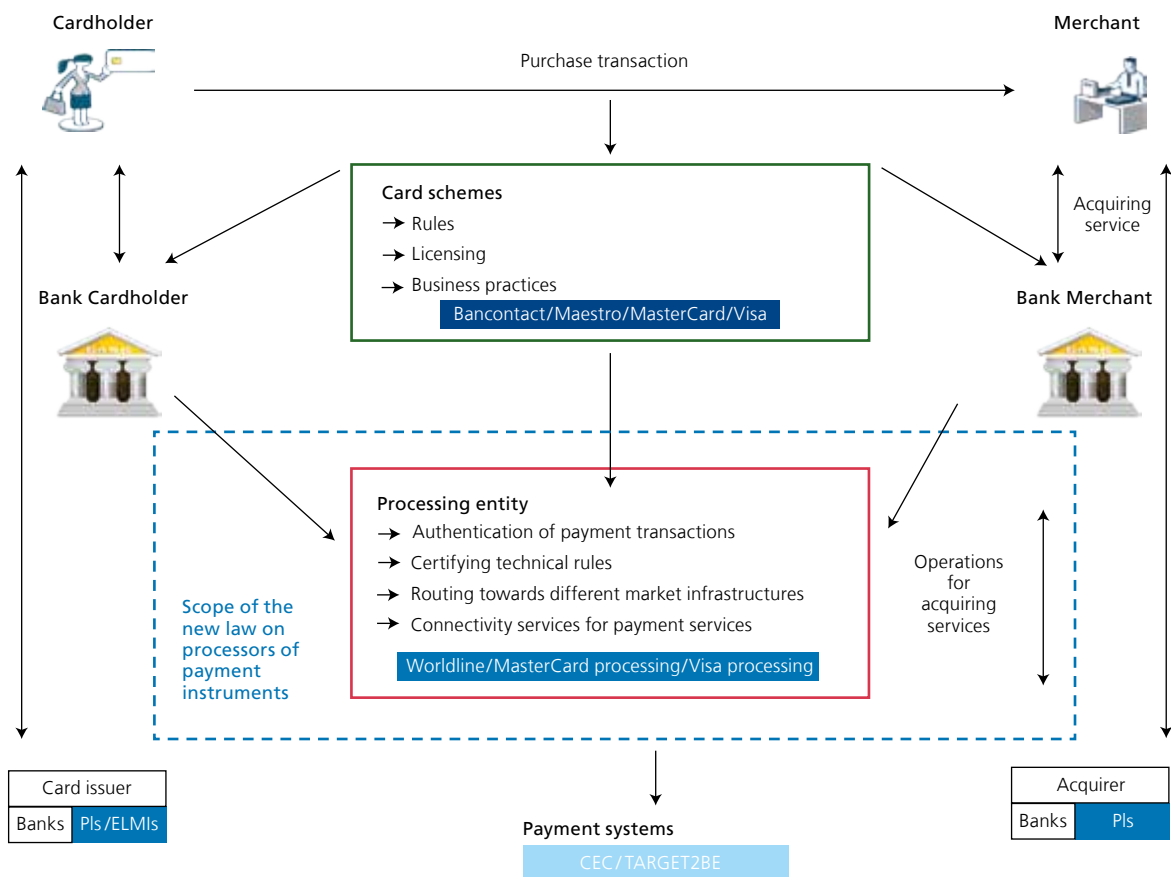
(2) An automated clearing house is a retail payment system processing mass numbers of bulked payments in a fully automated way (mainly credit transfers and direct debits, sometimes also checks or card transactions).

PRUDENTIAL & OVERSIGHT APPROACH

The regulatory status of Worldline SA/NV is explained in box 8. The applicable oversight requirements of the new law on processors of payment transactions is inspired by the 2012 CPMI-IOSCO Principles on Financial Market Infrastructures, notably Principles 2 (Governance), 3 (Framework for the comprehensive management of risks) and 17 (Operational risk). The new law creates an improved and more sharply defined legal framework for executing the oversight on systemically important payment processors in Belgium, allowing also – if and when necessary – the imposition of periodic penalty payments and administrative fines imposed by the Bank.

As illustrated in chart 15 below by way of example, the scope of the law (within the blue dotted border) is aimed at the processing activities that are not necessarily performed by the acquirer. Processing has been defined in a technology-neutral manner as the execution of technical processes necessary for and specifically aimed at the handling of a payment transaction, such as authentication, certification, routing and connectivity.

CHART 15 SCOPE OF THE NEW LAW ON PROCESSORS OF PAYMENT INSTRUMENTS



Source: NBB.

Box 8 – Worldline SA/NV subject to both oversight and prudential supervision

Worldline SA/NV has a systemically significant position in the Belgian card payments industry making the smooth functioning of nationwide card payments largely dependent on one company. It plays a critical role in most layers of the card payment market, including the provision of networks for POS (point of sale) and interbank ATM (automated teller machine) operations, acquiring activities on behalf of merchants for them to accept national and international debit and credit card payments, as well as the operation and management of domestic debit cards. The systemic importance of Worldline SA/NV from an oversight perspective stems from the services it renders to the public, merchants and financial institutions for whom any disruption in business is critical for the economy and from the end-to-end role it plays in the processing of payments. The increasing importance of card payments makes the role of Worldline SA/NV even more crucial for the Belgian economy and the risk even more critical than before. A default by the company would trigger a loss of confidence in crucial payment instruments and have adverse effects on the real economy, and therefore suitable alternatives have to be available to merchants for continuing their payments at any moment.

Worldline SA/NV has been subject to oversight by the Bank since the mid-1990s. Initially, this oversight was informal and focused on electronic money products. Reflecting the company's pivotal role in payments and the related concentration risk, oversight was formalised a few years later, its scope was extended over time and the practical oversight arrangements were laid down in Memoranda of Understanding.

The adoption of the Payment Services Directive in 2009 has put several payment services under a prudential supervisory regime, one of which is the acquiring business. Worldline SA/NV has the majority of Belgian merchants as its clients for acquiring their incoming card payments. As a major card payment acquirer for merchants, Worldline SA/NV obtained the status of payment institution (PI).

Since then, the regulatory status of Worldline SA/NV is twofold: on the one hand, prudential supervision by the Bank covering its acquiring business and, on the other hand, oversight by the Bank because of its card payment processing activities that are crucial for the Belgian card payments business.

SUPERVISORY PRIORITIES IN 2017

The Bank will start implementation of the new legal framework for processors of retail payment instruments. Where applicable and as stipulated in the new law, regulations will be prepared to further detail the Law's requirements on the level of, for example, due diligence, notifications of incidents and (un)availability of the system.

The Bank will also establish an oversight Memorandum of Understanding with De Nederlandsche Bank with regard to equensWorldline SE.