



Payment system oversight

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The CNB, in exercising oversight of payment institutions, electronic money institutions and payment systems, contributes to the safety and soundness of the Croatian financial system.

In establishing the frequency and the scope of the supervision of payment and electronic money institutions, the CNB takes into account the type, scope and complexity of the activities carried out by these institutions and the risks they are exposed to in their operation. Other supervisory authorities may also exercise supervision of the operation of institutions in accordance with their powers under law, and within their competence. Where another supervisory authority is competent for the supervision of an institution, the CNB may participate in the supervision of that institution with the respective supervisory authority, or may require from that supervisory authority the data necessary for the supervision of the institution in question.

In addition to exercising supervision of payment institutions and electronic money institutions, the CNB also exercises payment systems oversight and in establishing the methodology, frequency and intensity of payment systems oversight, also takes into account the nature, scope and complexity of operation of payment systems with respect to the types of participants, payment transactions by type of payment services cleared and/or settled, and the risk exposure of payment systems, taking into account in particular the exposure to systemic risk. In exercising payment systems oversight, the CNB cooperates with other competent authorities in the Republic of Croatia and with competent authorities of other countries.

Regulations and oversight concerning the national payment system are within the competence of the CNB, and are governed by the Payment System Act and Electronic Money Act. Pursuant to the provisions of the above acts, the CNB adopts subordinate legislation governing their implementation.

Oversight of payment institutions

The CNB exercises oversight of payment institutions by collecting and analysing reports and information and ongoing monitoring of operation of payment institutions, carrying out on-site examinations of payment institutions' operation and imposes supervisory measures.

The regulations of the Republic of Croatia are fully aligned with the legislative frameworks of the European Union, which was done through the implementation of all relevant legislative provisions. One of the acts adopted in this procedure is the Payment System Act, which contains provisions that are in compliance with Directive 2007/64/EC on payment services in the internal market. This Act governs payment operations, i.e. payment services, payment service providers, obligations of payment service providers to inform payment service users about the conditions for the provision of and about provided payment services, as well as other rights and obligations in relation to the provision and use of payment services, transaction accounts and the execution of payment transactions among credit institutions, the establishment, operation and supervision of payment institutions and the establishment, operation and supervision of payment systems.

Payment services are defined as the following services provided by payment service providers as their activity:

1. services enabling cash to be placed on a payment account as well as all the operations required for operating a payment account;
2. services enabling cash withdrawals from a payment account, as well as all the operations required for operating a payment account;
3. execution of payment transactions, including transfers of funds to a payment account with the user's payment service provider or with another payment service provider;
4. execution of payment transactions where the funds are covered by a credit line for a payment service user;
5. issuing and/or acquiring of payment instruments;
6. money remittance; and
7. execution of payment transactions where the consent of the payer to execute a payment transaction is given by means of any telecommunication, digital or IT device and the payment is made to the telecommunication, IT system or network operator, acting only as an intermediary between the payment service user and the supplier of goods and services.

Payment service providers primarily include banks, payment institutions and other payment service providers in compliance with legislative regulations.

In addition to banks, which were granted the authorisation for the provision of payment services in compliance with the Credit Institutions Act, payment services may be provided by corporates, i.e. payment institutions on the basis of the authorisation of the CNB. Also, on the basis of the authorisation to provide payment services, payment institutions may provide payment services and/or perform other economic activities in compliance with regulations (hybrid payment institutions).

In order to obtain the above mentioned authorisation, corporates that wish to engage in the provision of payment services must meet the requirements with regard to the amount of own funds, safeguard the payment service users' funds and other requirements prescribed by law, which are similar to the requirements of electronic money institutions.

Legislative regulations enable payment institutions with the authorisation by the competent regulator of EU member states to provide their services in the territory of the Republic of Croatia (passporting), which enables them the cross-border provision of payment services.

The above institutions may provide their services in the Republic of Croatia in one of the following ways:

- by exercising the right of establishment and through a branch or an agent, or
- by exercising the freedom to provide services, when providing services directly.

The CNB [keeps records of payment institutions](#) in compliance with the Payment System Act, and publishes the [list of payment institutions from other member states](#) on its website for which, in compliance with the procedure prescribed by law, it has received the notification of the intended provision of payment services in the Republic of Croatia.

Oversight of electronic money institutions

The CNB exercises oversight of electronic money institutions by collecting and analysing reports and information that electronic money institutions are required to submit to the CNB and ongoing monitoring of their operation, by carrying out on-site examinations of the operation of electronic money institutions, all their branches, third natural or legal persons through which they carry out the distribution and redemption of electronic money, agents through which they provide payment services and outsourcing

service providers and by imposing supervisory measures.

In the process of alignment with the EU legislation, the Electronic Money Act was adopted, which contains provisions that are consistent with the Directive 2009/110/EC on the taking up, pursuit and prudential supervision of the business of electronic money institutions. This Act governs electronic money and electronic money issuers, the issuance and redemption of electronic money, conditions for the establishment, operation and dissolution of electronic money institutions having their head office in the Republic of Croatia, including electronic money institutions under exemption, and the prudential supervision of their operation and conditions under which electronic money institutions having their head office outside the Republic of Croatia may operate in the Republic of Croatia.

Electronic money is defined as electronically, including magnetically, stored monetary value, which is issued upon receipt of funds for the purpose of making payment transactions in terms of the law governing payment transactions, and which is accepted by a natural or legal person other than the electronic money issuer, representing a claim on the issuer.

Simplified, electronic money is a replacement for cash (banknotes and coins), which is stored on a payment instrument (e.g. on a card with a chip) intended for electronic payment, i.e., the execution of payment transactions.

In addition to banks, which were granted authorisation to issue electronic money in compliance with the Credit Institutions Act, electronic money in the territory of the Republic of Croatia may be issued by corporates, i.e. electronic money institutions on the basis of the authorisation of the CNB. Based on the authorisation, an electronic money institution may provide payment services that are linked to the issuance of electronic money. An authorisation may also contain authorisation to provide one or several payment services that are not linked to the issuance of electronic money. Also, in addition to the issuance of electronic money, electronic money institutions may also provide payment services and/or perform other economic activities (hybrid electronic money institutions).

In order to obtain the above mentioned authorisation, corporates that wish to engage in the issuance of electronic money must meet the requirements with regard to the amount of own funds, safeguarding the electronic money holders' funds and other requirements prescribed by law, which are similar to the requirements of payment institutions.

In addition, regulations enable electronic money institutions with authorisation by the competent regulator of EU member states to provide their services in the territory of the Republic of Croatia (passporting), which enables them the cross-border issuance of electronic money and/or the provision of payment services.

The above institutions may provide their services in the Republic of Croatia in one of the following ways:

- by exercising the right of establishment, i.e., through a branch or an agent, or
- by exercising the freedom to provide services, when providing services directly.

The CNB keeps [records of electronic money institutions](#) in compliance with the Electronic Money Act, and publishes the [list of electronic money institutions from other member states](#) on its website for which, in compliance with the procedure prescribed by law, it has received the notification of the intended provision of services in the Republic of Croatia.

Oversight of payment systems

The payment systems oversight is the verification of whether a payment system operates in accordance with the provisions of laws and subordinate legislation, whether it functions in a safe and sound manner and whether access to the payment system has been ensured in the prescribed manner.

In the implementation of the EU legislation, the Payment System Act was adopted, which contains

provisions that are in compliance with Directive 2007/64/EC on payment services in the internal market. The Payment System Act also governs the establishment, operation and supervision of payment systems.

The payment system is a funds transfer system with formal and standardised arrangements and common rules for the processing, clearing and/or settlement of payment transactions. It is operated by a payment system operator.

A payment system operator may be:

- a payment institution having a head office in the Republic of Croatia;
- a credit institution having its head office in the Republic of Croatia;
- an electronic money institution having a head office in the Republic of Croatia;
- another legal person having its head office in the Republic of Croatia, established as a joint stock company or as a limited liability company;
- another legal person having a head office in the Republic of Croatia which may operate a payment system in accordance with a special law;
- the CNB, and
- a branch of a legal person from a foreign country having a head office in the Republic of Croatia.

Apart from operating a payment system, the payment system operator may engage in other activities, unless otherwise provided for by the act governing such activities.

Simplified, payment systems enable the adequate functioning of payment operations, and a payment system operator shall at all times ensure safe and sound functioning of the payment system.

A payment system operator shall, proportionate to the nature, scope and complexity of tasks arising from the rules of operation of the payment system, especially ensure:

- an appropriate, adequate, sound and satisfactory IT system to perform all functions in accordance with the rules of operation of the payment system as well as a business continuity plan, and
- organisational structure with well-defined, clear and consistent lines of powers and responsibilities, including a personnel structure and management of risks to which the payment system is or might be exposed.

Authorisation of the CNB is required for the operation of a payment system, unless otherwise determined by regulations.

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