

# PAYMENT SERVICES

1.33

## WHITE BOOK BALANCE SCORE CARD

Recommendations:	Introduced in the WB:	Significant progress	Certain progress	No progress
Automating the video identification process	2022		√	
Issuing a qualified electronic certificate to PIs without the need for them to do so in person	2023			√
Introducing e-bills of exchange for PIs	2019			√
Establishing an interrelated (joint) bank platform for information exchange in the payment account switching process	2023		√	
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 terms of regulations concerning payment services, the period following 2021 has been a time of stabilisation, as many reforms were implemented between 2014 and 2021. After the adoption of the Payment Services Law at the end of 2014, we experienced a period of significant regulatory activities aimed at creating a modern and digitalised payment services system. This encompasses not only the Payment Services Law and related bylaws but also a whole set of other regulations enacted by the National Assembly of the Republic of Serbia and other regulatory bodies (e.g., the Law on Electronic Documents, Electronic Identification and Trust Services in Electronic Business from 2017, the Law on the Protection of Financial Services Consumers for Distance Contracts from 2018, and the Decision on General Rules for the Execution of Instant Credit Transfers from 2017, including amendments).

This group of documents supports the implementation of both the Strategy for the Development of Digital Skills in the Republic of Serbia for the period 2020 to 2024 and the Strategy for the Development of the Information Society and Information Security for the period 2021 to 2026, both adopted by the Government of the Republic of Serbia as umbrella documents for the modernisation and digitalisation of society. Consequently, it is clear that significant progress has been made in recent years in improving, digitalising, and making payment services more accessible, as well as improving the protection of payment services users.

After a period of stabilisation, aligned with the ongoing reforms and modernisation of the payment system in the

Republic of Serbia, amendments to the Payment Services Law were adopted at the end of July. These amendments aim to enhance the security, efficiency, and reliability of payment services, aligning with European standards, specifically with the Payment Services Directive 2 (PSD2), as well as providing additional protection for users.

Some of the most significant changes include the introduction of the concept of open banking, which facilitates greater integration and interoperability between different payment service providers. The new Law introduces two innovative services: initiation of payment from an account at another bank, allowing users to perform transactions more easily and quickly and a comprehensive overview of account information in one place, contributing to better financial control and management. Additionally, the amendments set the basis for Serbia's accession to the Single Euro Payments Area (SEPA), which will further facilitate and expedite cross-border payments in euros.

Furthermore, the amendments introduce stricter security measures, including reliable customer authentication (SCA), which requires the use of at least two out of three elements: knowledge, possession, and inherence. These changes are expected to significantly improve the existing legal framework and enable further development and modernisation of payment services in Serbia.

In light of the above, the aim of this text is to analyse the results of previous recommendations and propose what further steps should be taken to improve payment services in the Republic of Serbia.

## POSITIVE DEVELOPMENTS

Regarding last year's recommendations, the following improvements have been made:

1. Automation of the video identification process – In terms of this recommendation, we note that there has been no additional regulatory activity leading to further automation of the video identification process. However, the adopted amendments to the Payment Services Law and the clear definition of strong customer authentication, provide room for reconsidering the possibility of further automation. In this regard, we can say that the amendments to the Payment Services Law have created an opportunity for this issue to be reconsidered, and that progress has been made in this area.
2. Issuing certificates for a qualified electronic signature without the need for the physical presence of an individual – Regarding this recommendation, we note that there has been no progress towards its fulfilment, and we hope that in the future, the possibility of issuing a qualified electronic certificate without physical presence will be reconsidered, both for the citizens of the Republic of Serbia and for potential foreign investors.
3. Introduction of electronic bill of exchange for individuals – We believe that certain progress has been made in this area, as the National Bank of Serbia has stated that in the next phase of the development of the Central Registry of E-Digital Bill of Exchanges, individuals who do not conduct business activities will be also included as issuers of e-bill of exchange. We fully understand the regulator's need to ensure the functionality and quality of the registry's operations in relation to legal entities and entrepreneurs, with the expectation that individuals will be included in a subsequent development phase.
4. Establishment of a joint banking platform for the exchange of information during the account switching process – Although a joint banking platform for the exchange of information during the account switching process has not yet been established, the amendments to the Payment Services Law introduce the concept of open banking, with the expectation that this will further encourage payment service providers to create such a platform.
5. Amendment of Article 9, Paragraph 2 of the Law on Interbank Fees and Special Rules of Business for Payment Transactions Based on Payment Cards concerning the existence of a specific client request – In this case, we believe there has been no progress, considering that the regulation has not been amended in line with the proposal. Given our view that the banking documentation that clients are required to sign is excessive, we will no longer emphasise this recommendation, but instead, in the following text, we will try to explain the general need to reduce the volume of documentation.
6. Amendment of regulations regarding the documentation provided to clients when opening a current account – Since there was no regulatory activity in this area during the previous period, we can note that no significant changes have been made towards fulfilling this recommendation. However, the proposed changes to the Payment Services Law create an opportunity to once again reconsider the need for a large number of documents in this area.

## REMAINING ISSUES

### 1. Automation of the video identification process

As in previous years, we would like to highlight the importance of automating the video identification process for opening client accounts. Despite the inherent risks, we firmly believe that automating this process would bring significant benefits to both clients and payment service providers that is greater than the risk of fraud associated with the automation of the video identification process. Expressing satisfaction with the introduction of the video identification process in previous years and enabling citizens and businesses to open accounts significantly more easily, we believe it would be desirable to reconsider the potential elimination of the need for the presence of a representative of the obligated party, who conducts the video identification process on behalf of and for the obligated party, but to have the verification conducted by software. The existing process, which indeed represents an easier account opening, still has several technical limitations regarding the client's environment (sound, light), internet signal strength, and understanding the instructions from the agent (visual presentation of the identification document, rotation, covering with a finger, etc.). We believe that by identifying clients through biometric data (face recognition), these technical limitations could be overcome, the

process itself could be expedited, and security would not be compromised.

Accordingly, our proposal is to enable video identification using various software solutions that will identify the client through biometric data. While we support the view that human interaction is sometimes necessary for verifying all information, in a modern society where technology advances daily, we believe we should place our trust in it. To address potential security risks, the proposal is to introduce an additional method of authentication alongside video identification (if it is performed automatically). The amendments to the Payment Services Law introduce strong customer authentication, and it would be useful to consider introducing another form of verification in parallel with the implementation of automatic video identification to achieve complete security. We additionally emphasise our support for any pilot project on this topic, as well as any other proposal that would allow for further simplification of the client account opening process (e.g., conducting video identification by another state body with the possibility for banks to retrieve the data).

**2. Issuance of certificates for qualified electronic signatures without the need for the physical presence of an individual**

This recommendation is not directly related to the provision of payment services; however, it can significantly simplify the process of establishing a business relationship with the client. Currently, under the existing arrangement, for an individual to obtain a qualified electronic certificate, it is necessary for them to physically visit one of the certification bodies (Post of Serbia, the Serbian Chamber of Commerce, the Ministry of the Interior of the Republic of Serbia, etc.). We believe that this procedure is one of the main reasons why the issuance of certificates did not take root in practice and why a significantly larger number of them has not been issued to date. Additionally, the requirement for individuals to personally collect their certificates significantly demotivates foreign investors and managers who are compelled to travel to Serbia solely for this reason. Accordingly, we believe that the regulations regarding the method of issuing certificates should be amended.

Our position is that it is essential to allow for the issuance of certificates for qualified electronic signatures without the need for individuals to physically visit the certification body. We recommend that regulators introduce the possi-

bility for certificates for qualified electronic signatures to be issued through the process of video identification by the certification body, or through the verification of the client's biometric data, or the recognition of electronic signatures issued in EU countries. Although Article 40 of the Law on Electronic Documents, Electronic Identification, and Trust Services in Electronic Business ("Official Gazette of RS", No. 94/2017) states that a qualified trust service provided by a foreign trust service provider is reciprocally recognised as a domestic trust service in the country of the foreign service provider, as regulated by a confirmed international agreement, the Republic of Serbia has currently signed agreements only with Montenegro and North Macedonia.

This is related to payment services in that banks could then open accounts for clients without the need for video identification, using the fact that the client has already been identified by the certification body. Furthermore, such a client would possess a qualified electronic signature and would be able to obtain any bank product without the need to visit the bank in person. This would fully complete the remote contracting process and enable seamless processing of various products for clients online.

**3. Establishment of a joint platform for banks to exchange information during the account switching process**

The joint platform for banks to facilitate the refinancing of client loans began operating in 2022 and based on the banks' experiences, the process works excellently. It has significantly streamlined communication and the loan refinancing process from both the client's and the banks' perspectives. With amendments to the payment services regulations from 2018, the procedure of the account switching process for payment service users was defined and simplified. However, current practice shows that the process has not taken off significantly, and exchanging data via email can cause issues with tracking and actively responding to requests.

To ensure the account switching process is more widely adopted in practice, the authors of this text believe that it would be necessary to introduce a platform for the account switching process, similar to the one used for loan refinancing. The introduction of this platform would not only accelerate the account switching process but also facilitate communication between banks during its implementation. The amendments to the Law introduce the concept of open banking, which involves greater interoperability between

different banks and payment service providers. This could ease the creation of platforms that allow for easier information exchange and smoother account switching processes. Ultimately, we believe this would also contribute to increased competition in the banking sector, which could positively impact clients as users of payment services.

#### **4. Introduction of electronic promissory notes for individuals**

In accordance with the fact that the Central Registry of E-Digital bill of exchange for legal entities and entrepreneurs is expected to start operating soon, the authors of this text believe that allowing individuals to issue e-bill of exchange would be another step in the comprehensive process of digitising payment services. Namely, individuals as users of various banking products are often obliged to issue bill of exchange when concluding contracts. Additionally, when granting loans to legal entities, individuals who are owners often act as guarantors, which means they will still be required to submit original bill of exchange to the bank, even though the entire process has been digitised.

Accordingly, it would be much more convenient for both banks and clients to allow individuals to issue an electronic bill of exchange. This is primarily because banks are increasingly using the option of concluding loan agreements remotely in accordance with the provisions of the Law on the Protection of Financial Services Consumers for Distance Contracts. Legally speaking, these contracts do not have security, as clients are often not even required to provide a promissory note. Therefore, if a contract is concluded remotely, it is not practical to require the client to visit the bank's premises to issue a bill of exchange. Given that individuals are a significantly more sensitive category of payment service users compared to legal entities and entrepreneurs, and that they require additional protection, we consider this a compromise solution.

The fact is that the function of the Central Registry of E-Bill of Exchange is to enable the forced execution of bill of exchange without the need to submit an enforcement proposal to the competent court. It is undeniable that allowing this for individuals at this moment would expose them to an increased risk of forced collection. Therefore, we propose enabling individuals to issue e-bill of exchange through the Central Registry of E-Bill of Exchange, but without the possibility for the creditor to activate them without submitting an enforcement proposal to the competent court. Such an

issued e-bill of exchange could only be collected by submitting an enforcement proposal to the competent court and with confirmation from the Central Registry of E-bill of exchange that it has been issued and registered. We believe that the proposed regulation of e-bill of exchange regarding individuals would facilitate access to loans and other banking products without exposing them to the risk of activation outside of court decisions and would also simplify the process of concluding loan agreements with legal entities.

#### **5. Amendments of regulations to reduce the volume of documentation in banking operations**

Banking operations are already burdened with a large volume of documents, which presents a significant problem for clients, who often cannot understand which information is of critical importance to them. Practice shows that clients complain about the extensive documentation they receive during the pre-contractual and contractual phases when opening a current account. To protect clients and ensure they are fully informed, it would be desirable and more efficient to reduce the number of documents provided, enabling clients to be more clearly and concisely informed. As part of this recommendation, we would once again like to emphasise the need to reconsider the volume of documentation provided to clients when opening a current account.

We recommend excluding the obligation to provide an offer, as delivering a Draft Agreement for opening an account, along with the General Terms of Business and the Price List of the payment service provider, could be considered an offer. Furthermore, a key change that would ensure full transparency for clients is the introduction of a new document to replace the "Overview of Services and Fees." It should specify a set of 5-10 of the most common services used as criteria for assessment across all banks over a one-month period, and the National Bank of Serbia would allow banks to download this document from its website, with the obligation to provide it to clients in the pre-contractual phase. The idea of this document is to provide the average client with an A4-sized one-page summary of the total monthly fee for that set of services at each bank in the Republic of Serbia. This would fulfil the regulator's aim of ensuring full transparency for clients. Although different banks offer different account packages, modern technologies enable an application to identify which package is most favourable for the client and contains the selected set of services.

In addition, we believe that the recommendation from last year should be repeated, as no changes have been made to implement it. We propose amending the Law on Interbank Fees and Special Rules of Business for Payment Transactions Based on Payment Cards so that the issuance of cards, for which the processing of payment transaction orders does not take place in the Republic of Serbia, is not conditional upon a specific prior request from the payment service user. The authors of this text are fully aware of the importance of Article 9, Paragraph 2 of the Law on Interbank Fees and Special Rules of Business for Payment Transactions Based on Payment Cards. Therefore, we once again propose deleting the part of the paragraph that states that a card, for which the processing of payment transactions does not take place in the Republic of Serbia, can only be issued upon a specific written request from the payment service user.

The proposal is for Article 9, Paragraph 2 of the Law to read: "A payment card that can be used to initiate payment transactions from a current account and for which the process-

ing of transactions under Paragraph 1 of this Article does not take place in the Republic of Serbia, can only be issued if the user has already been issued or is being issued a payment card under Paragraph 1 of this Article."

This proposed amendment in no way undermines the purpose and objective of introducing this provision into our legal system. On the other hand, by eliminating the need for a specific written request, the Bank would reduce unnecessary administrative work, such as creating and signing additional documentation for issuing payment cards, which payment service users need to carry out their transactions at points of sale or online stores abroad.

We believe it would be useful to form a working group that would include representatives from the National Bank of Serbia and banks. Through joint discussion and analysis, this working group could re-examine the entire account opening process and consider possible regulatory changes concerning the volume of documentation provided to clients

### FIC RECOMMENDATIONS

- Automation of the video identification process
- Issuance of certificates for qualified electronic signatures without the need for the physical presence of an individual.
- Establishment of a joint banking platform for the exchange of information during the account switching process.
- Introduction of electronic promissory notes for individuals.
- Amendment of regulations to reduce the volume of documentation in banking operations.