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## Payment Operations



The main activities in the area of payment operations in 2000 were focused on the further implementation of payment system reform in the country, on the improvement of the existing payment system in the country and on the supervision of institutions authorized to perform payment transactions.

At its 58th session held on January 4, 1995, the Council of the Croatian National Bank set down the basic foundations for the country's new payment system and defined changes which had to be introduced relating to:

- ❑ the development of the new payment system infrastructure;
- ❑ the transfer of bank and savings bank accounts from the Institute for Payment Transactions to the Croatian National Bank; and
- ❑ the transfer of business entity and natural person accounts from the Institute for Payment Transactions to the banks.

These changes are aimed at minimizing system risk in payment operations, achieving the better liquidity management of banks and their customers as well as the better liquidity management of the entire banking and financial system, breaking up the monopoly on payment operations, establishing a modern system of payment operations, based on recommendations on payment operations given by the EMU and compatible with the systems found in more developed countries.

The reform was to be implemented gradually to enable the safe functioning of the payment system, but also because the present Payment System Law (official gazette *Narodne novine*, No. 27/1993 and 97/2000) allows only certain changes. So far several changes have been implemented.

## 6.1 New Payment System Infrastructure

### 6.1.1 Croatian Large Value Payment System (CLVPS)

The Croatian Large Value Payment System became operative on April 6, 1999. This was the first basic step in the implementation of the payment system reform. The CLVPS is a system that allows interbank payment transactions through the accounts of banks and savings banks at the Croatian National Bank in real time and on the gross settlement principle.

Participants in the CLVPS are the Croatian National Bank, banks, and savings banks. For the time being CLVPS is used for payment transactions between banks/savings banks, between the Croatian National Bank and banks and savings banks and for a small number of payment transactions between participants in the payment system whose accounts are held in banks and savings banks. Payments through the CLVPS are expected to increase significantly once the transfer of business entity accounts to the banks is completed, since payment transactions between business entities will make up part of the system.

The CLVPS fully annuls the system risk in the execution of payments. Payment is executed only if the payer bank has sufficient funds for its execution in its account.

## 6.1.2 National Clearing System (NCS)

In an effort to continue its payment system reform, the Council of the Croatian National Bank reached a decision in December 2000 to launch the National Clearing System, as a final step in providing the infrastructure needed to reach the reform's ultimate goal, which is to transfer payment system transactions and the accounts of business entities from the Institute for Payment Transactions to the banks. The NCS became operative on February 5, 2001. It is an interbank, small payment system, or a system for the settlement of all interbanks payment transactions which are not conducted through the CLVPS.

The basic characteristics of this system include:

- ❑ Participants in settlements through the NCS are the Croatian National Bank, banks and savings banks. Banks/savings banks post their payment transactions or the payment transactions of customers whose accounts are maintained by a bank/ a savings bank against their clearing accounts in the NCS for settlement. Payment transactions may also be submitted to the NCS for settlement in a bank's/savings bank's clearing account by the Institute for Payment Transactions, an institution which provides payment transaction services in the name and for the account of a bank/savings bank, as well as by a participant in the payment system on the basis of a special authorization issued by its depository institution.
- ❑ Settlements are performed on a net multilateral principle. Net positions for each bank/savings bank are calculated in relation to the others, i.e. in relation to the system as a whole. Thus calculated, the clearing account's net position is transferred at the end of the day from the clearing account of a bank/savings bank with the NCS to its settlement account with the Croatian National Bank for final settlement.
- ❑ Settlement is made up to a defined limit. Since the limit is guaranteed, for all payments through the NCS there is no system risk involved in the settlement in a bank's/savings bank's account.
- ❑ As a system of interbank payments, payment transactions are not conducted in real time, but in cycles during the day.

Ever since the NCS was put into operation, it has been used for the interbank payments of all banks and savings banks and of their customers whose accounts are kept in banks/savings banks and in the Institute for Payment Transactions.

### 6.1.3 Unified Register of the Accounts of Business Entities

The Unified Register of the Accounts of Business Entities is the essential infrastructure for the transfer of business entity accounts to the banks. The Register keeps records of the accounts of all business entities in the country. By means of the identification number assigned to each business entity by the Central Bureau of Statistics, it is possible to locate every account opened by the entity with institutions authorized to perform payment operations. The Unified Register of the Accounts of Business Entities is located within the Croatian National Bank.

## 6.2 Transfer of Bank and Savings Bank Accounts from the Institute for Payment Transactions to the Croatian National Bank

The accounts of all banks and savings banks have been transferred from the Institute for Payment Transactions to the Croatian National Bank. For banks this means more efficient liquidity management and for the Croatian National Bank this means more efficient liquidity management of the entire banking system.

Since other changes in the payment system were not made (the transaction accounts of business entities and some natural persons continue to be maintained by the Institute for Payment Transactions), banks and savings banks keep a daily transit account with the Institute for Payment Transactions which is used for the supply of banks/savings banks with cash, for registering payments in and out across the accounts of banks/sav-

ings banks with the Institute for Payment Transactions and in the Croatian Post and for the settlement of cash payment transactions across accounts of depositors with the Institute for Payment Transactions.

## 6.3 The Transfer of Payment Operations related to Business Entity Accounts to the Banks

All the preparations have been made for the transfer of payment operations related to business entity accounts to the banks, in line with the existing legal framework. For this purpose, the relevant by-laws have been adopted regulating the manner of keeping accounts and keeping a register of accounts in banks and the functioning of the Unified Register of the Accounts of Business Entities.

With the required infrastructure also being established, all preconditions, both legal and operative, have been fulfilled for the transfer of payment operations related to business entity accounts to the banks in line with the National Payment System Law.

All the previously mentioned changes were made within the framework of the current National Payment System Law, which does not allow further changes. For a full reform to be carried out, a new Law has to be adopted. The current legislation does not allow government accounts for payment operations to be transferred to the Croatian National Bank, nor does it allow the accounts of business entities in state or majority-state ownership to be transferred to the banks. These operations, under the current legislation, fall within the exclusive jurisdiction of the Institute for Payment Transactions.

During 2000, efforts were also made to improve the existing payment system in the country. For this purpose, amendments to the National Payment System Law were adopted, a number of regulations governing payment operations enacted and some technological solutions found to improve the execution of payments.

Some of the changes include:

- ❑ The legal requirement for payment notification was cancelled. An authorized institution executes payment orders on the day it receives them, provided these orders are issued in line with the regulations and if there are sufficient funds to cover the payments.

- An institution of “double cover” has been prescribed. This is a requirement which has to be met for the execution of a payment consisting of sufficient cover in the account of the payer and in the account of his depository institution. Supervision of the cover in the payer’s accounts is carried out by an authorized institution for payment transactions, which manages the payer’s account. Supervision of the cover in the accounts of the depository institution is secured through the system of interbank payment settlements.

Control over the payment operations of authorized institutions was conducted by means of on-site controls and by means of constant contact and cooperation with the authorized institutions.

On-site supervision of payment operations was carried out in 12 branches of the Institute for Payment Transactions and in 11 branches of the Croatian Post.

