

# PAYMENT SERVICES

## CURRENT SITUATION

Three years after the beginning of the application of the Law on Payment Services, on June 8, 2018, amendments to the Law were adopted, which have been in force since March 17, 2019. These changes are aimed at greater transparency of fees charged by payment service providers, better information, and greater protection of payment service users.

The law removed administrative barriers to changing the payment account for payment service users. The introduction of the bank's obligation to enable a consumer who has a legal stay in the Republic of Serbia to open and use a payment account with basic services at his request creates conditions for encouraging the development of modern forms of payment and making payment services available to more people.

At the end of 2018, a set of bylaws was adopted that further regulate the area of payment services and payment systems, including issues related to fees of payment service providers (their transparency, manner of publishing and delivery), list of representative services, rules of payment systems (including instant payment system - IPS), supervision of payment systems, etc.

In order to encourage the growth and efficiency of non-cash payments by payment cards and protect the interests of users of these payment services, in June 2018, the Law on Interbank Fees and Special Business Rules for Payment Transactions Based on Payment Cards was adopted. Regulators expect that the regulation of this specific area will contribute to reducing the cost of accepting payment cards, increasing transparency and competitiveness in the market, promoting modern forms of payment, reducing the amount of cash on the market, and the gray economy.

In 2019, there were no significant changes in the law that would affect last year's recommendations of the Council.

## COVID-19

On March 15, 2020, a state of emergency was introduced as a consequence of the COVID-19 epidemic caused by SARS-CoV2 coronavirus. The state of emergency and measures against the spread of the epidemic have caused a significant change in consumer habits. Banks have made great efforts to provide conditions for adequate provision of services to customers at a distance, which in the field of payment services would mostly refer to the increased turno-

ver of payment transactions for the purchase of goods and services over the Internet. Based on NBS data, the number of transactions for the purchase of goods and services over the Internet increased by 106% in the second quarter of 2020 (3,205,385 transactions) compared to the same period in 2019 (1,559,128 transactions). The volume of transactions for the purchase of goods and services over the Internet increased by 78% in the long quarter of 2020 (RSD 4,103,241,900) compared to the same period in 2019 (RSD 7,300,490,184). Based on the data, it can be concluded that the banking system is ready to welcome these significant changes in the functioning of the payment system.

The Decree on Fiscal Benefits and Direct Benefits to Business Entities in the Private Sector and Financial Assistance to Citizens in order to mitigate the economic consequences caused by COVID-19 entered into force on April 10, 2020. The Decree regulates fiscal benefits for legal entities and entrepreneurs through tax deferral and contributions, and direct benefits for entrepreneurs and legal entities through the payment of non-refundable funds from the budget. For the purpose of payment of direct benefits, a special purpose account was opened for the economic entity with the bank with which it has a current account. Based on the instructions of the NBS, the banks managed to implement the opening of dedicated accounts, despite the technical complexity of the task. In addition to assistance for legal entities, payment was provided to all adult citizens of the Republic of Serbia in the form of one-time financial assistance in the amount of 100 euros in dinars.

## POSITIVE DEVELOPMENTS

Amendments to the Law on Payment Services reduced the payer's liability for loss in the execution of an unauthorized payment transaction by a stolen or misused payment instrument from RSD 15,000.00 to RSD 3,000.00, which increased the bank's liability. In addition, banks are required to invest in additional security measures to reduce the number of abuses.

The position of payment service users is further improved by stipulating that in the pre-contractual phase, in addition to other information determined by law, the bank will receive a document containing a list of services from the list of representative services and data on individual fees for each such service. It enables a complete overview of offers on the market in order to make a decision on the choice of a payment service provider, and one can also submit a request to change the payment account, or transfer

certain payment services, with or without closing the payment account opened with the previous payment service provider, quickly, simply and without unnecessary administrative requirements of the payment service provider. Also, the position of payment service users has been improved by the obligation of banks to inform them about the fees collected in the previous year.

On April 1, 2019, the last bank in Serbia accepted the Instant Payment System of the National Bank of Serbia - IPS NBS system, completing the list of banks participating in the NBS IPS payment system. IPS is a modern payment system that provides payment service providers with the execution of individual instant transfers of approval (instant payments) 24 hours a day, seven days a week, 365 days a year (24/7/365), i.e. at any time of the day during any day of the year, and almost instantly or within just a few seconds. Due to the epidemic, consumers were forced to turn to electronic and mobile banking, and the introduction of the IPS payment system before the outbreak additionally contributed to its popularization. On February 27, 2020, instant payment with a QR code was introduced at points of sale via the "IPS Scan" / "IPS Show" functionality, which the Banks implemented in their m-banking applications. The customer can pay using the QR code, in two ways. One way is for the customer to generate a QR code on their mobile phone, which will then be scanned by the merchant, and the other is for the trader to generate a QR code at their point of sale, so the customer can scan it and pay in that way. In addition to speeding up the payment process, it also competes with card payments, because it allows the trader to have funds immediately available on their account, without having to wait a few days as with card payments. With a more favorable tariff policy than cards, the NBS has created conditions for the costs of accepting instant payments to be lower for traders. This motivates small traders who do not accept payment

cards today to enable the use of this innovative method of payment at their points of sale. In the following period, banks will continue to expand the range of their offer by introducing solutions for accepting instant payments via mobile applications intended for small traders, which traders will easily install on their devices (mobile phone or tablet), thus enabling consumers to pay via NBS IPS QR code at the point of sale. In addition to the introduction of the IPS QR code in retail outlets, several businesses have started issuing monthly invoices with the IPS QR code printed. Consumers have the option of paying by scanning the IPS QR code, without having to enter data into a payment order.

## REMAINING ISSUES

According to the data published by the National Bank of Serbia, there are 13 companies in the Register of Payment Institutions, and only two electronic money institutions, so that the impact of the Law on the development of this business segment still does not give satisfactory results. As the conditions and initial and minimum capital for performing payment system operations have been stricter, the regulator's intention is obviously no longer to increase the number of "players" on the market but to achieve a greater degree of protection against general business risk.

With the new legal solutions, payment service providers are expected to develop a series of system solutions in order to fulfill the new obligations imposed on them by the regulations on payment services, which leads to an increase in operating costs.

Although the volume of IPS transactions is growing, it is still not significant in relation to the total number of payment transactions.

## FIC RECOMMENDATIONS

- Establishment of a common platform of banks for the exchange of information in the process of changing accounts and in opening and maintaining accounts with basic services. (3)
- Longer deadlines for the implementation of regulations that require system solutions (including complex technical solutions) for payment service providers. (2)
- Amendments to the Law on Interbank Fees and Special Business Rules for Payment Transactions Based on Payment Cards in such a way that the issuance of cards that are not processed in domestic payment transactions in the Republic of Serbia is not conditioned by the previous issuance of a payment card for domestic payment transactions. (2)