

Annual report  
2003



CROATIAN NATIONAL BANK

# Payment Operations

# 4

## 4.1 Cashless Payment System

The transfer of business entities' accounts from FINA to banks and the associated adjustment of the structure of business entities' accounts, as the most demanding part of the payment system reform, saw their completion and implementation in 2002. In 2003, the terms and the manner of payment transactions between banks and their clients were given their final form. The same year also saw the launching of a growing number of new banking services, such as e-payments, ATMs for business entities, and prepaid cards.

In 2003, the CNB issued approvals for conducting payment transactions to eleven savings and loan co-operatives, thus allowing them to manage accounts on behalf of their members and execute payment transactions across these accounts. A National Payment System Committee was set up which discussed, at its four sessions, issues related to domestic payment system transactions. Efforts were made to further modernise the Croatian Large Value Payment System in accordance with the standard interbank system requirements. Communication channels for the transfer of payment transactions between the CNB and cash supply centres have been upgraded with program solutions that ensure automated processing of payment transactions in real time, from the receipt of the payment order to the moment when the account of a bank with the CNB is credited with cash. After the work on the opening of business entities' accounts in accordance with their prescribed structure was completed, adjustments were made to household accounts in accordance with the prescribed structure.

### 4.1.1 Introduction of New Technological Solutions and an Overview of Payments Executed through Interbank Systems

With the aim of achieving technical and technological improvement and adjustment with international standards in the area of interbank system development, a new version of the Croatian Large Value Payment System was installed, new standards were put in place for the users of the SWIFT technology and a licence was obtained for the *SWIFT Alliance Access Workstation*. All the necessary actions were taken for the introduction of *SWIFTNet* as a new technology.

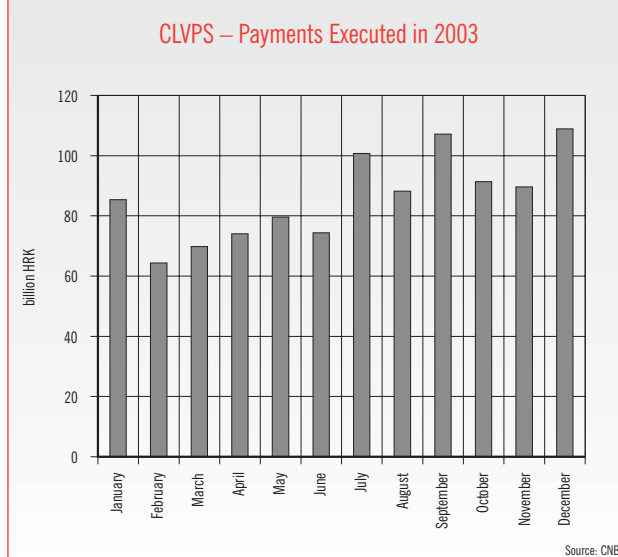
The settlement of payment transactions through the Croatian Large Value Payment System and the National Clearing System on each business day throughout the year was conducted in accordance with the rules defining interbank system settlement, without any larger deviations as regards the time of settlement prescribed by payment execution schedule. No problems were detected that could in any way compromise the stability and safety of interbank systems as the basic payment transaction infrastructure in the country.

**Table 4.1** CLVPS – Payments Executed in 2003

Month	CLVPS – total		Average amount per payment transaction c = (a/b)
	Transaction amount	Transaction number	
	a	b	
January	85,423,826,292	7,821	10,922,366
February	64,396,179,555	7,326	8,790,087
March	69,756,997,844	7,987	8,733,817
April	73,998,919,969	8,442	8,765,567
May	79,636,251,949	8,306	9,587,798
June	74,389,495,639	7,993	9,306,830
July	100,709,162,625	10,717	9,397,141
August	88,188,194,295	9,194	9,591,929
September	107,200,558,882	10,787	9,937,940
October	91,370,080,696	9,905	9,224,642
November	89,589,057,339	8,634	10,376,310
December	108,838,889,998	10,053	10,826,509
<b>Total</b>	<b>1,033,497,615,081</b>	<b>107,165</b>	<b>9,643,985</b>
<b>Average</b>	<b>86,124,801,257</b>	<b>8,930</b>	<b>9,643,985</b>

Source: CNB.

Figure 4.1



Source: CNB.

**Table 4.2** CLVPS – Payments Executed

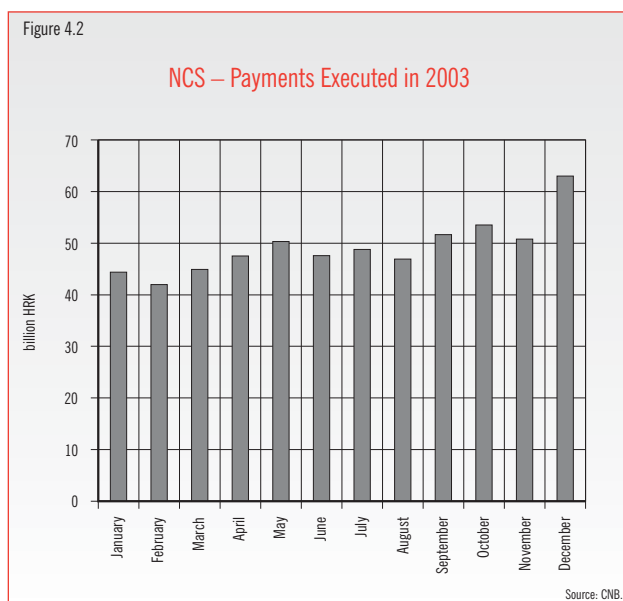
Year	CLVPS		Average amount per payment transaction
	Transaction amount	Transaction number	
Total in 2002	903,749,342,511	103,803	8,706,389
Total in 2003	1,033,497,615,081	107,165	9,643,985

Source: CNB.

**Table 4.3 NCS – Payments Executed in 2003**

Month	NCS – total		Average amount per payment transaction c = (a/b)
	Transaction amount	Transaction number	
	a	b	
January	44,378,226,884.26	8,096,399	5,481
February	42,004,188,841.43	8,069,113	5,206
March	44,919,898,780.50	8,820,589	5,093
April	47,501,892,280.52	9,199,055	5,164
May	50,291,252,517.58	9,298,986	5,408
June	47,608,520,377.92	9,014,487	5,281
July	48,794,624,327.52	10,337,952	4,720
August	46,927,733,381.03	8,688,532	5,401
September	51,681,474,886.57	9,608,646	5,379
October	53,487,573,520.26	9,807,043	5,454
November	50,808,014,684.13	8,861,947	5,733
December	63,024,150,006.81	10,221,141	6,166
<b>Total</b>	<b>591,427,550,489</b>	<b>110,023,890</b>	<b>5,375</b>
<b>Average</b>	<b>49,285,629,207</b>	<b>9,168,658</b>	<b>5,375</b>

Source: CNB.



**Table 4.4 NCS – Payments Executed**

Year	NCS		Average amount per payment transaction
	Transaction amount	Transaction number	
Total in 2002	557,975,849,272	99,087,556	5,631
Total in 2003	591,427,550,489	110,023,890	5,375

Source: CNB.

## 4.1.2 Receipt and Processing of Savings and Loan Co-operatives' Applications for Authorisations to Conduct Payment Transactions

During 2003, twelve savings and loan co-operatives applied for authorisations to conduct payment transactions on behalf of their members. After reviewing the submitted applications, authorisations were granted to 11 savings and loan co-operatives, while the authorisation process for one application is still underway. At first, all applications were found to be incomplete, so the applicants were asked to make the necessary amendments. As provided by the Decision on the Terms and the Manner of Conducting Payment Transactions in Savings and Loan Co-operatives (official gazette *Narodne novine*, No. 150/2002), the Ministry of Finance was asked to give its opinion on the business history of each savings and loan co-operative. On the basis of issued authorisation, each savings and loan co-operative was assigned a number in the domestic payment system.

## 4.1.3 Unified Register of Business Entities' Accounts (URBEA)

As shown by URBEA data as at 31 December 2003, the total number of registered business entities in the Republic of Croatia was 245,484, of which 124,923 were legal persons (50.89%), 110,253 (44.91%) were natural persons carrying out a registered activity (craftsmen) and 10,308 (4.20%) were free-lancers.

Business entities had a total of 296,829 regular operating accounts in banks, or 1.21 accounts on average per each business entity.

Of the total of 245,484 business entities at end-2003, 197,597 (80.49%) were liquid, while 47,887 (19.51%) of them had registered arrears (blocked accounts).

Of the total number of regular operating accounts, 53,255 (17.94%) were blocked (registered arrears), while 243,574 (82.06%) business entities' accounts were liquid.

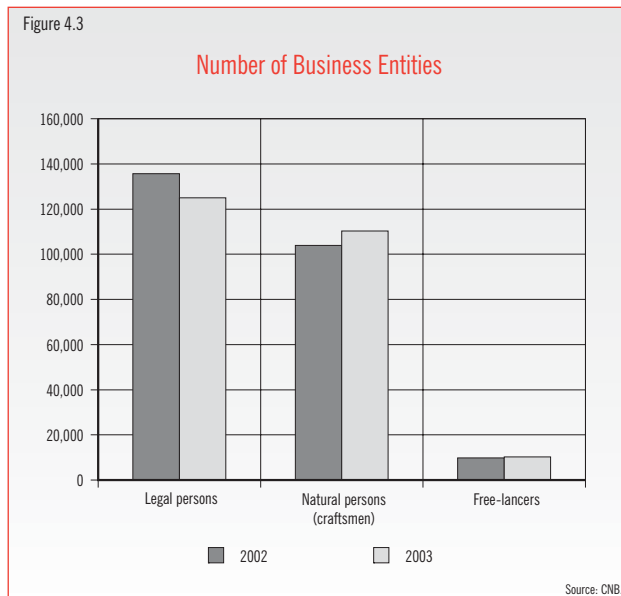
A total of 490 regular operating accounts were registered with the URBEA as at 31 December 2003, opened with savings and loan co-operatives authorised by the CNB to conduct payment transactions on behalf of their members.

Tables and figures shown below present URBEA data as at 31 December 2002 and 31 December 2003.

**Table 4.5 Number of Business Entities**

Total	Number		Share	
	2002	2003	2002	2003
1. Business entities	249,254	245,484	100.00	100.00
1.1. Legal persons	135,648	124,923	54.42	50.89
1.2. Natural persons (craftsmen)	103,859	110,253	41.67	44.91
1.3. Free-lancers	9,747	10,308	3.91	4.20

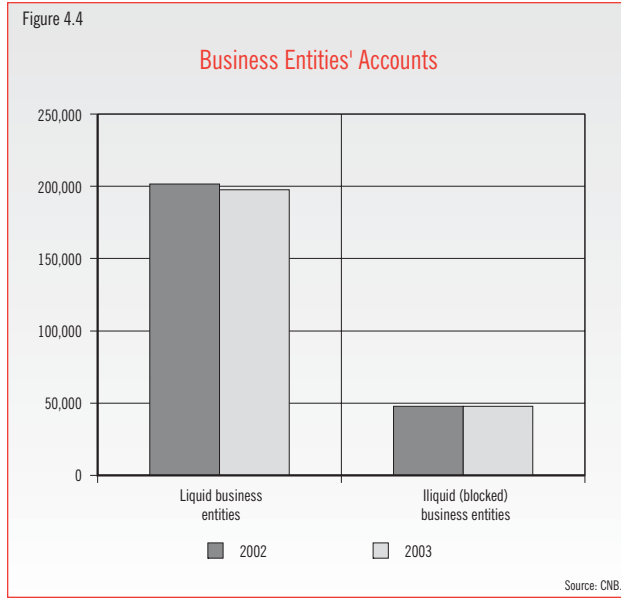
Source: CNB.



**Table 4.6 Business Entities' Accounts**

Total	Number		Share	
	2002	2003	2002	2003
1. Business entities	249,254	245,484	100.00	100.00
1.1. Liquid business entities	201,603	197,597	80.88	80.49
1.2. Illiquid (blocked) business entities	47,651	47,887	19.12	19.51

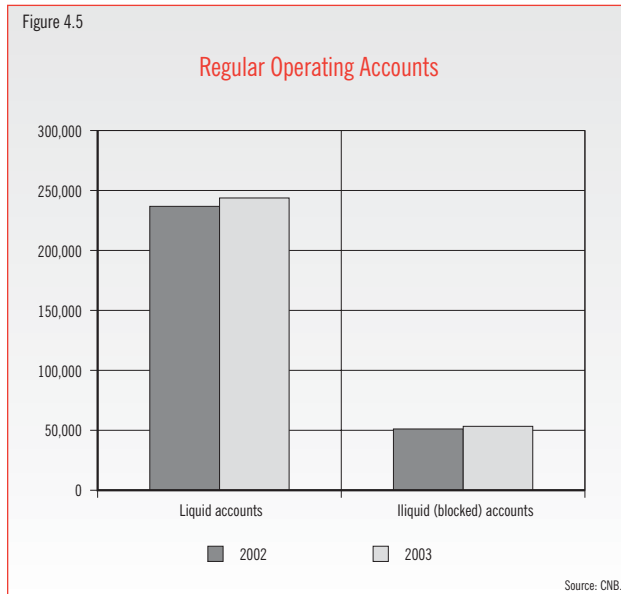
Source: CNB.



**Table 4.7 Regular Operating Accounts**

Total	Number	Share	Number	Share
	2002		2003	
1. Opened accounts	287,901	100.00	296,829	100.00
1.1. Liquid accounts	236,780	82.24	243,574	82.06
1.2. Illiquid (blocked) accounts	51,121	17.76	53,255	17.94

Source: CNB.



**Table 4.8 Average Number of Regular Operating Accounts per Business Entity**

	2002	2003
Average number of accounts per business entity	1.16	1.21

Source: CNB.

## 4.1.4 National Payment System Committee

The National Payment System Committee was set up by the Croatian National Bank, the Ministry of Finance, the Croatian Chamber of Commerce (its Banking and Finance Department) and the Croatian Banking Association on 24 February 2003 on the basis of a document entitled the Agreement Establishing the National Payment System Committee. The purpose of this Committee was to establish interinstitutional co-operation in the area of domestic payment system and to promote its further development. At its four sessions, the Committee discussed various unresolved issues involving broader aspects of the payment system. An agreement was reached on the common procedures to be followed to ensure a uniform application of the legislation in the area of payment transactions. The Committee also examined the possibility of co-operation between the relevant law-making bodies and launched an initiative for resolving the issue of the future organisation of the National Clearing System. The issues discussed also included the question of the collection of bills of exchange in the payment system and different interpretations by banks of the provisions of the Default Interest Rate Act. A possible model for the future organisation of cash supply centres in the country was also presented at one of the sessions. Within its jurisdiction, the National Payment System Committee adopted several decisions laying down recommendations for the procedures to be followed when dealing with unresolved issues.

### Further Activities

The establishment of a Council of a group of users of the National Clearing System was initiated with the aim of developing mutual co-operation between banks as participants in the clearing system and major users of the NCS and the CNB as the domestic payment system regulator. The NCS user group is expected to promote an on-going technical and technological development and increased functionality of the NCS, in accordance with the needs of the system's users, by establishing rules that would govern their work and by providing basic guidelines for the future development of the domestic payment system.

One of the activities related to the system's development and its information upgrading involves collecting statistical data regarding the payment system that will enable a follow up of developments in its instruments, a maximum use of domestic payment system capacities, the system's development and its comparability with payment systems around the world. This will ensure the availability of information required in terms of appropriate measures that have to be taken to ensure future development of the payment system. The collection and disclosure of statistical data regarding the payment system is a standard practice around the world. The data collected will be harmonised with the recommendations provided by the Bank for International Settlements. The collected statistical data regarding the payment system will be incorporated in a document issued by the European Central Bank entitled *Payment and Securities Settlement System in the Accession Countries (Blue Book)*, intended for EU candidate countries, a variant of a docu-

ment entitled *Payment and Securities Settlement System in the European Union (Blue Book)* intended for EU member countries. The collection of data is scheduled to begin in the second half of 2004.

The preparations for the survey that should help the CNB examine user perception of the payment system reform and user satisfaction as regards the system's functioning are in their final form. The survey will include banks as bodies responsible for the domestic payment system and legal persons (small, medium and large companies) and natural persons carrying out a registered activity (craftsmen). The survey, based on a representative sample and a questionnaire prepared by the CNB will be conducted by an independent company to provide a comprehensive picture of the functioning of the domestic payment system.

The CNB plans to commence imposing tariffs on banks for their use of payment execution services through the CLVPS. The CNB will also define the tariff for the CLVPS services on a non-profit principle for the coverage of costs related to the functioning, maintenance, and the development of the CLVPS that will have to be paid from the income realised from tariffs paid for CLVPS services. This type of tariff is commonly used in Europe.