

# PAYMENT SERVICES

1.00

## WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
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.	2018			√
Longer deadlines for the implementation of regulations that require system solutions (including complex technical solutions) for payment service providers.	2019			√
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.	2015			√

## CURRENT SITUATION

The use of qualified electronic signatures in the Republic of Serbia is permitted via the Law on Electronic Signature adopted in 2004, and the Law on Electronic Document, Electronic Identification and Trust Services in Electronic Business adopted in 2017. QES is fully equated with the handwritten signature of a private individual (natural person) and used for various processes which may be concluded in electronic form. It is a digital replacement for a handwritten signature and thus ensures that a document remains exclusively in electronic form for further use. At the same time, a QES confirms the identity of the signatory, which prevents the possibility of misuse.

In 2018, a new law was passed, the Law on the Protection of Financial Service Consumers in Distance Contracts. This Law allows financial institutions to identify new clients remotely i.e., without the need for the Client to visit the bank branch, even when the parties do not have an established business relationship. The Law prescribes the process of remote client identification and remote contract signing in the amount of up to RSD 600,000 by applying two-factor confirmation of identity as verification.

In 2020, there were no significant amendments to the Law which would impact last year's recommendations of the Council. Amendments and Decisions rendered relative to payment services were specifically related to fees for Covid dedicated accounts, and the Decision stipulates that fees and other costs cannot be charged for services provided in payment transactions upon payment.

On 15 March 2020, a State of Emergency was declared

as a consequence of the COVID-19 pandemic caused by the SARS-CoV2 coronavirus. The State of Emergency and measures imposed to stop the spread of the epidemic led a certain number of consumers to redirect their shopping to internet channels and payment via eBanking/mBanking.

The Decree on Fiscal Benefits and Direct Benefits to Private Sector Companies and Financial Assistance to Citizens to Mitigate the Economic Consequences of COVID-19 came into effect on 10 April 2020. This Decree served to regulate fiscal benefits for legal entities and entrepreneurs through the postponement of the payment of taxes and contributions, and direct benefits for entrepreneurs and legal entities through the payment of non-refundable funds from the budget. On the grounds of instructions issued by the NBS, the Bank successfully opened dedicated (special-purpose accounts) for this purpose despite the technical complexity of such a task and the short deadlines. In addition to assistance to legal entities, a payment was made to all adult citizens of the Republic of Serbia in the form of one-off financial assistance.

Then, from 31 July 2020, the Government of the RS published a Conclusion which approved additional fiscal benefits and direct benefits to legal entities due to the COVID-19 pandemic.

The right to additional benefits was granted to legal entities that qualified and in July 2020 they received a final payment of direct benefits in line with the Decree. The payment was executed onto the COVID-19 dedicated accounts to which the previous payments were made in prior months.

Furthermore, clients were given the option to place a mora-

torium on the loans, in line with a Recommendation issued by the NBS and the expressed interest of the clients.

## POSITIVE DEVELOPMENTS

### RECOMMENDATIONS FROM THE PREVIOUS YEAR

In terms of last year's recommendations, there have been changes to the following degree:

- The establishment of a joint platform through which the banks can exchange information concerning the process of changing accounts and in terms of opening and maintaining basic accounts – in this area there have been no developments as a joint platform was not established, changing accounts is still conducted in the same way it was done before.
- Extended deadlines for the implementation of regulations which require systemic solutions (including complex technical solutions) for payment service providers. In this segment there have been some developments but none of significance, especially in system solutions relative to COVID-19 and aid to the population and legal entities. On the one hand it is understandable that it was necessary to act fast to the situation, but on the other, the banks had short deadlines and had to implement system solutions with very limited sets of information and unclear instructions on who to turn to when things were unclear (Ministry of Finance, NBS, etc.).
- Amendments to the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions are such that the issue of a card which performs domestic payment transactions is not processed in the RS, is not conditional to the prior issue of a payment card for the purpose of executing domestic payment transactions – Article 9, paragraph 2 of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions (RS Official Gazette No. 44/2018) (hereinafter: the Law) envisages the following:

“A payment card which may be used to initiate current account payment transactions, where in domestic payment transactions, the activities referred to in paragraph 1 of this Article are not performed in the Republic of Serbia – may be issued only on a separate request from the user of payment service in writing, only if the user, for the purpose

of initiation of payment transactions from the same current account, was already issued the payment card referred to in paragraph 1 of this Article.”

Relative to this recommendation, there were no changes nor developments.

### OTHER DEVELOPMENTS

#### *INSTANT PAYMENTS – development*

In 2019, the last bank joined the IPS system and on 27 February 2020 instant payment via QR code was introduced at points of sale via IPS Scan and IPS Show functionalities, which the Banks implemented into their m-banking applications. This payment method allows the merchant's account to be credited immediately for the payment while at the same time allowing clients to complete their payment transactions both quickly and easily.

#### *QUALIFIED ELECTRONIC SIGNATURE CERTIFICATE – wider application*

An electronic signature is a digital replacement for a handwritten signature. With an electronic signature, it is possible to sign documents online or directly on the computer it was created on, in the original version. A document signed in this way (invoice, contract, tax return, etc.) is valid and has the same legal effect as a document in hardcopy form. By introducing the use of electronic signatures, the process of concluding contracts between the Bank and the client has been made much faster and easier, has reduced the amount of paper needed and the need for all signatories to be physically present in the Bank at the same time. The significance of remote signing has gained in importance during the pandemic.

#### *ONLINE CLIENT IDENTIFICATION*

The online identification of clients is possible via the end-to-end (E2E) onboarding of new clients, without the need to visit the Bank. This includes opening a current account and agreeing on financial service (contracting) in amounts of up RSD 600,000. Once the client has filled in the basic information online, he/she is directed to a video call with a Bank employee, where the client's identity and personal document are verified. The processes have been simplified and are faster, both available to the client at any time from any location.

### REMAINING ISSUES

1. Increase of the threshold (amount) to which an electronic signature applies

The RSD 600,000 threshold for contracting financial services which can be approved online with an electronic signature should be increased, given that, for example, banks approve cash loans in amounts of up to as much as RSD 3,000,000.

Based on certain banking indicators, the average loan amount in Serbia's loan consumer category is just above EUR 5,000. This initiative will result in a higher level of digital lending, because clients that apply for loans in amounts above EUR 5,000 will also be able to receive these loans via digital 'end-to-end' (E2E) channels. The process itself would be easier for clients if they were able to complete the entire process via digital channels, with reduced amounts of paper and without having to wait at the branch. This will also impact the contracting of other financial products, such as deposits.

## 2. Qualified signatures

Where legal entities in Serbia are concerned, there are no provisions regulating the use of digital signatures and their application in banking operations.

This would allow legal entities to use their own electronic signature in the same way private individuals do without having to physically visit the bank and open an account or apply for a loan.

The current solution to qualified electronic signatures is provided by the use of smart cards (or USB), and this requires certain types of reader devices. The basic functionality of remote qualified signatures can be a qualified electronic signature designed as a Cloud solution, such that it can be remotely obtained and linked to a specific device, i.e. mobile phone which makes it easy to use. This would lead to the expanded use of digital signatures.

## 3. Acceptance of electronic documents by government bodies

Banks can offer their clients required Letters of Confirmation/Certificates via their e-banking platforms, however, this makes no sense if many government institutions fail to accept certificates in electronic form, but only in hardcopy. This initiative would require an arrangement with the Ministry of Internal Affairs to find a solution to this issue and to change their policies relative to accepting electronic Letters of Confirmation/Certificates. Also, digital processes

are ecologically acceptable as the signing of documents is done without having to print the documents and document storage is in digital form.

4. Revising the NBS transactions pricelist – after the introduction of all IPS services an increase in the number of transactions performed was recorded. The NBS has the opportunity to harmonise its pricelist referring to fee collection per transactions and to reduce the price of transactions it charges the banks. This would serve to promote IPS payments and would attract even more users of these services.

5. Amendments to the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions are such that the issue of a card which performs domestic payment transactions is not processed in the RS, is not conditional to the prior issue of a payment card for the purpose of executing domestic payment transactions.

We propose the amendment of Article 9, paragraph 2 of the Law such that in said Article the following obligation is stricken: the obligation that payment cards, in which processing, netting and settlement of transfer orders issued on the basis of its use are not performed in the Republic of Serbia, may be issued only at the special request of the payment service user and provided in writing.

Our proposal is that Article 9, paragraph 2 of the Law states the following:

"A payment card that can be used to initiate payment transactions from a current account and in which transactions referred to in paragraph 1 of this Article are not performed in domestic payment transactions in the Republic of Serbia – may be issued only if this user for initiating the payment transaction from the same current account has already been issued or will be issued at the same time, the payment card referred to in paragraph 1 of this Article."

Rationale:

We believe that the proposed amendment in no way changes the meaning as stipulated in the Law, of which one objective is the protection of payment cards processed in domestic payment transactions, netting and settlement of transfer orders issued on the basis of its use performed in the Republic of Serbia. On the other hand, excluding the special request in writing will reduce the need for Bank

administration in a manner that requires forming and signing additional documentation, and issuing a payment card required by payment services users in order to perform payments at foreign POSs and online. Also, in line with the applicable regulations the defined steps further complicated the process of issuing and delivering 'foreign' pay-

ment cards as it means issuing these cards only when an existing payment card has already been issued which is linked to the current account of the card which is processed in the domestic payment transactions, netting and settlement of transfer orders issued on the basis of their use in the RS payment system.

### FIC RECOMMENDATIONS

- Increase the threshold (amount) to which the electronic signature is applicable
- Qualified signature – possibility of signing via the Cloud, possibility of offering legal entities an electronic signature.
- The acceptance of electronic documents by government bodies
- Revision of the NBS transactions pricelist
- Amendments to the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions