

Petar Chobanov: Development and innovation in the payments and securities settlement sector

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In recent years, Bulgaria has seen quite a positive progress both in the field of payments and in the settlement of securities. This progress is systematic and purposeful, being generated on the one hand by technological innovations in the field of payments and the changing needs of consumers, and on the other hand by the evolution of regulatory requirements and standards. The process of preparing the introduction of the euro in the country plays the role of a catalyst for accelerating the course of renewal and development of the payment and settlement systems in Bulgaria.

This year, the Bulgarian National Bank (BNB), the banks, BORICA AD and Central Depository AD can report a good team result – a number of achievements with respect to the projects related to the preparation for the euro area accession. First of all, we should mention the migration to the new consolidated platform for TARGET services of the Eurosystem, which the BNB carried out in March this year jointly with the banking community in Bulgaria, BORICA AD and Central Depository AD. This migration is the completion of a large-scale consolidation project of the previously existing TARGET2 payment system and securities settlement platform TARGET2-Securities, which was several years in the making and involved all countries operating national component systems in TARGET2. The new consolidated platform TARGET has become a stable foundation of the financial market infrastructure of the euro area and provides access to several services at the same time. The first is the real-time euro cash settlement service provided by the T2 payment system (replacing TARGET2), which consists of a real-time gross settlement system (RTGS) and a centralised liquidity management tool. The second service is for the settlement of euro-denominated securities, which is provided by TARGET2-Securities (T2S), which offers pan-European settlement – of cash and securities, in central bank money. The third service in TARGET is TIPS (TARGET Instant Payment Settlement), which provides access to instant payments in euro. The launch of the consolidated TARGET platform made it possible to renew the existing systems and services of the Eurosystem by introducing the latest technologies and standards, such as SWIFT messages according to the ISO 20022 XML standard, a harmonised access interface and common components for the individual TARGET services.

In second place comes the project for the migration of budget payments to the standards of the Single Euro Payments Area (SEPA), which was finalised just recently – at the beginning of October this year. This project is essential for the preparation for the introduction of the euro in the country and was implemented jointly by BORICA AD, the BNB and the Ministry of Finance, where work on it began already in the spring of 2022. The main goal is the implementation of the SEPA standards regarding the execution and processing of budget payments in BGN in the country, which ultimately led to a comprehensive optimisation and acceleration of the process of bank servicing of the budget. Thus, we can consider that the migration of all categories of customer

credit transfers in BGN to SEPA standards has already been successfully completed, bearing in mind the project implemented at the beginning of last year for the migration of non-budget customer credit transfers in BGN to the standards of the Single Euro Payments Area. As a result, customer credit transfers in BGN can now be executed significantly faster, and the limit on the individual transfers' amount processed through the BISERA6 payment system has also been removed, in accordance with the SEPA requirements.

Next, we should also note the development of instant credit transfers in BGN, which started almost two years ago. Today, we already observe that through the Blink service of BORICA AD, more than 90% of customer payment accounts in the country are accessible for instant payments in BGN, which are executed within 10 seconds, 24 hours a day, 365 days a year. On this basis, going forward, a number of innovations are expected to be implemented according to the needs of customers, such as P2P transfers by mobile number and payments to merchants.

In September this year, we finalised the projects for onboarding the Government Securities Depository in the BNB and Central Depository AD to the securities settlement platform TARGET2-Securities. On 11 September 2023, our depositories migrated to the live T2S environment together with three other depositories from other European countries. The migration of Bulgarian depositories to T2S is the culmination of the joint work between the BNB, the Central Depository AD and the Eurosystem, which began as early as 2021. Currently, depositories from 23 European countries use T2S and participation in the platform already contributes to the better accessibility of Bulgarian securities for investors from the European Union.

The project to link the BISERA7-EUR payment system operated by BORICA AD to the Eurosystem's service for the settlement of instant transfers in euro TIPS has also registered some serious progress, which will enable the banks in the country to offer instant transfers in euro. The TIPS accession project can be seen as an upgrade to instant payments in BGN. In addition, this project will ensure infrastructure readiness in the context of the expected changes to the SEPA¹ Regulation 260/2012, according to which payment service providers that execute customer credit transfers in euro will have to be able to also perform instant credit transfers in euro.

The Bulgarian National Bank and BORICA AD continue to work effectively to ensure full reachability for the execution of customer SEPA credit transfers in euro in the Single Euro Payments Area, and this is one of the main highlights of common cooperation. Thus, in the coming months, full reachability will be ensured for the execution of credit transfers in euro to over 4800 payment service providers in all SEPA area countries, using a prepaid model with continuous settlement and thus also reducing the time for performing credit transfers in euro. In other words, we will be able to say that, in terms of credit transfers, we will practically enter the euro area before the indicative date of 1 January 2025.

Also, the regulations affecting payment services in the European Union and, particularly, in Bulgaria are going to be developed further. Let us recall that, along with many other regulations of essential importance for the sector, though the Second Payment Services Directive (Directive 2015/2366, PSD2) it was regulated for example the 'open banking' – which has become a daily routine for an increasing number of

consumers and business customers. This laid a good foundation for the rapid development of new business models, services and solutions. PSD2 is currently fully integrated into both supervisory and business practices in Bulgaria. PSD2 has become the basis for putting forward new European legislation in the field of payments in June this year – the proposals for a new Payment Services Directive 3 (PSD3) and a Payment Services Regulation (PSR). The PSD3 proposal is largely based on the relevant provisions of PSD2 and the Electronic Money Directive (Directive 2009/110/C, EMD) in terms of authorisation and supervisory requirements. In this way, PSD3 will build on and refine the provisions regarding the licensing and supervision of payment institutions. An important aspect of the PSD3 proposal is the envisaged amendment to the Directive on settlement finality in payment and securities settlement systems, aimed to ensure direct access of non-bank payment service providers to all payment systems in the European Union.

The PSR proposal regulates basic rights and obligations in the provision of payment services in the European Union, including rules for the execution of payment transactions, the liability for unauthorised payment transactions and incorrectly executed payment transactions, open banking, transparency requirements, and payment security requirements. Some key changes proposed in PSR are the introduction of a dedicated interface for accessing payment accounts through open banking, and the possibility for users to manage the permissions they have given for access to their financial data through the so-called 'dashboard'. There is also an obligation for payment service providers to additionally check whether a credit transfer recipient matches the account number as specified by the ordering party, which will further strengthen the security of digital payments.

Among the proposed enhancing regulations stands out the proposal for a regulation on a framework for Financial Data Access (FIDA). It highlights the greater maturity of the market, and this regulatory framework virtually aims to build on the existing open banking framework. This supplementary legislation will affect the effective data management in the entire financial system by integrating the information on all financial products so that they can be used by third parties for consumers' convenience and to optimally meet users' needs.

Undoubtedly, today's evolution of the payment market in Bulgaria and in Europe is driven and inspired by the new technologies and is supported by the European regulations which create a favourable environment fostering competition and innovation for the benefit of consumers, especially through the advance of digital solutions. The measures related to the introduction of the euro support the rapid and effective integration of the financial market infrastructures in our country with those in the euro area. From a technical point of view, we already see the beneficial impact of the projects mentioned above for the development of the payment and settlement infrastructure in the Bulgaria on the payment process optimisation and the improvement of the banking conditions in our country. As a result of the efforts already mentioned, we hope that next year we will successfully finalise all other projects related to the adoption of the euro in the Republic of Bulgaria.

¹ Regulation (EU) No. 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No. 924/2009