

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.

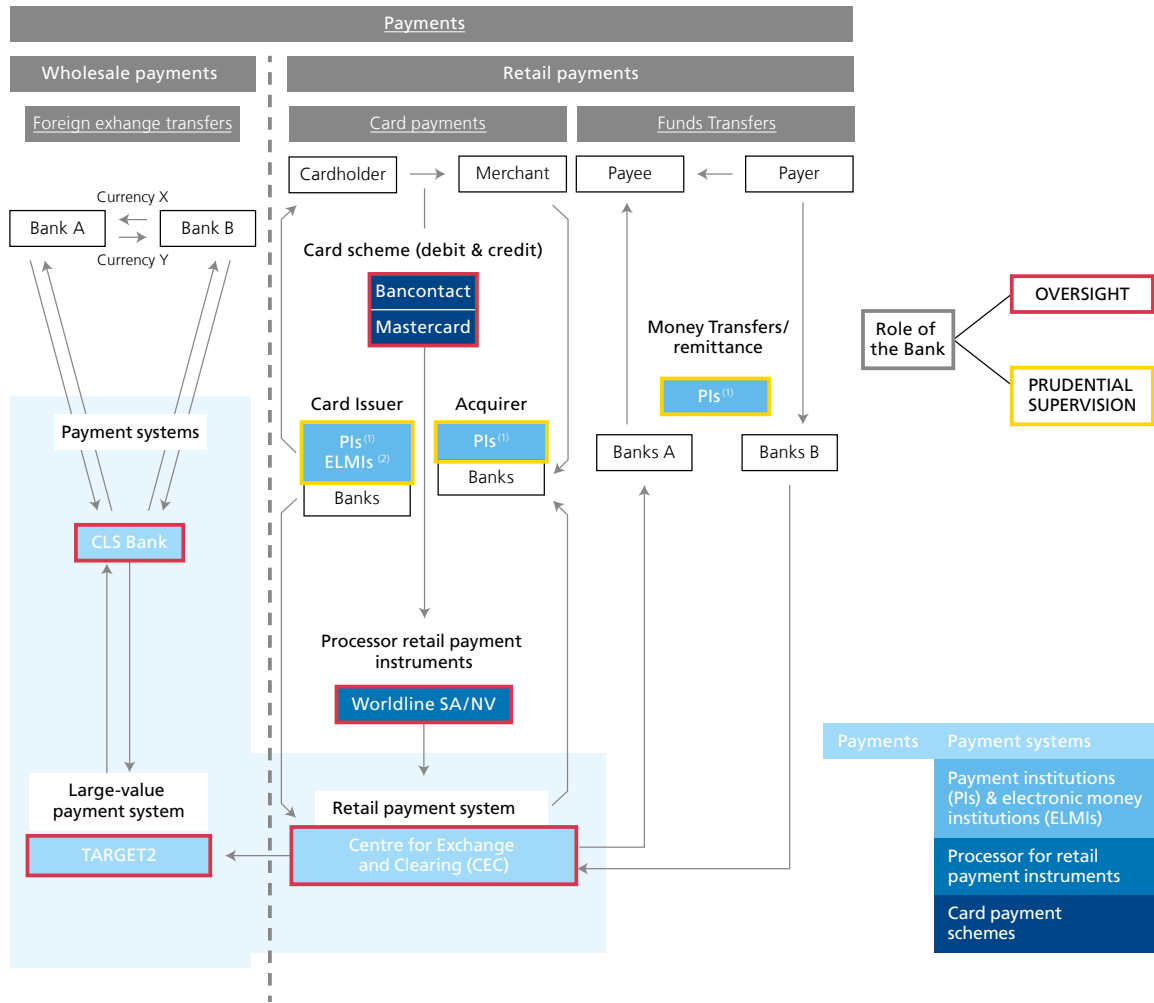
Section 3.4 covers the two payment card schemes overseen by the Bank: the domestic Bancontact scheme and the international Mastercard scheme. The Bank also contributes, indirectly, to other payment instrument oversight through the cooperation within the Eurosystem.

(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, Firmaser, HPME, Imagor, Ingenico Financial Solutions, Ingenico Payment Services, Loyaltek Payment Systems, Orange Belgium, RES Credit

3.4 Card payment schemes

In the euro area, the sound and safe functioning of card payment schemes (CPSs) is monitored by central bank oversight according to the following allocation of tasks.

The ECB, in cooperation with the Eurosystem national central banks (NCBs), is in charge of the standard-setting process, as well as determining when specific assessment rounds have to be undertaken in each jurisdiction. The Eurosystem oversight framework for CPSs dates from 2008⁽¹⁾. An amended guide for the assessment of CPSs against the oversight

(1) ECB (2008), Oversight framework for card payment schemes – standards, (<https://www.ecb.europa.eu/pub/pdf/other/oversightfwdcardpayments200801en.pdf>).

standards was published in February 2015⁽¹⁾. Over and above the Eurosystem requirements, NCBs have the discretion to apply any additional measures they deem relevant for the CPS under their oversight.

The monitoring of ongoing compliance, through frequent interactions with the CPSs, is the job of the NCB from the jurisdiction where the CPS is legally established. The Belgian domestic CPS, Bancontact, is subject to oversight by the Bank. In this case, the results of an assessment of its compliance with the Eurosystem CPS standards are peer reviewed at the Eurosystem level.

For CPSs with cross-border activities, assessment rounds are organised by recourse to an assessment group, made up of representatives of NCBs having a legitimate interest in the sound functioning of the CPS. The conduct and coordination of these assessment groups are in principle the responsibility of the NCB from the jurisdiction where the international CPS is legally established. This is the case for Mastercard Europe (MCE), established in Belgium, and for which the Bank ensures the role of overseer within the Eurosystem framework.

CHANGES IN REGULATORY FRAMEWORK

EU Regulation 2015/751 on interchange fees for card-based payment transactions (IFR)⁽²⁾ contains (i) the definition of a cap for the interchange fees applicable to payment transactions by means of debit or credit cards (Article 4), (ii) the separation to be put in place between payment card scheme governance activities and processing activities (Article 7.1 a), (iii) several measures granting more autonomy to merchants regarding the choice of payment instruments they wish to be used by their clients.

The separation to be put in place in accordance with IFR between payment card scheme governance activities (i.e. rules, licensing, business practices) and processing activities (i.e. the performance of payment transaction processing services in terms of the actions required for the handling of a payment instruction between the acquirer and the issuer, including authentication of payment transactions, certification of technical rules, routing towards different market infrastructures) is depicted in chart 15 above (payment card scheme governance and processing activities framed by respectively the green and red straight lines). The unbundling of the scheme and processing activities (when performed within the same legal entity) will result in the setting up of Chinese walls inside that same legal entity in order to put the processing business unit on an equal footing with external processing firms as regards the scheme activities.

According to the European authorities, the separation of payment card scheme governance and processing activities should allow all entities and firms offering processing services to compete for customers of the schemes. As the cost of processing is a significant part of the total cost of card acceptance, it is important for this part of the value chain to be opened to effective competition. On the basis of the separation of scheme and infrastructure, card schemes and processing entities, even if present inside the same legal entity, should be independent in terms of accounting, organisation and decision-making process. They should not discriminate, for instance by providing each other with preferential treatment or privileged information which is not available to their competitors on their respective market segment. In such a new context, no more privileged exchanges of information will be allowed between the scheme and processing business units of a single legal entity.

Based on the IFR, supervisory tasks have been divided between the Belgian Federal Public Service for the Economy, in charge of monitoring the implementation of all IFR articles relating to consumer protection, and the Bank, which has been designated as overseer of MCE within the Eurosystem framework to ensure the compliance of MCE with Article 7, requiring separation between card payments schemes and card processors⁽³⁾.

In 2016, the Bank integrated the EBA guidelines on the security of internet payments into its prudential supervision framework⁽⁴⁾ which are also relevant for CPSs because the latter have to provide their customers (issuers and acquirers)

(1) ECB (2015), Guide for the assessment of card payment schemes against the oversight standards, (<https://www.ecb.europa.eu/pub/pdf/other/guideassessmentcpsagainstoversightstandards201502.en.pdf?499089f7f3aab273925ef6d80767b4a5>). See also *Prudential and oversight approach* in this section.
(2) Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, OJ. 19 May 2015, L. 123, 1-15 (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0751&from=en>).
(3) According to the Law of 1 December 2016 enforcing Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions, Belgian Official Gazette 15 December 2016, 86.578.
(4) NBB Circular Letter 2016_29, 25 May 2016 (https://www.nbb.be/doc/cp/fr/2016/20160525_nbb_2016_29.pdf).

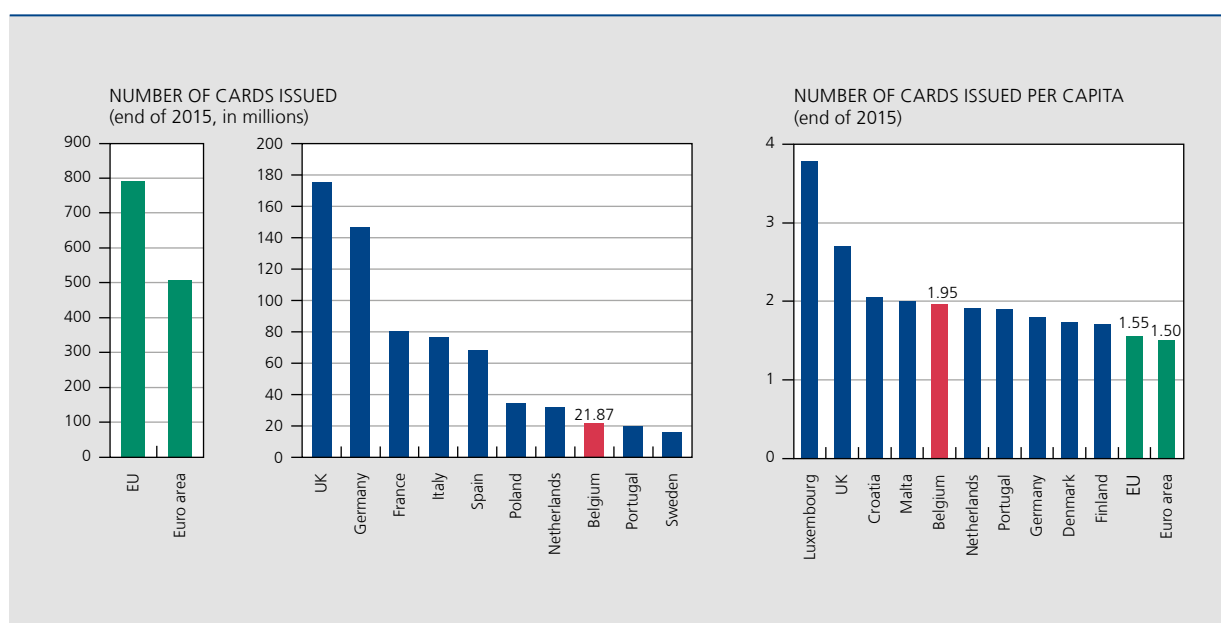
with all the necessary elements for them to comply with the guidelines mentioned above. On the prudential side, the new guidelines are not considered as a major evolution in Belgium as a CBFA 2009 Circular⁽¹⁾ had already submitted PSPs in retail payments established in Belgium to the vast majority of the EBA guidelines referred to. For CPSs – thus from an oversight perspective – a number of features of the new EBA guidelines on the security of internet payments have been included by the Eurosystem in its oversight framework applicable to CPSs, specifically the ones related to strong customer authentication.

BUSINESS ACTIVITY

The following charts present global card payment statistics (debit, delayed debit and credit functions) for all brands. For Belgium, it includes the regular Belgian payment cards which are, in most cases co-branded with the Bancontact and Maestro payment schemes, allowing card holders to make card payments, respectively on the Belgian market and cross border. The use of cards in Belgium is compared with that in the EU top 10 countries, as well as the euro area or EU as a whole⁽²⁾.

Based on available 2015 data, chart 16 (left-hand panel) shows that almost 22 million cards were issued in Belgium by resident payment service providers (PSPs) (i.e. banks, PIs, ELMIs). With 1.95 cards per person, Belgium pertains to the EU top 5 in terms of number of cards issued per capita (chart 16, right-hand panel). The number of cards issued per capita in Belgium is higher than the average number for the euro area (1.50) and the EU (1.55).

CHART 16 CARDS ISSUED BY RESIDENT PAYMENT SERVICE PROVIDERS – TOP 10 EU COUNTRY COMPARISON⁽¹⁾



Source: ECB.
(1) Cards with a cash function

Chart 17 provides 2015 data on payment transactions per card (top panel) and card payment transactions per capita (bottom panel).

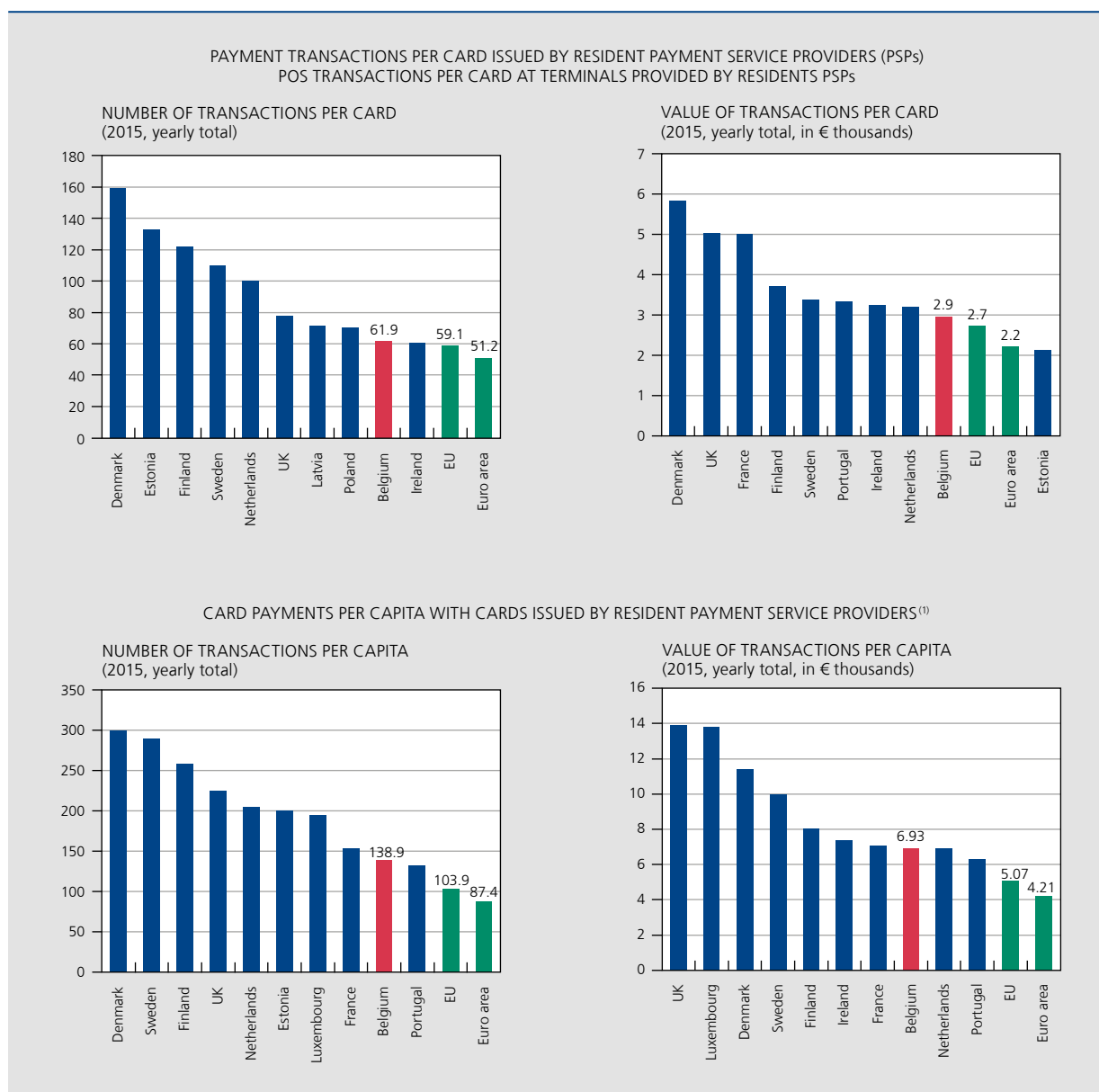
In Belgium, on average, close to 62 payment transactions per card issued by resident PSPs are processed at retail locations (at point of sale (POS) terminals provided by resident PSPs) on a yearly basis. The number of payment transactions per

(1) CBFA Circular Letter 2009_17 Financial services via internet: prudential requirements and its annex "Sound practices regarding the risk management of the security of internet transactions", 7 April 2009 (<https://www.nbb.be/en/articles/circular-cbfa200917-financial-services-internet-prudential-requirements>).
(2) CPS statistics collected for oversight purposes, under the auspices of the Eurosystem, are subject to strict confidentiality rules due to their commercial sensitivity. This prevents disclosure by the national central banks or the ECB that would enable the identification of any individual CPS.

card at POS terminals in Belgium is well above the average for the euro area and the EU (respectively about 51.2 and 59.1). In value terms, POS payment transactions processed per card for a full year in Belgium represent € 2 948. Again, the activity per card is well above the average for the euro area and the EU as a whole (respectively € 2 212 and 2 729).

Per capita, and on a yearly basis, close to 140 payment transactions are processed via cards issued by resident PSPs in Belgium, representing close to € 7 000 in value terms. Average card transactions per capita in Belgium are higher than those in the euro area and the EU as a whole, both in number (respectively about 87.4 and 103.9) and value (respectively about € 4 210 and 5 070).

CHART 17 CARD PAYMENT TRANSACTIONS – TOP 10 EU COUNTRY COMPARISON



Source: ECB.

(1) Except cards with an e-money function only

OVERSIGHT APPROACH

A structured oversight of CPSs' performance is in place in order to ensure the public's trust in the stable and sound functioning of payment systems and instruments in the broad sense.

The Eurosystem oversight framework for CPSs has been revised to include the EBA guidelines on the security of internet payments and more specifically requirements relating to strong customer authentication. On this basis, a gap assessment of the CPSs sector was started in 2016 (and is expected to be finalised in the course of 2017) in order to ensure that CPSs put in place all the necessary features enabling PSPs (such as banks, PIs and ELMIs) to comply with the EBA guidelines. Indeed, due to their central position in processing card payments, it is crucial that CPSs' modus operandi are designed in a way to make it possible for the PSPs to perform their roles of issuers and acquirers in compliance with all existing legal rules, industry state-of-the-art practices and existing standards.

This gap assessment was carried out through a cooperative assessment group with regard to MCE (and the other international CPSs), while the Bank undertook the analysis on a solo basis vis-à-vis Bancontact (the Belgian domestic CPS) to be finalised by a peer review process at Eurosystem level.

The National Bank of Ukraine (NBU) approached the Bank because of the systemic importance of the Mastercard payment scheme in its country. In accordance with the international cooperation principles governing oversight, and in order to avoid redundant requests from several authorities to the same CPS, the Bank concluded in mid-2016 an Memorandum of Understanding with the NBU on sharing information for the oversight of MCE. The Bank has already entered into a similar partnership with the central bank of the Russian Federation since May 2013. In addition to those countries, MCE is also considered of systemic relevance for the authorities of other European countries, including the Netherlands, where it has replaced the domestic CPS. In such cases, the exchange of information is organised by the cooperative oversight at Eurosystem level.

OVERSIGHT PRIORITIES IN 2017

The main oversight priorities for CPSs in 2017 are threefold. Firstly, setting up a cooperation mechanism for monitoring the correct implementation of the IFR where the focus will be on the requirement to separate payment card scheme governance activities and processing activities. Secondly, finalisation of the gap assessment of the CPS sector based on the updated Eurosystem oversight framework integrating requirements relating to strong customer authentication. Finally, further analysis of cyber risks and the adequacy of the cyber resilience framework of the CPSs established in Belgium.