

# PAYMENT SERVICES

1.40

## WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Automating the video identification process	2022		√	
Establishing an interrelated (joint) bank platform for information exchange in the payment account switching process	2022			√
Introducing e-bills of exchange for natural persons	2022		√	
Amendment to Article 9, paragraph 2 of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions in the section on the existence of special client requests	2022			√
"Amendment to the law in the section referring to documentation submitted to the client when opening a current account"	2022			√

## CURRENT SITUATION

In 2022, a new decision was adopted by the National Bank of Serbia which further regulates the payment services system in the Republic of Serbia – the Decision on the Payment Account with Basic Features. The Decision on Risk Management by Banks was also amended to regulate the process of how banks are to render or amend their bylaws governing the provision of payment services. Adopting the Decision on the Payment Account with Basic Features enables citizens to have an account that is necessary for them to carry out their daily life activities while protecting their standard of living, given that the maintenance cost of this package is limited to RSD 150.00/month. Amendments to the Decision on Risk Management by Banks have ensured that the National Bank is informed in a timely manner of any planned bank price list changes. This was achieved by introducing a rule whereby banks planning to introduce new fees are obliged to notify the National Bank of Serbia of said changes and to include an analysis of planned fee changes at least 45 days prior to their enforcement. Furthermore, an agreement was made with all banks that had changed their price lists starting from 1 January 2021 to reduce these new fees by 30% or to reduce them to their prior amounts. The aim of all of these activities was to protect the public during a time of significant price pressure on a global scale.

As we had already mentioned in last year’s report, the period following 2021 is a period of stabilisation in terms of payment services regulation as much had already been accomplished in the period following 2014 to 2021. Once the Law on Payment Services was adopted at the end of 2014, we had a period of considerable regulatory activity with the aim of creating a modern, digitalised system

through which to offer payment services. At the same time, we are not only referring to the Law on Payment Services and the bylaw adopted under said Law, we are also referring to the entire set of other regulations adopted by the National Assembly of the Republic of Serbia and other regulatory bodies (Law on Electronic Documents, Electronic Identification and Electronic Trust Services of 2017, the Law on the Protection of Financial Service Consumers in Distance Contracts of 2018, Decision on General Rules on Instant Credit Transfers of 2017 with amendments, Decision on Conditions and Manner of Establishing and Verifying Identity of a Natural Person through Means of Electronic Communication and the like). The entire group of these and other documents supports the implementation of both the 2020-2024 Strategy for Digital Skills Development of the Republic of Serbia and the Strategy for the Development of the Information Society and Information Security for the 2021-2026, documents adopted by the Government of the Republic of Serbia, as umbrella documents serving to modernise and digitalise the entire society. In line with the above, it is clear that much has been done in recent times to advance, digitalise, make available and improve payment services customer protection relative to payment and other corresponding services.

In line with said, this text aims to analyse the results of the previous recommendations, as well as to propose what additional steps need to be taken to improve payment services in the Republic of Serbia.

## POSITIVE DEVELOPMENTS

As far as recommendations from the previous year are concerned, there have been improvements in the following scope:

Automation of the video identification process – Building on the previous year’s recommendations, we would like to highlight here that improvements have been made in this area in terms of automation of the video ID process. Namely, representatives of the National Bank of Serbia have made public statements that openly and clearly express their opinions relative to the automation of the video ID process. Even more important is their constructive proposal to come to a compromise, and considering this area we believe there has been progress and, in the future, we will have a fully automated video identification process with the application of full measures preventing potential fraud.

Introduction of e-bills of exchange for natural persons - We believe there has been some progress in this area given that the National Bank of Serbia has expressed the view that in the next phase of developing the Central Registry of e-Bills of Exchange will include natural persons who are not issuers of e-bills of exchange. In particular, we fully understand the need for regulators to safely determine the functionality and quality of the work of the registry relative to legal entities and entrepreneurs, and that at some later stage of its development, natural persons who do not carry out an activity should also be included.

## REMAINING ISSUES

### 1. Automating the video identification process

As in previous years, this year we want to emphasise the importance of automating the video identification process in the process of opening a client account, for reasons of risk awareness, we sincerely believe that the automation of this process would bring significant benefits to clients and PSPs. One benefit that is greater than the risk of fraud associated with video identification process automation. In expressing satisfaction with the introduction of the video identification process in previous years thus enabling the people and companies to open accounts much easier, we believe it suitable to reconsider the possible exclusion of the presence of a taxpayer representative, who conducts the video identification process on behalf of the taxpayer i.e., for verification to be carried out by software. Namely, the existing process, which has truly made account opening much easier, still has a number of technical limitations regarding the client’s environment (sound, light), internet signal strength, understanding of instructions provided by the agent (visual display of the personal ID document, rotating it, covering it with a finger, etc.). We believe that by

identifying clients using biometric data (facial recognition) the mentioned technical limitations would be overcome, the process itself would be accelerated, and security would not be compromised. In this regard, our proposal is to allow for video identification to be performed by using various software solutions which use biometric data to identify clients. Namely, as much as we support the position that the ‘spoken word’ is sometimes necessary to verify all data, in a modern society where technological advances are being made every day, it is our stance that we should have confidence in said technology. In addition, we emphasise that we support any form of pilot project relative to this area, and any proposals that would make it possible to further simplify client account opening (for example, video identification begin performed by another government authority, and allowing the banks to download the data).

### 2. Issuance of a certificate for a qualified electronic signature without the need for the PI to be physically present

On the one hand, this recommendation does not directly relate to the provision of payment services, but on the other hand, it can significantly facilitate the process of establishing a business relationship with clients. That is to say, according to the current solution, in order for a PI to receive a qualified electronic certificate, they are required to visit a certification authority in person (JP Pošta Srbije [Postal Services], Chamber of Commerce of Serbia, MUP RS, etc.). We are of the opinion that regulating the procedure in this way is one of the main reasons why the issuing of certificates themselves has not taken root in practice and why many of them have not been issued thus far. In accordance with the above, we believe that regulations governing how certificates are issued should be amended. Specifically, it is our view that it is necessary to permit the issuance of qualified electronic certificates without natural persons needing to physically visit the offices of the issuing authority. More precisely, we recommend that the regulator allow for qualified electronic certificates to be issued through the video identification process by the certifying authority or through the biometric client data verification process. This is linked to payment services in that the banks could then be able to open a client account without the need for video identification, using the fact that the client has already been identified by the certification authority. Further, this type of client would already have a qualified electronic signature and would be eligible to receive any bank product, without having to visit a branch in person. This would bring the distance contracting process

full circle and allow for the unhindered processing of various products for online clients.

### **3. Establishing a joint platform for the banks to exchange information during the process of payment account switching (Switching Service)**

A joint platform for banks to work together during client loan refinancing was launched in 2022 and according to the banks' experiences, the process functions exceptionally well. More specifically, this platform has facilitated communication and the loan refinancing process for both retail clients and for the banks. Amendments were made to payment services regulations adopted in 2018 to define the payment account switching procedure, with an attempt to facilitate said procedure for payment service users. Current observations indicate that the process has not taken root significantly in practice and that exchanging data via e-mail may create issues where the processes of monitoring and actively reacting to applications/requests are concerned. In order for the payment account switching process to take root in practice, the authors of this text believe it necessary to introduce a user payment account switching platform (according to the same principle which applied to the refinancing procedure platform) that would be managed by the PSP. Introducing this type of platform would not only speed up the account switching process, but would also make it easier for banks to communicate back and forth during the process itself. To conclude, we believe this would additionally contribute to the further development of competition in the banking sector, which may have a positive effect on clients as payment service users.

### **4. Introducing electronic bills of exchange for natural persons**

In accordance with the fact that the Central Registry of e-Bills of Exchange for legal entities and entrepreneurs is expected to start working soon, the authors of the text are of the opinion that enabling physical persons to issue e-bills would be another step in the comprehensive process of digitalization of payment services. Namely, natural persons, as users of various banking products are very often obligated to issue bills of exchange when concluding agreements. In line with the above, it would be easier for both banks and clients alike if e-bills of exchange could be issued by natural persons. Primarily because banks are more often allowing for the conclusion of distance loan agreements, in line with the provisions of the Law on the Protection of Financial

Service Customers concerning distance contracting. From a legal standpoint, these agreements are uncollateralised, because more often than not, nothing is taken from the client, not even bills of exchange. Namely, if a distance agreement is concluded, it is not expedient to ask the client to visit the bank's premises in order to issue bills of exchange. Given the fact that natural persons are a significantly more vulnerable payment service user category in comparison to LEs and entrepreneurs and that they require additional protection, we believe that relative to natural persons, a compromise would be the right solution. The fact is that the function of the Central Registry of e-Bills of Exchange is to enable the forced realisation of the bill of exchange without the need to submit a motion for execution with the competent court. It is indisputable that at this moment enabling the same in relation to natural persons would expose this category to the increased risk of enforced collection. In accordance with the above, we propose to enable natural persons to issue e-bills of exchange via the Central Registry of e-Bills of Exchange; however, to withhold permission to the creditor to activate said bills of exchange before the creditor has submitted a motion for execution with the competent court. A bill of exchange issued in this way can only be collected upon with the submittal of a motion for execution with the competent court and with confirmation provided by the Central Registry of e-Bills of Exchange that said bill of exchange was in fact duly issued and registered. We believe that the proposed regulation of e-bills of exchange issued by natural persons would facilitate access to loans and other bank products without putting this client category at risk of activation without an official order/ruling rendered by a competent court.

### **5. Amendment to Article 9, paragraph 2 of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions in the section on the existence of special client requests**

In this area, we believe it is necessary to provide the same recommendation from the previous year in the same content, for the reason that there have been no changes in its implementation. We propose the amendment of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions, such that the issue of cards, where in domestic payment transactions, the processing, netting and settlement of transfer orders issued based on its use are NOT performed in the Republic of Serbia, are not conditioned by the previously mentioned special request of the payment services user.

The authors of the text are fully aware of the significance of the existence of the provisions of Article 9, paragraph 2 of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions. We would once again like to propose here that within the aforementioned paragraph, the section which states that the card for which processing, netting and settlement of transfer orders issued on the basis of its use in domestic payment transactions are not carried out in the Republic of Serbia, can only be issued at the special request of the payment service user, given in writing.

We propose Article 9, paragraph 2 of the Law be worded as follows:

“A payment card which may be used to initiate current account payment transactions, where the operations stipulated in paragraph 1 of this Article are not performed in the Republic of Serbia – can only be issued to the user to initiate payment transactions from said current account if he/she has already been issued or will be issued the payment card referred to in paragraph 1 of this Article.”

Namely, the proposed amendment in no way jeopardises the meaning or reason for introducing the mentioned provisions into our legal system. On the other hand, by excluding the need for a special request in written form, unnecessary administration is reduced for the Bank, by introducing the need to generate and sign additional documentation for the issuance of a payment card, necessary for payment service users to perform transactions at points of sale or online stores abroad.

**6. Amendments to the laws in the section referring to documents submitted to clients when opening a current account**

Within this recommendation, we would like to once again emphasise the necessity to reconsider the need to have a large number of documents delivered to clients when opening a current account. More specifically, the large number of documents that are delivered to clients in the pre-contractual phase and the contractual phase, and on the occasion of opening an account, really is an issue for clients themselves in that it is difficult for them to understand which documents/information are of importance to them.

Practice has shown that the clients themselves complain, as they don't understand the need for such a large set of documentation. In line with the aforementioned, and aiming to protect and provide comprehensive information to the client, it would be desirable and more efficient to review regulations in this area so as to ensure full disclosure to clients while reducing the amount of documentation PSPs are required to provide clients. Given that in the previous year's document we provided certain recommendations, we find it imperative to repeat said here as well.

We propose that the section of the documentation provided to clients excludes the obligation to provide the Offer, in that the submittal of the Draft Opening an Account Agreement together with the General Business Regulations and the Price List of the PSP could be considered the Offer.

Further, a key amendment which would allow for full client disclosure is to introduce a new document to replace the document entitled: Overview of Services and Fees. Namely, a set of approx. 5-10 most common services should be prescribed, which are taken as assessment criteria for all banks for the observed period of one month and to allow banks to download this document from the NBS's website, with the obligation that said document be submitted to the client in the pre-agreement phase. The idea behind this document is to provide the average client with a one-page document that shows the total monthly fees for that particular set of services for every bank operating in Serbia. We believe that this would satisfy the regulator's desire for full disclosure to the client. An obstacle to this proposal is that the banks all have various package accounts available, however, in this modern technological age, it would be easy to set up the application to recognise which package is most favourable for the client, and which includes a particular set of chosen services.

We further recommend that a specific type of working group is formed relative to this area that would include representatives of the National Bank of Serbia as well as bank representatives. The main task of this working group would be to once again review the entire account opening process through mutual discussion and analysis and to make any potential amendments to regulations governing the volume of documentation that is required to be submitted.

## FIC RECOMMENDATIONS

- Automating the video identification process
- Issuing a qualified electronic certificate to natural persons without the need for them to do so in person
- Establishing an interrelated (joint) bank platform for information exchange in the payment account switching process
- Introducing e-bills of exchange for natural persons
- Amendment to Article 9, paragraph 2 of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions in the section on the existence of special client requests
- Amendment to the law in the section referring to documentation submitted to the client when opening a current account