

Radovan Jelašić: Payment card business in Serbia

Speech by Mr Radovan Jelašić, Governor of the National Bank of Serbia, at the Round Table Discussion on Payment Card Business, Belgrade, 17 September 2008.

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Distinguished members of the press, colleague bankers and hosts to this event,

I would like first of all to warmly thank the organizers of this Round Table on payment card business for the invitation to give introductory speech and to take part in the discussions during this event. Payment card business, together with the overall system of payment operations, represents the backbone of a stable and efficient financial industry of any market. Supervision of these operations in Serbia, however, is under the remit of the National bank.

Recently, we have been witnessing major, both technological and regulatory changes in the domain of payment card business equally in Europe and worldwide. Its significance in some economies has met and even exceeded that of payments in cash and has consequently grabbed the attention of financial market regulatory authorities and central banks.

Perhaps the most significant decision in this domain is the one taken by the Master Card (under supervision, not to say pressure, of the European Antimonopoly Commission) to cut down cross-border interchange fees down to the zero level, and hence open up a new era in the relations between payment card systems, financial market regulatory authorities, banks and traders in Europe and worldwide. Besides, the initiative of the European Commission and the European Central Bank to develop a new European payment card system within the implementation of the SEPA agreement (if you'll permit me to boast a bit, following in the footsteps of our "Dina Card") and to do so now when VISA and Master Card have already established strong positions for themselves, shows how important payment cards have become for the stability of payments systems, not only from the financial, but also from the social point of view.

Today, we shall also attempt to discuss current issues prevailing in our economy. One of the topics of discussion (and often a bone of contention) between the NBS and commercial banks in the course of several recent years has been the treatment of payment cards and debit card overdrafts. I sincerely hope we shall see further discussions on this matter as they strongly contribute to the improvement of the quality of the system.

On our part, I wish to reaffirm the position of the NBS to continue its best efforts begun six years ago to promote further intense development of the card business in Serbia. Let me remind you that the number of transactions processed through the Dina Card system (set up by the NBS five years ago) averages over 25 million per year, of which almost one million are initiated by the mobile telephone.

Our projects in the Dina Card system in cooperation with banks, traders and telecom operators comprise:

- Mobile telephone top up via SMS messages (available since April 2006)
- Transfer of remittances from abroad to Dina Cards (available since December 2007)
- Payment by Dina Cards via Internet (expected to be available from 25 September 2008)
- Payment of state taxes and duties in the Treasury Administration of the Ministry of Finance using payment cards (expected to be available from May 2009)

What further steps should be taken in the domain of card business is the question which keeps coming up, but, contrary to other issues, not from the point of view of profit maximization, but from the aspect of socially optimal costs of payment cards, i.e. more

efficient payment card business. One thing is for sure, the development of card business in Serbia should not match that in the USA where payment card frauds have been cut by 70%, number of payment cards issued has quadrupled, number of card issuers increased by 50% and the reference rate trimmed to a quarter of its value since 1990s to date. Now guess whether the costs of interchange in those circumstances were decreased by the oligopolies, VISA and Master Card? The answer is no – costs of interchange have been increased. To me, the main issue is no longer whether the NBS does or does not need to take administrative measures to enable faster development of the card business in Serbia. The answer is yes, administrative measures need to be taken by the NBS, but the question remains as to in which area and in what way as any measure has its advantages and disadvantages. Should it be a measure relating to the maximization of the interchange fee on payments via debit or on payments via credit card, or a measure to encourage traders to charge higher fees on payment card operations if they feel payment card business cuts too deep into their profits, or some altogether different measure.

The main role of the NBS is to secure the efficiency of the payment card business over the medium and long run, and in order to do so we have been analysing measures taken worldwide, from the EU countries to Australia. We welcome any support we can get in this effort and are certain that it will pay off even for banks in the medium and long run.