



NATIONAL BANK OF SERBIA

SERBIA NATIONAL RETAIL
PAYMENTS STRATEGY
2019-2024

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List of Acronyms and Abbreviations

A2A	Account-to-Account	NBFI	Non-bank financial institution
AML	Anti-Money Laundering	NBS	National Bank of Serbia
ASB	Association of Serbian Banks	NPS	National Payments System
ATM	Automated Teller Machine	NRPS	National Retail Payments Strategy
BiH	Bosnia and Herzegovina	P2G	Person-to-Government
CFT	Combating the Financing of Terrorism	PAFI	Payment Aspects of Financial Inclusion
CPMI	Committee on Payments and Market Infrastructure of the BIS	PLAC	Policy and Legal Advice Center EU
DFCPE	Department for Financial Consumer Protection	POS	Point of Sale
ECA	Europe and Central Asia	PSD	Payment Services Directive
ECB	European Central Bank	LPS	Law on Payment Services
EMD	E-Money Directive	PSP	Payment Service Provider
EU	European Union	PSU	Payment Service User
FATF	Financial Action Task Force	QR	Quick Response
ICT	Information and Communication Technology	RPP	Remittances and Payments Program
IFR	Interchange Fee Regulation	RSD	Republic of Serbia Dinar
IOSCO	International Organization of Securities Commission	RTGS	Real Time Gross Settlement
MIC	Middle Income Country	TAIEX	Technical Assistance and Information Exchange
MTO	Money Transfer Operator	TIPS	TARGET Instant Payments Solution

EXECUTIVE SUMMARY

The strategic approach to the development of retail payments in Serbia is informed by a clear vision: *to promote a modern and inclusive retail payments market in Serbia, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable service users throughout the country. The goal is that the improvements in the retail payments market will give Serbian citizens more choices across more places and methods for conducting their day-to-day transactions in a convenient and cost-effective manner, supporting the objective of broader financial inclusion and digital economy.*

The National Retail Payments Strategy (NRPS) 2019-2024 for Serbia builds on the consistent efforts undertaken by the NBS in coordination with other public-sector authorities and the private sector to keep the country up-to-date with current trends and emerging needs in the context of the national payments system (NPS). NBS has achieved significant milestones in the process of executing its roles as catalyst, overseer, and operator.

The NRPS for Serbia provides high-level strategic guidance on the way forward to establish a modern and inclusive national retail payments market, in line with international standards and best practices, along six guiding internationally recognized principles:

- **Guiding Principle 1: Transparency, fairness, and protection of users.** Transparency is vital both to enhance competition and to strengthen the protection of users of retail payments. Fairness in the domestic retail payments market ensures that stakeholders share the perception that their individual interests and needs are taken into consideration and are adequately addressed. Consumer protection efforts reduce the imbalances of information, resources, and power that are characteristic of a service relationship between individuals / small businesses on the one hand and banks / payment service providers on the other hand. In addition, financial literacy efforts enhance potential new and existing financial service users' capabilities.
- **Guiding Principle 2: State-of-the-art and interoperable payment infrastructures and access point networks.** State-of-the-art payment infrastructures will be in place to support the processing payment transactions based on the use of all relevant payment instruments. Payment infrastructures and access point networks will be interoperable, thus increasing efficiency and enabling the seamless use of all relevant payment instruments throughout the country, at a reasonable cost.
- **Guiding Principle 3: Appropriate legal and regulatory framework.** Rules enabling further development of the market for the provision of retail payment services shall be preserved and enhanced as necessary, including rules that enable use of new technologies, on a risk sensitive basis.
- **Guiding Principle 4: Strong competition, complemented with cooperation.** The market for the provision of retail payment services will be protected against anti-competitive behavior and the abuse of dominant position, including through close monitoring. A right balance will be sought between competition and cooperation within the retail payments industry, and nondiscriminatory entry rules shall be preserved and enhanced. Private-sector initiatives will be supported to become a self-propelling force in the development of safe and efficient retail payment system.

- **Guiding Principle 5: Governance and risk responsibilities.** An appropriate risk management framework will ensure that risks and costs in the retail payments market are identified and managed appropriately. The maintenance of a balance between risk reduction and the associated costs will be sought, keeping in mind that new market developments may, from time to time, alter the current equilibrium. A progressive, yet cautious approach will be followed in responding to new technological developments. Sound and effective governance arrangements will underpin the provision and sharing of infrastructural services by public or private sector entities.
- **Guiding Principle 6: Effective oversight.** Through oversight function, the NBS will aim at preserving the safety of the retail payments market and the NPS more broadly, and at promoting its efficiency, affordability and inclusiveness. In discharging its oversight responsibility, the NBS will continue to apply best practices in line with the principles and standards developed by the international financial community. As part of its oversight activities, NBS will ensure continuous policy dialogue with all relevant stakeholders of the retail payments market. As a catalyst for change, the NBS will continue to promote measures to facilitate a rapid evolution of the retail payments market.

The NRPS lays out a detailed framework for expanding financial inclusion and accelerating the use of electronic payment instruments through eight areas for action:

- i) **Stakeholder commitment:** NBS will promote the greatest possible involvement of the public and private sector in decisions of common interest and public relevance concerning the national retail payments market.
- ii) **Enhancements of the regulatory environment for retail payments:** NBS, consulting with banks and representatives of non-bank payment service providers and payment system operators will continuously review the legal and regulatory framework of the Serbian retail payments market and make the necessary adjustments. NBS will continue to work on ensuring that the rights of users of payment services are protected, that the payments market is open to innovation, and that e-payments are facilitated. The Payment Services Directive 2 (PSD2) transposition will be a significant step in this direction. Analysis of application of the AML/CFT regulations will be conducted, with attention given to the possibility of application of simplified customer due diligence measures in certain cases, on a risk-based approach, to encourage the use of transaction accounts and electronic payments in general.
- iii) **New supporting retail payments infrastructures:** NBS introduced an instant payments system on 22 October 2018. NBS has taken into account best practices/examples of the instant payments infrastructure in the world and applicable settlement and risk mitigation models, including the ECB's TARGET Instant Payment Settlement (TIPS) solution. The retail payment systems operated by the NBS will continue to adhere to international principles and guidelines. NBS will also ensure that any payment systems operated by the private sector implement robust risk management measures.
- iv) **Affordable retail payment services: Based on the revised Law on Payment Services requirements, banks** will offer a "basic" account free of charge or with only reasonable costs for currently unbanked customers under the new Payments Account Directive. This effort will assist with the overarching goal of increasing transaction account access for Serbian adults by 2023. Banks, institutions licensed as e-money issuers, payment institutions and the NBS will explore bilateral and multilateral partnerships that would potentially lead to Account-to-Account (A2A) interoperability between the different types of transaction accounts (accounts at banks, accounts at payment institutions and accounts at e-money institutions). The final objective would be for an

individual or business that has a transaction account, with any service provider, to be able to use it seamlessly to transfer money to any other payer or payee throughout Serbia.

- v) **Expansion of access points and networks for retail payments:** NBS will continue working on facilitating payments over the Internet (e-commerce). Since December 2017, it is possible to use DinaCard (regardless of the issuing bank) on the e-Government portal.¹ This way, citizens may pay administrative fees for document issuance, motor vehicle registration fees and other services available on the e-Government portal. Also, the changes to the DinaCard operating rules from the same year were aimed at removing all remaining barriers to accepting that card on other websites in Serbia. For POS transactions, the new Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions which limits interchange fees for cards payments is expected to have an impact on the expansion of access points, given that the cost of card-based transactions is expected to decrease for merchants as indicated by the first information from the market obtained after the implementation of this law.
- vi) **Continued financial literacy efforts:** NBS, other public-sector entities, and payment service providers will intensify their efforts to educate Serbian citizens on the usage of transaction accounts and electronic payments through increased and targeted information provision. Financial literacy efforts will target the main aspects that inhibit individuals and businesses to change their payment habits. NBS will measure as objectively as possible the effectiveness of the financial education efforts and programs it has been undertaking.
- vii) **Economies of scale by leveraging large-volume low-value payment use cases:** Any remaining legal, regulatory, and infrastructural barriers to the collection and disbursement of government payments electronically will be eliminated. Moreover, banks in Serbia will consider the opportunities to leverage their own infrastructure and electronic channels to send/disburse remittances. Remittances flows are disbursed in cash while there are opportunities for broadening the range of services provided, so as to enable unbanked recipients to obtain funds in a more convenient and low-cost manner, such as disbursing funds to e-money accounts.
- viii) **Strong NBS oversight and supervision of the retail payments market:** NBS will make sure that payment service providers and payment system operators regularly review their cost and pricing structure, and that they avoid any abusive pricing practices. NBS will ensure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced. Monitoring and assessing the risks of new providers and services in the market will also be of high priority to NBS.

The successful implementation of the strategy will require specific roles and responsibilities to be assigned to various relevant stakeholders. The NRPS identifies the NBS as a critical actor in supporting cooperation and coordination among stakeholders for the implementation of the strategy. In addition, the NRPS assigns responsibilities to the Association of Serbian Banks (ASB), which range from coordinating and representing the interests of its members, to promoting and coordinating initiatives on the evolution of the retail payments market. Important roles and responsibilities will also be played by non-bank financial institutions such as e-money issuers and payment institutions, and to government agencies (in particular the Ministry of Finance). Payment services providers and payment system operators will also individually contribute to the NRPS implementation by committing to transparency in carrying out their business vis-à-vis their customers, managing all risks associated to the provision of payment services, and

¹ Please see: <http://ite.gov.rs/#> and <https://www.euprava.gov.rs/>

facilitating interoperability. Finally, industry associations and civil society organizations, such as those representing users and merchants, will engage on issues that affect them on their daily transactions.

Monitoring progress in the implementation of the NRPS is critical to determine its effectiveness, and as an input into periodic reviews and evaluation. For this purpose, two measurable overarching objectives have been established at the outset:

- a. *Doubling the current number of electronic payments per adult by 2024. The starting point is 3.5 electronic payments per adult per month observed as of 2018. The average annual growth rate of electronic payments has been about 20 percent and this trend has to continue at the same rate for the objective to be met (6 electronic payments per adult per month by 2024). The reason why the strategy recommends maintaining the same growth rate is because as electronic payments increase in absolute terms, it becomes more challenging to maintain the same growth rate. However, this will be achieved here by the different actions and measures that will be undertaken in the context of the strategy implementation. Indeed, the number of electronic payments have grown rapidly in the country so far because the market was in a nascent stage but the growth rate is unsustainable unless new actions are taken.*
- b. *Achieving an adult account ownership ratio of 90 percent by 2024, similar to EU levels. The starting point is 71 percent of adult account ownership observed in 2017.²*

A number of “intermediate variables” that convey the progress towards the agreed vision and overarching objectives and encompass several indicators of access and use of transaction accounts will also be measured and monitored. This will help in identifying course correction requirements promptly.

² All data pertaining to the World Bank Global Findex used in the NRPS are based on the latest available iteration of the survey (2017) at the time of the NRPS drafting. The next iteration of data from Global Findex is planned to be available in 2021.

I. THE FUTURE OF RETAIL PAYMENTS IN SERBIA: OUR VISION

To promote a modern and inclusive retail payments market in Serbia, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable payment service users throughout the country.

Our goal is that the improvements in the retail payments market will give Serbian citizens more choices across more places for conducting their day-to-day transactions in a convenient and cost-effective manner, supporting the objective of broader financial inclusion and digital economy.

II. INTRODUCTION AND BACKGROUND

1. The National Bank of Serbia (NBS) in coordination with other public-sector authorities and the private sector has been spearheading the reforms of Serbia's national payments system. Among the main achievements so far, modern systems for the safe and efficient processing of payments across the banking sector have been implemented, together with a sound and comprehensive legal and regulatory framework.
2. NBS and other stakeholders are now increasing their focus on enhancing retail payments in Serbia, and to this end have been closely involved in the development of this National Retail Payments Strategy (NRPS). The Serbian NRPS is the result of a joint effort by stakeholders from the public sector and the private sector, under the leadership of NBS.
3. Retail payments are mostly low-value everyday payments to and from individuals, and between/among individuals, businesses and government entities. The retail payments market is conceptualized here as the set of technical infrastructures, participants, instruments, arrangements for clearing and settlement, and business relationship arrangements (such as bank-customer relationships, rules, procedures, the applicable legal framework, risk management and governance arrangements). Put together, these provide the overall environment within which retail payment services are provided/purchased/used, and within which the underlying payment transactions are posted, authorized, processed, cleared, and settled. Although the retail payments market and the systems through which such payments are processed are only rarely considered to be "systemically important"³ (vis a vis systems such as the RTGS), they contribute to both the stability and efficiency of the financial system as a whole, and citizens' confidence in the domestic currency.
4. This NRPS provides high-level strategic guidance on the way forward to establish a modern, cost effective and inclusive national retail payments system, in line with international standards and best practices, also supporting the digital economy.
5. The document has been guided by observations and recommendations around the World Bank Group's Guidelines for Developing a Comprehensive National Retail Payments Strategy.⁴ These guidelines provide a framework for addressing the main obstacles and constraints that are faced when fostering the development of a modern retail payment market. The above-mentioned guidelines address the core issues of: i) transparency, efficiency, and consumer protection; ii) infrastructure; iii) legal and regulatory aspects; iv) competition; v) governance and risk management; and, vi) oversight.
6. After describing the current status of retail payments in Serbia, the document defines the principles that will guide the strategic choices to be made in the near- to medium-term future by the NBS and the community of relevant stakeholders. The document identifies the strategic objectives to be pursued, and singles out the areas and types of action that will have to be implemented to achieve the identified objectives. An implementation plan is laid out at the end with indicators of specific actions to

³ Systemically important payment systems are essential to the proper functioning of the financial system; a failure could trigger disruptions or transmit shocks, both at local and at cross-border level. Large-value payment systems that process interbank money market operations, the cash leg of securities trades, and the cash leg of foreign exchange trades are typically qualified as systemically important payment systems. Some customer transactions may also be processed in these large-value payment systems.

⁴ The detailed report can be found at: <http://documents.worldbank.org/curated/en/839121469729131991/pdf/84076-REPLACEMENT-FILE-PUBLIC-Developing-comprehensive-national-retail-payments-strategy.pdf>
Additional reports such as "Payment Aspects of Financial Inclusion" and "General Guidelines for the Development of Government Payments" can be found at: <http://www.worldbank.org/en/topic/paymentsystemsremittances>

be taken, the roles and responsibilities of the various stakeholders and the prioritization in the execution of the plan.

III. OVERVIEW OF RETAIL PAYMENTS IN SERBIA

Key stakeholders

7. The key stakeholders in the Serbian retail payments market comprise the National Bank of Serbia (NBS) which is at the apex as the central bank which is responsible for monetary policy, financial sector supervision and development of the national payment system and cross-border transactions, the commercial banks and other payment service providers and payment system operators, and the community of users of payment services. Commercial banks are licensed and supervised by NBS, which also licenses and supervises non-bank financial institutions (NBFIs), including e-money issuers and payment institutions.
8. NBS plays various critical roles in the Serbian national payments system, acting as operator of payment systems, overseer of the national payments system, and catalyst of change. As an operator of payment systems, the NBS operates five such systems: the *Real Time Gross Settlement (RTGS) System*, which enables the execution of transfer orders on a real time gross settlement basis; the *Clearing System*, which is used to execute credit transfers at designated times on the net principle; the *Instant Payment System (IPS NBS System)*, which enables the execution of instant credit transfers, the *System of International and Interbank Clearing of Foreign Exchange Payments*, which ensures the execution of euro payment transactions for households and businesses; the *DinaCard Clearing System*, which is used for processing transactions executed using the DinaCard payment cards.
9. NBS is legally empowered as the regulator and overseer of the Serbian national payments system. Overseeing the national payments system comprises functions of payment systems oversight / supervision of payment services providers in accordance with the Law on the National Bank of Serbia (Articles 4 and 59), Law on Payment Services and relevant secondary legislation. NBS uses four principles in applying its payment systems oversight role: applying transparency, international standards, applying consistently requirements and standards to comparable payment systems; reporting requirements for payment systems' operators.
10. NBS also contributes to the development and reforms of the national payments system in its capacity as catalyst of change. In this role, NBS initiates, coordinates, researches and consults on payment system design, operation and policy, gives opinions to the Government on governmental payments related issues, and prepares drafts of/and legislative proposals in the field of payment systems.
11. It should also be mentioned that, in order for NBS to perform more efficiently its statutory functions, appropriate amendments were recently made to the law regulating the position, organization, powers and functions of NBS. Amendments in the Law on Foreign Exchange Operations provide that NBS takes over the competencies of the Tax Administration for the issuance and revocation of authorizations for the performance of exchange transactions and the control of foreign exchange operations of residents and non-resident and exchange operations.
12. NBS also has a key role with regard to financial education. NBS has established the Department for Financial Consumer Protection (DFCPE). The DFCPE provides support to citizens in the exercise of their rights and interests, as well as assistance in understanding and using services of financial institutions. The DFCPE also includes the Group for education of consumers and the NBS Call Center where citizens may get information about advantages and risks to be considered when deciding which financial products and services to use.

13. As of September 2019, there were 26 licensed banks in the country, represented by the Association of Serbian Banks (ASB). The Association of Serbian Banks operates two payment systems: the Cheque Clearing System and the Direct Debit Clearing System.

14. With regard to non-bank financial institutions (NBFIs), NBS provides two types of licenses in the area of payment services, one for the provision of payment services by payment institutions and the other for the issuance of e-money. In September 2019, there were 13 payment institutions in the country, and two e-money issuers. Money Transfer Operators (MTOs) are generally licensed as payment institutions, depending on their business model. Most payment institutions provide money remittance services, and fund transfers from and/or to a payment account (mostly used for bill payments). Electronic money institution issues payment instruments of low value and digital Mastercard which can be used for internet payments (in Serbia and abroad). E-money institution also provides digital wallet which has a P2P function, although it is not widely used.

Legal and regulatory framework

15. The legal framework applicable to the payments system in Serbia is quite comprehensive and modern. The last five years have seen considerable legislative reform in the country, in important sectors, including the financial sector. The underlying objectives of some of the reforms is the recognized need to accelerate the harmonization of the Serbian legal system with that of the EU in preparation for full EU membership of the country.⁵

16. **The Law on Payment Services (LPS)**⁶ of 2014 transposes into Serbian Law several EU Directives, in particular the Payment Services Directive (PSD1), the E-money Directives (EMD1 and EMD2) and the Settlement Finality Directive.⁷ The LPS increases competition and innovation in the payment services market. It allows for two new categories of institutions to provide payment services: payment institutions and e-money institutions. It also increases transparency in the market, by specifying the information that must be provided by the payment service provider to the payment service user. Moreover, it supports the use of electronic payments and contributes to legal certainty by clearly establishing the rights and responsibilities of the different parties to a payment transaction.

17. The latest revision of the LPS⁸, adopted in June 2018, introduces amendments which regulate the transparency and comparability of fees charged to payment service users on their payment accounts and the rights of payment service users related to the switching of payment accounts. They also lay down the conditions and manners of exercising the right to open and close bank accounts with basic features free of charge or with only reasonable costs for unbanked segments of the population. A basic bank account will include services that enable the payment and cash placement on the account, as well as the transfer of funds from the account, or to a direct debit account, using a payment card, including payments via the Internet and credit transfer, as well as a standing order. These services will be offered at a “reasonable” cost which is in the discretion of the banks but NBS will provide guidance to the market in terms of the cost structure. Nevertheless, NBS acquires the legal right to determine, for certain socially endangered categories of consumers, after obtaining the opinion of the Ministry responsible for social affairs, the

⁵ Serbia started official negotiations for EU membership in 2014.

⁶ RS Official Gazette No139/2014.

⁷ Payment System Directive 1: https://ec.europa.eu/info/law/payment-services-psd-1-directive-2007-64-ec_en ; E-Money Directives: <http://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:32009L0110> ; Settlement Finality Directive: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/financial-markets/post-trade-services/settlement-finality_en

⁸ Law on amendments and additions to the Law on Payment Services – ЗАКОН О ИЗМЕНАМА И ДОПУНАМА ЗАКОНА О ПЛАТНИМ УСЛУГАМА <http://www.parlament.gov.rs/upload/archive/files/cir/pdf/zakoni/2018/1272-18.pdf>

conditions under which banks would be obliged to provide payment services for those consumers free of charge. In this way, NBS intends to create the possibility, in case of need, to provide additional protection and facilitate the position of the most socially vulnerable citizens, by sub-legal act.

18. A new revision of the LPS is foreseen to transpose the EU Payment Services Directive (PSD2).

NBS is planning to start working on drafting changes to the LPS with a view to further aligning the Serbian legal framework with the EU Directive on payment services 2 (PSD2). NBS participated in a project funded by the Policy and Legal Advice Center - PLAC II. This project involved working with a legal expert from a Member State of the EU regarding changes from PSD1 to PSD2 and its aim was to provide: analysis of the existing Serbian legislation in the area of payment systems, in particular the Law on Payment Services and relevant by-laws; assistance to the staff of NBS to properly understand regulatory requirements prescribed in the PSD2 and incorporate specific provisions of the PSD2 in drafts of the amended versions of Serbian Law on Payment Services and relevant by-laws. Furthermore, NBS will participate in a TAIEX Expert Mission on PSD2, which will include analysis of new payment services and other regulatory requests, with special emphasis on the practical examples and issues which a supervising authority frequently encounters.

19. The Law on the Protection of Consumers for Financial Services⁹

reinforces the transparency and consumer protection aspects contained in the LPS and its by-laws. In particular, Article 6 of the LPS states that “the procedure of protecting the rights and interests of payment service users and electronic money holders shall be subject to provisions of the law governing the protection of financial service consumers which relate to exercising the protection of rights and interests of financial service consumers”. This means that the procedure for protecting the rights and interest of the payment service users is the same, irrespective of the payment product concerned, i.e. a payment card, a transaction account, single payment transaction. Many disputes may be resolved quickly and simply by directly addressing the financial institution concerned. However, if someone is not satisfied with the verbal response, the individual has the right to make a complaint in writing. The deadline for the submission of a written complaint to a bank/leasing provider is three years from the day the right or legal interest was violated. If the individual is dissatisfied with the response to the complaint or has not received a response within 15 days from the day the institution received the complaint, the individual may submit a complaint or mediation proposal to the NBS Department for Financial Consumer Protection.

20. In the first half of 2018, Law on the Protection of Financial Service Consumers in Distance Contracts¹⁰ and Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions¹¹ were adopted. Both laws refer to the protection of rights and interests of payment service consumers and relevant procedure is subject to provisions of the law governing the protection of financial service consumers.

21. Namely, in Article 24 of the Law on the Protection of Financial Service Consumers in Distance

Contracts states that “the consumer (including payment service consumer) shall be entitled to the protection of his rights and interests stipulated by this Law and with a view to exercising the protection of the rights and interests relating to financial services (including payment services) provided by banks, lessors, payment institutions, e-money institutions and public postal operator – the provisions of the law governing the protection of financial service consumers and the regulations passed on the basis of that law shall apply”. In accordance with Article 10 of the Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transaction, if the issuer or acquirer act contrary to this Law or regulations adopted based on this Law, the user of payment services subject to this Law shall

⁹ RS Official Gazette, Nos 36/2011 and 139/2014.

¹⁰ RS Official Gazette, No 44/2018

¹¹ RS Official Gazette, No 44/2018

be entitled to protect its rights and interests, in accordance with the law governing payment services and the law governing the protection of financial service consumers.

22. **The Law on Foreign Exchange Operations**¹² and by-laws adopted pursuant to this law include an obligation for companies to report certain foreign currency transactions to NBS (those transactions are in particular international payment transactions, providing a mechanism to support the monitoring of money flows, meaning that the payment service users in a number of cases need to give information on the grounds for an international payment, or receipt of funds from abroad). The Law also includes the supervision powers attributed to NBS with regard to the provisions in the foreign exchange market concerning banks, e-money institutions, payment institutions, and the public postal operator as well as with regard to the issuance and revocation of authorizations for the performance of exchange transactions and the control of foreign exchange operations of residents and non-resident and exchange operations.

23. **The AML/CFT Law**¹³, consistent with FATF standards, establishes distinct obligations for account-based relationships and occasional transactions. According to the AML/CFT Law, PSPs offering account-based services are subject to relevant obligations under FATF standards (application of risk-based approach to business relationships, transactions and products; standard, simplified or enhanced customer due diligence, monitoring and recording of transactions, detection of unusual transactions, and detection and reporting of suspicious transactions). Under competence given to it by this Law, NBS adopted a by-law which stipulates situations and conditions under which PSPs could identify a natural person through means of electronic communication (i.e. through audio and video communication), thus giving more regulatory options for concluding financial service contracts digitally.

24. **The Law on Multilateral Interchange Fees and Special Operating Rules for Card-Based Payment Transactions**¹⁴ has been adopted to transpose the EU Interchange fee regulation (IFR).¹⁵ The objective of the IFR is to reduce the level of interchange fees (the fees paid by the merchant's bank to the cardholder's bank), and consequentially, the fees paid by merchants for the acceptance of cards. The IFR also aims at improving competition in the cards market, by requiring separation of scheme from processing activities and prohibiting some of the business practices implemented by global card schemes which restrict competition. Lower interchange fees could result in higher usage of payment cards in Serbia.

25. **The Law on Electronic Documents, Electronic Identification and Trust Services for Electronic Transactions** is relevant for the area of payments, even though it is not in the competence of NBS. Under this law, it is stipulated that a qualified electronic signature has the same value and legal effect as a "normal", physical signature (the notion and possibility of using electronic signatures also existed under the previous law on electronic documents and electronic signatures, but it was not widely used, especially not among natural persons), thus giving the opportunity of conducting certain financial service contracts electronically. Moreover, this law introduces the notion of electronic identification through electronic identification schemes (which are third party service providers), giving the opportunity for digital conclusion of certain distance contracts through those schemes (in accordance with Article 3 (3) of the Law on the Protection of Financial Service Consumers in Distance Contracts).

¹² RS Official Gazette, Nos 62/2006, 31/2011, 119/2012, 139/2014 and 30/2018

¹³ RS Official Gazette No. 113/2017.

¹⁴ RS Official Gazette, No 44/2018

¹⁵ EU Interchange Fee Regulation: <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex:32015R0751>

Financial inclusion from a payments perspective

26. Based on the latest Global Findex data, as of 2017, 71 percent of adults (15+ years old) in Serbia had a transaction account with a bank or other regulated financial institution. The equivalent number for Serbia, based on the 2014 Findex iteration, was 83 percent. Part of this decrease is explained by the fact that banks in Serbia have closed a number of inactive accounts over the past four years. As of end 2018, there were about 9.3 million individual bank accounts and 46 thousand e-money accounts with banks in Serbia.¹⁶

27. Serbia does well in terms of account access at financial institutions, when compared to the Europe and Central Asia (ECA) region, and to upper middle-income countries (MICs) around the world. **Table 1** shows data on account holding and usage in Serbia as of 2017, and equivalent figures for the countries of the ECA region as a whole, as well as for upper MICs.¹⁷ Serbia ranks higher than ECA average in all indicators, but when compared to upper MICs, there is a mixed trend observed.

28. When breaking down the account holding by different categories, discrepancies emerge. Specifically, the three categories which are below the national average and which require particular attention by the authorities include: adults out of labor force; adults belonging to the poorest 40 percent of the income bracket; adults living in rural areas.

Table 1: Basic data on account holding and usage in Serbia

	Serbia	ECA	Upper MICs
Transaction account holding among adults, 2017			
All adults	71	65	73
<i>Women</i>	70	62	69
<i>Adults belonging to the poorest 40%</i>	65	56	62
<i>Adults out of labor force</i>	59	53	62
<i>Adults living in rural areas</i>	68	62	73

Source: World Bank Global Findex database, 2017

29. Serbia does not have a formal financial inclusion strategy in place. However, NBS has adopted the Financial Education Strategy 2016-2020 which is executed through the DFCPE. The three priorities of the strategy include: anticipating, identifying and meeting citizens' needs; helping the public to become capable of identifying risks in modern financial markets and economic movements; and developing financial awareness among youth. Once the current strategy expires, NBS will adopt a new Financial Education Strategy, also informed by the NRPS, aiming to keep consumers informed of the different financial products and providing them with tools to address challenges in the financial market. At the same time, NBS will consider more activities under the new strategy in the area of financial inclusion so

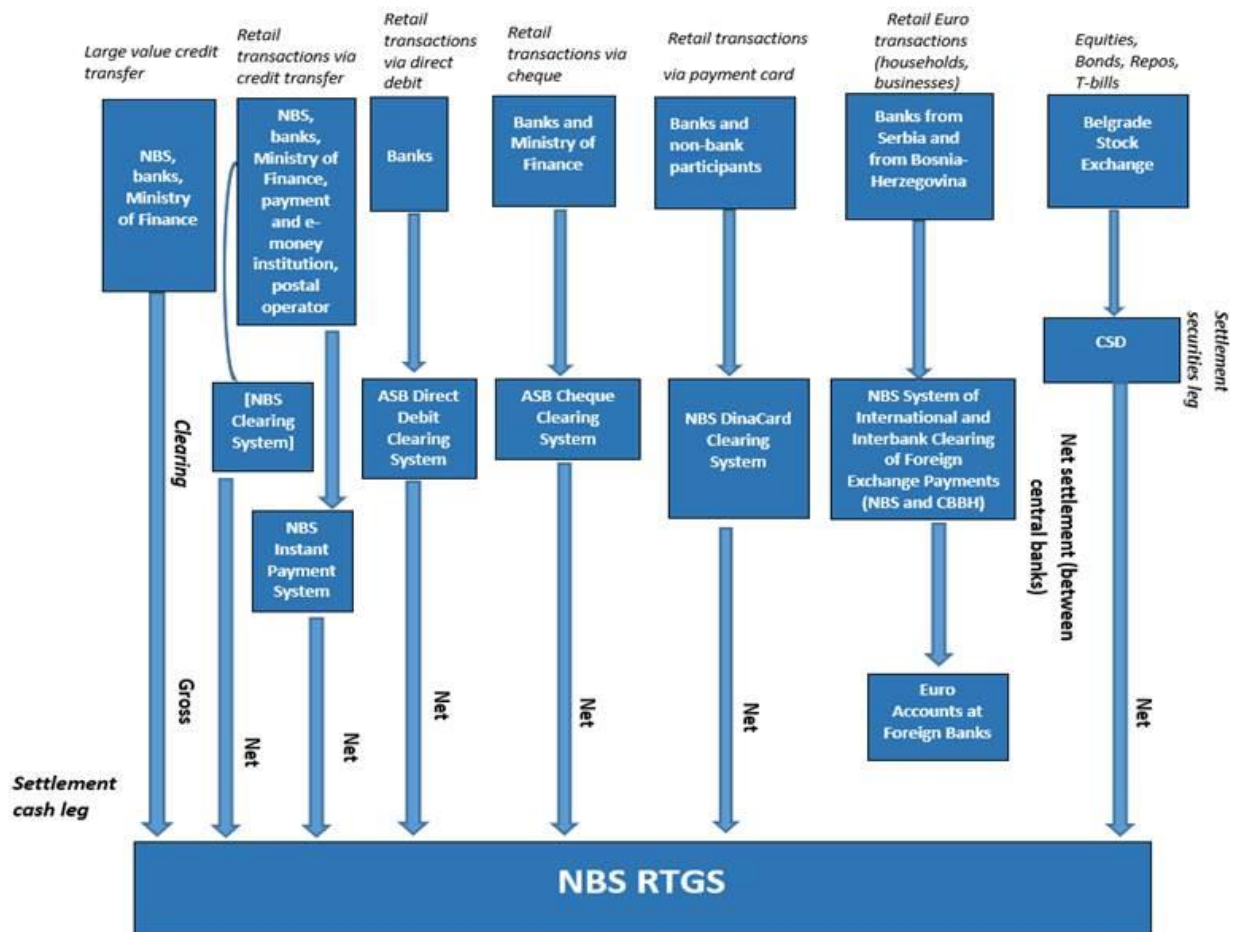
¹⁶ NBS data.

¹⁷ Serbia is classified by the World Bank Group as an upper-middle income economy.

that higher access ratios are achieved, particularly among groups such as adults living in rural areas, out of labor force, or belonging to the poorest 40 percent of the income bracket.

Financial infrastructures supporting retail payments in Serbia

Figure 1: Overview of the financial infrastructure in Serbia¹⁸



The NBS Real Time Gross Settlement System

30. The NBS RTGS settles in real time, and on a gross basis, high-value transactions initiated by participating banks for their own account or on behalf of their customers. It also settles the net amounts of the systems clearing cheques (ASB), direct debits (ASB), credit transfers (NBS), and cards (DinaCard). The NBS RTGS is also used to carry out the synchronization of transactions performed in the NBS instant payment system (IPS NBS System). The system was established in 2003 and upgraded in 2009.

¹⁸ As of 2019.

The NBS Clearing System

31. The operation of the NBS clearing system is regulated by the Operating Rules for the Clearing Payments System of the National Bank of Serbia. The NBS clearing system is used to execute credit transfer orders of lower value which are then net settled in the RTGS. The transfer orders in the NBS clearing system are used to execute credit transfers in the individual amount of up to RSD 300,000 (USD 2,855 approximately). The system was established in 2003 and upgraded in 2009.

The NBS System of International and Interbank Clearing of Foreign Exchange Payments

32. To ensure more efficient and cost-effective execution of cross-border euro payment transactions for households and businesses between Serbia and Bosnia and Herzegovina, NBS operates the system of interbank and international clearing of foreign exchange payments. Launched in February 2008, the service settles euro-denominated payments between Bosnia & Herzegovina and Serbia on a same-day basis. Multilateral net settlement positions of participants are calculated by combining receivables and liabilities in respect of transfer orders exchanged between participants in the payment system – into a single net liability or net receivable of an individual participant in the payment system with respect to all other participants in that system. In addition to net positions of individual participants, aggregate net positions of central banks in international clearing are calculated in this system. Aggregate net positions between central banks are settled through an account with a prime international bank. For banks from the Republic of Serbia, net positions in the System of interbank and international clearing of foreign exchange payments are settled through their foreign currency required reserve accounts with the NBS. Thirteen Serbian and six banks from Bosnia & Herzegovina are participants in the system (data from September 2019). The key advantage of the NBS's system is that it enables its participants to execute transactions for their clients on the same day. Furthermore, Serbian participants in the system pay no fee on monetary inflows. Presently, the infrastructure is underutilized even though the number of transactions continues to grow. The same exact clearing system is also available for transactions between Serbia and Montenegro, but it is not active yet.

The NBS DinaCard Clearing System

33. The DinaCard payment system is a system operated by NBS and used for processing and netting of transfer orders submitted by participants in the system through payment transactions executed using DinaCard payment cards. Net positions are settled in the NBS RTGS system.

34. The DinaCard payment card has been available in the domestic market for 16 years and more than 3 million DinaCard payment cards have been issued so far (approximately 0.5 cards per adult). They may be used in the acquiring network in the country which consists of 63,000 POS terminals and close to 2,700 ATMs. 23 banks participate in the Dinacard system, and 8 non-bank participants such as entities specialized in transaction processing and creation and personalization of cards. Two basic DinaCard products are debit and credit cards, and in addition to these two, there are specific cards, such as co-branded cards, prepaid cards or virtual cards intended for online use solely, use by mobile phones, without the physical presence of the card at the place of transaction. In addition to the main function of paying for goods and services in retail stores and withdrawing cash, DinaCard holders have additional services at their disposal in the form of making payments via mobile phone and via the Internet. The DinaCard payment card can be used for paying directly at the counters of the Treasury Administration of the Ministry of Finance, at no additional fee.

The Association of Serbian Banks (ASB) Cheque Clearing System

35. The Cheque Clearing System is operated by the Association of Serbian Banks (ASB) and as of end September 2019, there were 23 participants (22 commercial banks and the Ministry of Finance). In terms of organization, the Bank Clearing Institution – BIC was established in order to lead the interbank cheque clearing operations. The system was initially created within NBS in 2003, but a year later, in 2004, it was taken over by the Association of Serbian Banks.

The Association of Serbian Banks (ASB) Direct Debit Clearing System

36. The Direct Debit Clearing System is operated by the Association of Serbian Banks and as of end September 2019, there were 8 participants (all commercial banks). The ASB has been licensed by NBS on May 2010 to operate as a system for Conducting Direct Debit Operations. The operation of the system is consistent with the LPS.

Retail payment instruments

37. Retail payment instruments are defined as instruments that facilitate transactions which are non-time critical and conducted between two parties which are not part of the system processing the transaction. Retail payment instruments include cash, cheques, credit and debit cards, credit transfers and direct debits, and innovative payment instruments, like e-money. Retail payments can be initiated in-person or remotely. Users of retail payment instruments can be broadly categorized into consumers, businesses, and government entities. All of them have a dual role, being the payer for certain transactions and the payee for others. Depending on the payer-payee combination, retail payments can be categorized into different types.

Table 2: Different types of retail payments, based on the payer-payee combination

Payer \ Payee	Payee		
	Consumer	Business	Government Entity
Consumer	P2P	P2B	P2G
Business	B2P	B2B	B2G
Government Entity	G2P	G2B	G2G

P=Person, B=Business, G=Government

Source: World Bank (2016), "A Practical Guide for Measuring the Costs of Retail Payments".

Payment instruments

38. Cash is the dominant means of payment in Serbia, especially for retail payments (see statistics on **Table 3** for consumers and businesses). While there are no studies that document the exact number of cash payments, the numbers of cash deposits and withdrawals could be used as proxies. In 2018, the total number of cash deposits (to own account) reached approximately 32 million in Serbia (equivalent to about RSD 2 trillion), while the number of cash withdrawals (from own bank account) reached about 39.5 million

(equivalent to RSD 1.8 trillion). In 2017, the number of cash deposits was about 34 million (equivalent to about RSD 2 trillion), while the number of cash withdrawals was 41 million (equivalent to about RSD 1.8 trillion).

39. ATM cash withdrawals via a payment card are on the rise, which further reinforces the perseverance of cash in the Serbian market. The annual average growth rate for cash withdrawals has been at around 6 percent over the past five years.

40. Electronic credit transfers have been increasing at a steady annual pace of about 14 percent, on average. Paper-based credit transfers have shown modest decrease of 2 percent between 2016 and 2017, and of 0.4 percent between 2017 and 2018.

41. Usage of payment cards (debit and credit) for physical POS and e-commerce has been increasing steadily but a higher growth rate is desirable. Card purchases at POS have been increasing at an average annual rate of about 18 percent, while card purchases via the Internet at an annual rate of about 55 percent. It is clear that Internet payments have been growing much faster than POS purchases, even though Internet purchases account only for 1 percent of all card payments in Serbia. When broken down by type of card, at POS, in 2018 about 90 percent of payments are made using a debit card and the remaining 10 percent by using a credit card.

42. There is a wide range of different card brands offered in the country and there is also a national payment card - DinaCard. DinaCard can be used in the territory of Serbia, at all ATMs, retail stores and counters that display the DinaCard logo. There is also a type of DinaCard card that can be used abroad. This card, in addition to retail stores marked with the DinaCard logo in the country, can be used internationally as well, at ATMs and retail stores marked with the labels of acquiring networks Diners Club International, Discover and Pulse. DinaCard is the only card in the country that can be used for paying taxes directly at the counters of the Treasury Administration branch offices, at no charge. One can also settle other liabilities free of charge using the card: annual personal income tax, motor vehicles sales tax, contributions for compulsory social insurance of agricultural workers and tax on personal income made from agriculture and forestry. DinaCard holders may use mobile phones, as an alternative payment channel. This payment service is a convenient solution for topping up one's own or somebody else's prepaid credit or for paying one's own or somebody else's bill. Card holders can settle their bills for mobile phones, landline telephony bills (and related services) and the intention is to extend this service to other bills, primarily electricity and utilities bills across Serbia.

43. Electronic direct debits have seen a modest increase in Serbia. Between 2017 and 2018, an 8 percent increase was observed in the usage of direct debits. Direct debits are mostly used for bill payments in Serbia.

44. The number of cheques cleared has been decreasing in Serbia between 2014 and 2017, which saw a slowdown in the rate of decrease, but in 2018, the number of checks cleared has slightly increased. Specifically, the number of cheques cleared was reduced by almost 30 percent between 2014 and 2015, reduced by 9 percent between 2015 and 2016, and by 4 percent between 2016 and 2017, and increased by 2% between 2017 and 2018. This trend has been accompanied by a shift toward payment cards, credit transfers and direct debits. Cheques are used mostly for P2B cases, usually for payments in large retail chains. Different initiatives have been taken to replace cheques. For example, Banka Poštanska Štedionica issues a Post Card which is co-branded with DinaCard, and can be used to pay for goods, services and cash withdrawals at places marked with the DinaCard logo. This card has all the attributes of cheques (including payment on installments, without interest), but is faster and more convenient than cheques.

45. Payments using e-money accounts (including prepaid cards) only started to be offered by payment service providers in 2016 in Serbia, after the LPS was adopted. E-money is mostly used for

Internet payments and its usage is expected to grow fast in the following years (it grew by 39 percent between 2017 and 2018).

46. When consumer transactions are viewed separately in Serbia, it is estimated that the number of electronic payment transactions per adult in Serbia was approximately 43 in 2018.¹⁹ This translates on average in about 3.5 electronic payments per month per adult.

Table 3: Data on volume of payments and withdrawals across time by instrument (for consumers and businesses)

	2014	2015	2016	2017	2018
1. Cash withdrawals (via debit and credit card)	67,997,473	71,803,193 (+6% change)	76,982,948 (+7% change)	81,275,770 (+6% change)	84,702,571 (+4% change)
2. Cheques²⁰	12,396,632	8,844,416 (-29% change)	8,070,799 (-9% change)	7,714,595 (-4% change)	7,896,774 (+2% change)
3. Paper-based credit transfers²¹	85,139,186	72,284,139 (-15% change)	88,898,922 (+23% change)	87,155,445 (-2% change)	86,816,602 (-0,4% change)
4. Electronic credit transfers²²	87,880,894	100,148,513 (+14% change)	116,837,779 (+16% change)	128,196,627 (+10% change)	147,286,738 (+15% change)
5. Electronic direct debits²³	---	---	6,579,802	7,013,160 (+7% change)	7,599,980 (+8% change)
6. Debit and credit card payments	107,360,018	122,587,305 (+14% change)	143,171,118 (+17% change)	171,662,240 (+20% change)	208,427,920 (+21% change)
<i>6.1. Purchase of goods and services via POS</i>	106,856,331	121,846,658 (+14% change)	142,171,284 (+17% change)	170,214,045 (+20% change)	205,613,981 (+21% change)
<i>6.2. Purchase of goods and services via the Internet</i>	503,687	740,647 (+47% change)	999,834 (+35% change)	1,448,332 (+45% change)	2,813,939 (+94% change)
7. E-money transactions²⁴	---	---	85,948	129,267 (+50% change)	179,304 (+39% change)

¹⁹ Calculations based on 2018 NBS data. Only consumer transactions are used for the calculations for the following instruments: electronic credit transfer, electronic direct debits, debit and credit card payments (POS and e-commerce), and e-money. The sum of all the above-mentioned transactions (254,051,984) is then divided by the 2018 adult population of Serbia (15+ years old) in order to derive the number of electronic payments/adult for 2018. The number of adults based on the country's statistical office (<http://data.stat.gov.rs/Home/Result/18010403?languageCode=sr-Cyrl>) at the end of 2018 was: 5,967,560.

²⁰ Only consumer transactions.

²¹ Only transfer of funds without data about cash deposits to another user's account; account-to-account transfers.

²² Including standing orders

²³ Until 2015, there were no separate data about direct debits.

²⁴ Includes transactions performed by e-money issued by e-money issuers and transactions performed by e-money cards issued by banks.

Source: National Bank of Serbia

47. Some of the reasons for the still low usage of non-cash payment instruments in Serbia range from a low number of electronic payments acceptance points, to the design of the various payment products available in the country, to high costs and the presence of labor informality. **Box 1** summarizes the “design” factors that influence the adoption by users of the various retail payment instruments (including cash) based on the experience of the World Bank. These factors relate both to the intrinsic design of a payment instrument as well as to the elements or features that a payment service provider decides to include in the payments product through which that payment instrument is used.

Box 1: Factors Influencing the Adoption of Specific Retail Payment Instruments

The adoption of any given retail payment instrument by consumers, businesses and governments is influenced by how well-suited that instrument is to the specific payment needs of the payer and the payee, as well as how each of these perceive the instrument in terms of risk, liquidity, cost, acceptance, and convenience. For a payer, the choice of payment instruments is typically influenced by the following factors:

- **Cost:** Usage of payment instruments entails both explicit as well as implicit costs. Explicit costs include the direct charges paid by the payer for using the instrument, such as per-transaction fees. Implicit costs incurred include, for example, the waiting time for processing the payment request or the cost of time spent commuting to a designated place to obtain cash to make payments or to be able to use the non-cash payment instrument.
- **Safety and reliability:** A payer needs to have a high level of trust that a payment instrument will work as expected and discharge the payer's payment obligation to the payee as required. This includes aspects related to system uptime, fraud misuse, correcting processing errors, and so forth.
- **Convenience:** The payment instrument needs to be convenient to use. This includes aspects like what the payer needs to remember or what the payer needs to physically carry or use when making the payment, how much time the transaction takes to complete when using that payment instrument, and other related considerations.
- **Acceptance:** A payer would want the payment instrument to be widely accepted for his payment needs. For example, a payment cardholder might not find his card useful if the card is not accepted at locations like grocery shops and restaurants, or for utility payments and other uses that constitute a significant share of the cardholders routine payment needs.
- **Payment confirmation and reconciliation:** A payer would want a confirmation that his payment has been initiated and will be processed as per a defined timeline. This is to serve as a reconciliation record and also as proof that payment has been made. This would help the payer in managing and monitoring his payment account.

For a payee, the factors influencing his choice of payment instruments are similar to those mentioned above, but have some important differences:

- **Cost:** The payee incurs various explicit and implicit costs when accepting a payment instrument. Cash, for example, has associated handling and safekeeping costs. One major implicit cost is the time taken for receipt of funds into the payee's account. The longer the delay, the higher the cost in terms of unearned interest and/or higher liquidity management costs, among others.
- **Acceptance:** In general, the payee would want to accept those payment instruments that a significant proportion of the payers like to use (i.e., "payer's choice"). Some payment instruments will require the payee to have some type of deposit account with a bank or another payment service provider. In addition, for some instruments the payee will need to deploy certain infrastructure, like POS terminals and the associated telecommunications means.
- **Safety and reliability:** The payee needs to trust that the payment instrument he has accepted will be processed as expected and the payment will be honored. This includes aspects like assured processing timelines, system uptime, non-repudiation of payment, and settlement finality.
- **Payment reconciliation and audit trails:** A payee needs payment reconciliation information to enable proper bookkeeping. Payment audit trails are also crucial, for example when defending repudiation related claims.

Source: World Bank, 2012, "Developing a comprehensive national retail payments strategy"

Government payments

48. Public administrations constitute the single largest user of payment services. Increasingly, they are adopting electronic mechanisms to distribute and collect payments. Government payment programs, especially benefit programs, have the potential to directly advance financial inclusion by providing transaction accounts, and also by stimulating greater investment in the infrastructures and networks necessary to support those accounts. It is in the context of these aspects that government payments have received the most attention as a potential conduit for financial inclusion and modernization of retail payment systems in a country. Indeed, the CPMI²⁵ report *Payment Aspects of Financial Inclusion* considers the digitization of government payments as a catalytic pillar for access and usage of transaction accounts and electronic payment services.

49. Given the sheer magnitude of government payments, regardless of whether financial inclusion is an explicit goal or not, a switch from cash and paper-based payments to electronic payments mechanisms for government transactions offers the potential to support the deepening of national retail payment systems. This potential structural impact can, in turn, strengthen the enabling environment for improved access to and usage of transaction accounts.

50. In the case of Serbia, this area can be further developed. Indicatively, in 2017, only 21 percent of pensions in the country were received in an account and only 78 percent of all social transfers were received in an account. Digitization needs to also cover other government payments such as public salaries, social assistance, tax returns, and subsidies, at the central and local government level. In this context, both traditional bank accounts and e-money accounts could be utilized. The provision of basic accounts, free of charge, for the unbanked users as part of the LPS could be an additional channel for government agencies to route government payments to such accounts directly to the beneficiaries.

Access channels

51. The banking infrastructure is well-developed in the country. As of 2018, the number of bank branches (per 100,000 adults) was 27.7, slightly above the ECA average of 24.8 branches per 100,000 adults. Moreover, there are 7 agents of electronic money institutions and 2,806 agents of payment institutions (September 2019).²⁶

52. Serbia ranks low with regards to the number of ATMs (per 100,000 adults), at 47.7. Specifically, this statistic places Serbia third in the region, after Montenegro and North Macedonia, as well as well below the ECA average.

53. In terms of POS terminals (per 100,000 adults), the country ranks third in the region after Montenegro and North Macedonia, and below the ECA average.

²⁵ Committee on Payments and Market Infrastructures.

²⁶ For more information, please visit: http://www.nbs.rs/internet/english/58/registar_pien.htm and http://www.nbs.rs/internet/english/58/registar_pi.html

Table 4: Comparative access channel statistics

	Serbia	Albania	Bosnia & Herzegovina	North Macedonia	Montenegro	ECA
Bank branches per 100,000 adults	27.7	19.4	30.3	24.2	43.5	24.8
Automated Teller Machines (ATM) per 100,000 adults	47.7	31.5	45.7	49.3	78.8	59.9
Point of sale (POS) terminals per 100,000 adults	1,227	307.3	747.8	1,580	2,397	1,800

Source: World Bank Global Payment Systems Survey 2018 and IMF Financial Access Survey 2018

54. In terms of other access channels, there has been a continuous growth of both, the volume and value of payment transactions over the Internet in Serbia, particularly in local currency. The largest number of such payments are conducted through cards, which indicates that consumers are increasingly feeling more confident about using this type of payment instrument and access channel. NBS is trying, through various education programs, to explain the benefits of Internet transactions and the rules of safe payment card usage. There is an NBS designated site which is intended for users of financial services to find the necessary information on the use of payment cards, but also about other financial products/services.²⁷ In addition, NBS regularly distributes educational material to users regarding financial services and products. This way, NBS seeks to increase the trust of consumers in paying by cards, while at the same time training them to safely use this type of payment instrument. With regard to local banks that are e-merchant acquirers, six banks in Serbia provide this service, along with one payment institution and one e-money institution. Nevertheless, users purchase more products on foreign e-shops. For example, in 2018, there were approximately 2.4 million transactions for the card purchase of goods and services in foreign e-shops where the sale that was made in Euro, 1.9 million transactions in foreign e-shops where the sale that was made in USD, and 549,291 transactions that were made in other foreign currencies. Also, around 2.8 million transactions of card purchase of goods / services were made in domestic online stores. The main reason foreign e-shops are more used than local ones is due to the larger spectrum of products and services they offer.

55. NBS has taken measures to promote e-commerce in Serbia. It has been supporting the Serbian Government's efforts in the process of digitization. Since December 2017, it is possible to use DinaCard (regardless of issuing bank) on the e-Government portal.²⁸ This way, citizens may pay administrative fees for document issuance, motor vehicle registration fees and other services available on the e-Government portal.

56. Moreover, the adoption of the Law on multilateral interchange fees and special operating rules for card-based payment transactions is expected to decrease interbank fees and contribute to the reduction of merchant service charges.

²⁷ Please see: <http://www.tvojinovac.nbs.rs/edukacija/cirilica/index.html>

²⁸ Please see: <http://ite.gov.rs/#>
<https://www.euprava.gov.rs/>

IV. THE VISION AND STRATEGY FOR DEVELOPING THE RETAIL PAYMENTS SYSTEM IN SERBIA

Our Vision

To promote a modern and inclusive retail payments market in Serbia, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable payment service users throughout the country.

Our goal is that the improvements in the retail payments market will give citizens more choices across more places for conducting their day-to-day transactions in a convenient and cost-effective manner, also supporting the objective of broader financial inclusion and digital economy.

57. *The overarching objective of the NRPS will be to promote the intensive use of modern (i.e. fully electronic) retail payment instruments across the whole country, with the goal of increasing the current number of electronic payments per adult from 3.5 to 6 by end-2024.*²⁹ This objective would entail increasing over the next five-year period at a rate similar to the rate at which electronic payments per capita have grown so far (about 20 percent annual growth rate) and increasing access channels to facilitate easy usage. In other words, this objective would require increasing the number of electronic payments per adult, from about 3.5 per month (which is the current number) to 6 per month. Indeed, the number of electronic payments has grown rapidly in the country so far because the market was in a nascent stage but the growth rate is unsustainable unless new actions are taken. Thus, maintaining the same growth rate will be achieved by the measures envisioned under this strategy.

58. Further broadening access to transaction accounts is an additional step required to increase usage of electronic payments. *In this regard, Serbia will aim at achieving an adult account ownership ratio of 90 percent by 2024, similar to the EU levels.* As part of this effort, particular attention should be placed on specific categories that deviate significantly from the general population such as the unemployed, those in the bottom 40 percent of the income level, and those living in rural areas.).

59. NBS will target consumers, merchants and the Government in the process of increasing electronic payment usage. On the one hand, the financial literacy efforts should be continued and intensified, and on the other hand, monetary and fiscal incentives could be considered in order to encourage merchants

²⁹ From a baseline indicator of 43 electronic payments per capita per year as of 2018.

to adopt electronic payment acceptance infrastructure. Such incentives could be subsidized POS terminals or value added tax credit or tax rebates for merchants when merchants accept payments electronically above a certain threshold. Tax rebates or rewards (such as lotteries) could also be considered for payers. Encouraging acceptance at POS terminals also includes considering other channels of access or other payment instruments such as instant payments and Quick Response (IPS QR) codes. NBS is already actively working with banks (through the Association of Serbian Banks) on enabling instant payments initiation at the point of sale. This would involve the use of IPS QR code payments (presented by consumers or merchants). Activities on IPS QR code unification for instant payments have been completed; same goes for presenting IPS QR codes on bills of providers of various types of utility services. The Decision on General Rules on Instant Credit Transfers (RS Official Gazette, Nos. 65/2018, 78/2018 and 20/2019) was adopted in the second half of 2018 and includes a dedicated part that regulates the usage of IPS QR codes.

60. Implementing the NRPS will not only aim at increasing the levels of ownership and usage of accounts, but also at improving the quality of payment services to customers. The successful implementation of the NRPS will benefit existing and new customers by:

- (i) Increasing the speed with which retail payments are initiated, cleared and settled;*
- (ii) Enhancing the reliability of payments made through the domestic infrastructures and through the distribution and payment acceptance channels that support retail payments;*
- (iii) Increasing convenience to users by expanding the possibilities to pay electronically remotely or onsite;*
- (iv) Making payment services increasingly affordable to individuals, businesses and the government by promoting enhancements to infrastructure (financial and other), and by fostering increased competition and innovation in the provision of payment services.*

IV.1 Guiding Principles

61. The NRPS will have to be implemented rigorously and according to a strict timetable. Progress will be monitored on the basis of a number of indicators presented at the end. Transparent accountability mechanisms will make sure that each player will be called on to respond of its performance on implementation progress.

62. The implementation of the NRPS will be based on six Guiding Principles. These principles will support the actions of NBS, government agencies, consumer and merchant groups, and banks and non-bank payment service providers and all other relevant stakeholders in discharging their responsibilities toward the NRPS.

Guiding Principle 1: Transparency, fairness, and protection of users

63. Information for education purposes will be targeted to potential new users, as well as to enhance financial literacy of existing users. Educational and transparency efforts help to promote effective competition and to strengthen market discipline by making more relevant information accessible to existing and new users. Awareness on the features of modern payment instruments and how these can help individuals and businesses fulfill their payment needs will be raised among existing and new users, although with a special focus on the latter considering their limited exposure to modern financial services.

64. Consumer protection efforts will reduce the imbalances of information, resources, and power that are characteristic of a service relationship between individuals (or small businesses) and banks or other payment service providers. Together with the provision of information for better decision-making mentioned earlier, these efforts will include prohibiting banks and other payment service providers from engaging in unfair or deceptive practices, and application of adequate mechanisms for the resolution of customer disputes are in place.

Guiding Principle 2: State-of-the-art and interoperable payment infrastructures and access point networks

65. Payment infrastructures and access point networks will be interoperable. Reachability of all systems for broad coverage and access point expansion will also be important. In Serbia, this will support efficiency while minimizing financial, operational and other risks. Interoperable access point networks and accounts will enable the seamless use of payment products at multiple locations throughout the country, at a reasonable cost as well as enable using the existing infrastructure in an efficient and safe way. Further improvements to the existing infrastructure will be sought by increasing the speed and the overall efficiency of the systems. Risk mitigation mechanisms will also continue to be incorporated.

Guiding Principle 3: Appropriate legal and regulatory framework

66. Payments regulation will keep abreast of market developments and best international practices. On the regulatory front, the actions of NBS will be aimed at ensuring the smooth functioning of retail payments and of the NPS more broadly, by preserving its safety, promoting its efficiency and affordability, and at making sure that it develops over time in a way that matches the payment needs of the Serbian economy. Progress has been made in many fronts. Having an open market that facilitates access to non-banks is important. The enhancements through the PSD2 transposition will facilitate open banking, stronger authentication, payment initiator/aggregator services, and improving access to transaction accounts.

Guiding Principle 4: Strong competition, complemented with cooperation

67. The right balance will be sought between competition and cooperation within the retail payments industry. While competition ensures the efficient provision of innovative and cost-effective retail payment services, cooperation among market players, as well as between them and NBS, is necessary to build shared infrastructures, define and adopt common standards for services, and undertake needed collective action. Therefore, NBS will continue to induce the required level of industry cooperation through appropriate incentives and rules, dialogue, and moral suasion. Moreover, NBS will take a leading role in catalyzing private-sector initiatives, whenever necessary. Yet it will do so with a view to assisting the private sector to become a self-propelling force in the development of safe and efficient retail payments system.

Guiding Principle 5: Governance and risk responsibilities

68. A progressive, yet cautious approach will be followed in responding to new technological developments. It is imperative that the risks involved in opening the NPS to new actors and instruments be fully understood and appreciated. The general approach of NBS will aim at accepting and facilitating innovation, while making sure that the identified or potential risks are appropriately understood, appreciated and (eventually) managed, and that related responsibilities are adequately shared.

69. Sound and effective governance arrangements will underpin the provision and sharing of infrastructural services by public or private sector entities. In order to ensure that infrastructural services operate smoothly and ensure interoperability, their governance will need to reflect the needs and interests of all participating institutions, of regulators and of the economy as a whole, maintaining a balance between private interests and public goals.

70. Payment systems operators and payment service providers should at all times refrain from any actions that might put at risk public confidence on the NPS or the broader financial system. Public confidence in payment systems, especially on those of a retail nature, is of the utmost importance. In this regard, NBS will cooperate with other relevant authorities as necessary to guard against all forms of criminal abuse of the payment system, such as fraud, breaching of data integrity, money laundering, or financing of terrorist activities.

Guiding Principle 6: Effective oversight

71. Through oversight, NBS will aim at preserving the safety of the retail payments market and the NPS more broadly, and at promoting its efficiency, affordability and inclusiveness. NBS will continue to strengthen its internal capacity, necessary to oversee the growingly complex retail payments market effectively.

72. In discharging its oversight responsibility, NBS will continue to apply best practices in line with the principles and standards developed by the international financial community. For the oversight of specific retail payment instruments, services and schemes, NBS will continue to adopt international guidelines, and will take into consideration experiences and practices developed by other central banks when aiming at mitigating risks in retail payment services and instruments.

73. As part of its oversight activities, NBS will ensure continuous policy dialogue with all relevant stakeholders of the retail payments market. Such a dialogue will be necessary to secure fair representation of all public and private interests in the decision-making processes concerning the retail payments market. It will help to create consensus on policy choices and to improve the quality of policy design and will offer a channel for NBS to provide stakeholders with indications on its policy orientation and for stakeholders to give feedback. Where necessary, NBS will use policy dialogue channels as conduits to exert moral suasion on market layers, as ways to disseminate knowledge of best practices across the industry, and as means to prompt voluntary arrangements for collective action at the industry level.

IV.2 Strategic areas/priorities

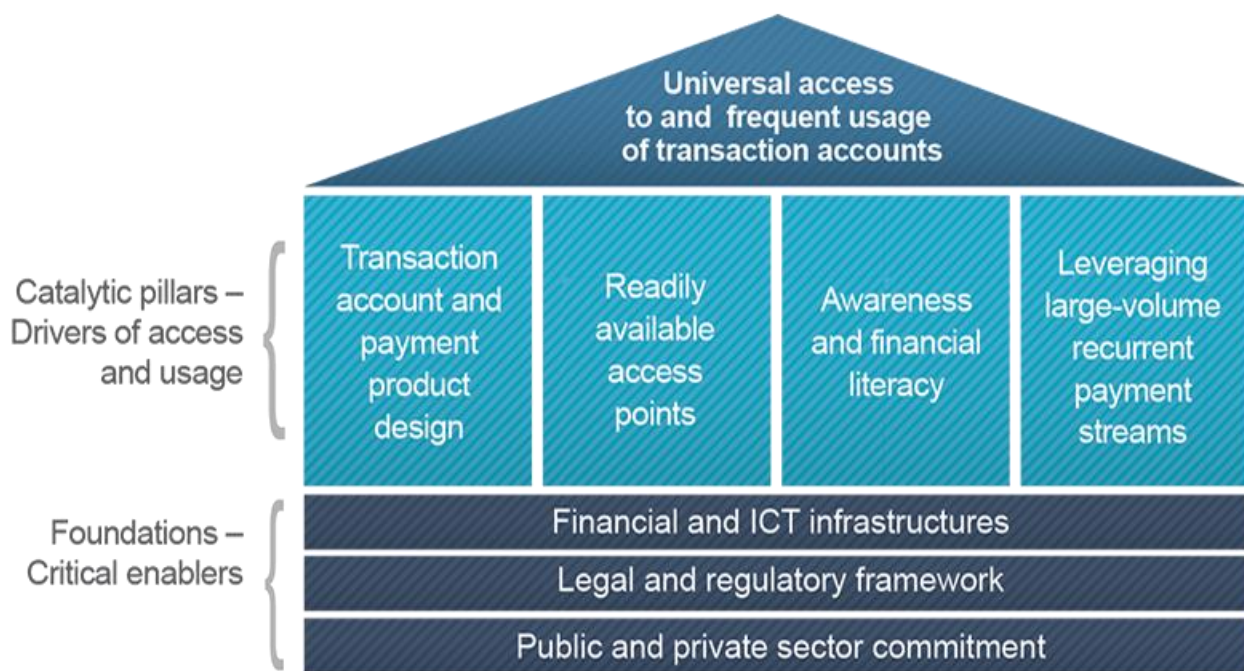
74. The actions foreseen in order to implement the NRPS in Serbia are aligned with the Guiding Principles laid out above as well as the Payment Aspects of Financial Inclusion (PAFI) framework.³⁰

75. The PAFI framework puts forward principles regarding how payment systems and services promote access to and use of financial services. The principles cover the elements of retail payments that are critical to financial inclusion and how improving the payments infrastructure and services could accelerate access to and use of transaction accounts. They also highlight the relevance and importance of measuring the effectiveness of financial inclusion efforts from a payments perspective as well as key

³⁰ Committee on Payments and Market Infrastructures and World Bank Group. "Payment Aspects of Financial Inclusion". April, 2016. <https://www.bis.org/cpmi/publ/d144.pdf>

actions countries could take to advance access to transaction accounts, which then can serve as a gateway to broader financial inclusion.

76. The strategic areas/priorities identified for Serbia are: (i) stakeholder commitment; (ii) enhancements of the regulatory environment for retail payments; (iii) new supporting retail payments infrastructure; (iv) affordable retail payment services; (v) expansion of access point and networks for retail payments; (vi) continued financial literacy, (vii) leveraging large-volume low-value payment programs; and, (viii) strong NBS oversight and supervision of the retail payments market. Each of these areas is further broken down into more specific actions.



Source: *Payment Aspects of Financial Inclusion (PAFI)*, CPMI and World Bank Group (2016)

i) Stakeholder commitment

77. NBS will promote the greatest possible involvement of the public and private sector in decisions of common interest and public relevance concerning the national retail payments market. These areas may include aspects such as the choices concerning operational standards, infrastructure adoption and design, ways to achieve interoperability of payment instruments and across bank and e-money accounts, risk management, and ways to address affordability.

78. NBS will use appropriate mechanisms to coordinate the implementation of the strategy e.g. organizing ad hoc meetings and working groups with special tasks involving relevant stakeholders. If needed, the World Bank will assist in this process including the provision of Terms of Reference.

79. NBS will promote the greatest possible involvement of the public and private sector in decisions of common interest and public relevance concerning the national retail payments market.

80. NBS will seek to catalyze resources for technical assistance from external experts, specialized agencies or peers in other countries. International organizations will be extremely useful sources of

technical assistance, while dialogue and exchanges with other central banks and national authorities will provide unique perspectives and exchanges of applied knowledge. These know-how resources will be necessary to address NRPS challenges, including legal and regulatory innovations, oversight of payment services, pricing policies for payment products and services, and achieving interoperability, among others.

ii) Enhancements of the regulatory environment for retail payments

Ensuring neutrality and proportionality

81. NBS, consulting with ASB and representatives of non-bank payment service providers and payment system operators will continuously review the legal and regulatory framework of the Serbian retail payments market and make the necessary adjustments. The review is important in light of the rapid pace of technological advancement, the fast changes in business practices, and the quickly evolving typologies of risk (including various types of crimes, like cybercrime), which characterize modern retail payments markets. In doing this, NBS will also have as an objective to continue removing any remaining obstacles to electronic payments usage.

Promoting access to a transaction account

82. In the framework of the amendments to the Law on Payment Services regarding the comparability of fees linked to payment accounts, payment account switching and the right to a payment account with basic features, banks in Serbia will be required to include in their accounts with basic features the following services: (a) services enabling all the operations required for the opening, operating and closing of a transaction account; (b) services enabling funds to be placed in a transaction account; (c) services enabling cash withdrawals within the country from a transaction account at the counter (bank and agent) or at automated teller machines during or outside the bank's opening hours; (d) execution of the following payment transactions within the country: (i) direct debits; (ii) payment transactions through a payment card, including online payments; (iii) credit transfers, including standing orders, at terminals and counters and via the online facilities of the banks.

Protecting user rights, transparency and promoting the public good

83. NBS will continue to work on ensuring that the rights of users of payment services are protected. In particular, NBS will continue using the DFCPE and the mechanisms in place in order to resolve any consumer protection issues in the designated timeframe, while also making consumers aware of the resolution mechanisms in place through frequent campaigns.

84. In accordance with the amendments to the LPS regarding the comparability of fees linked to payment accounts, payment account switching and the right to a payment account with basic features, NBS published a list of representative services linked to a payment account on its website, which facilitates comparison of fees.

Preventing criminal use of the retail payments market

85. NBS will analyze a tiered compliance structure in Serbia, which permits a suitable balance between risk and compliance relative to the transaction size and volume needs. Concretely, a tiered compliance structure, which is consistent with the Financial Action Task Force (FATF) standards in low-risk situations, could encourage the use of transaction accounts and electronic payments in general. This approach requires the analysis of the application of the AML/CFT regulations, with the emphasis on possibilities of application of simplified customer due diligence measures on a risk-based approach, in order to encourage the use of certain types of low-risk transaction accounts. The analysis should also include the identification of any remaining legal barriers to electronic transactions, in particular for non-

face-to-face transactions, with a view to further encourage usage without compromising financial integrity.

86. To this regard, a new Law on the Prevention of Money Laundering and the Financing of Terrorism (Official Gazette of the Republic of Serbia, No. 113/17 of December 17, 2017) came into effect in Serbia on April 1, 2018.³¹ This Law prescribes that the obliged entities shall develop and regularly update a money laundering and terrorism financing risk analysis. That risk analysis shall be commensurate to the nature and scope of business operations and the size of the obliged entity, shall consider basic types of risks (customer, geographic, transaction and service) and other types of risks the obliged entity has identified based on the specific character of its business. For the purpose of smoother and better application of this law, NBS adopted a special by-law – Decision on Guidelines for the Application of the Provisions of the Law on the Prevention of Money Laundering and Terrorism Financing for Obligors Supervised by the National Bank of Serbia³².

87. Based on the risk analysis, the obliged entity shall classify the customer in one of the following risk categories:

- low money laundering and terrorism financing risk, and shall apply at least simplified customer due diligence;
- moderate money laundering and terrorism financing risk, and shall apply at least general customer due diligence;
- high money laundering and terrorism financing risk and shall apply enhanced customer due diligence.

88. In addition to these risk categories, an obliged entity may in its internal acts envisage additional risk categories and define adequate actions and measures from this Law for such risk categories. Also, this Law prescribes the exemptions from the obligation to obtain data on the payer and payee for a money transfer as well as exemption from customer due diligence in relation to certain services. In the meantime, the NBS has adopted a bylaw stipulating situations and conditions under which PSPs may identify a natural person through means of electronic communication, which creates further conditions for concluding financial services contracts by digital means or via the Internet.

iii) New supporting retail payments infrastructure

Introducing new infrastructure to increase usage of electronic payments

89. NBS is committed to further improving the efficiency of its payment system infrastructure. In particular, NBS has decided to introduce an instant payments system. NBS has taken into account best practices/examples of the instant payments infrastructure in the world and applicable settlement and risk mitigation models, including the ECB's TARGET Instant Payment Settlement (TIPS) solution. The opportunities provided by implementing instant payments in consultation with stakeholders is of strategic importance to the development and implementation of a strategy for the modernization of the retail payments in Serbia.

90. A holistic view on incremental risks associated with instant payments need to be appropriately and effectively mitigated, along with a review of the adequacy of security arrangements, fraud mitigation mechanisms and, consumer protection frameworks and using the same to facilitate remittance flows.

³¹ The Law is in conformity with DIRECTIVE (EU) 2015/849, and REGULATION (EU) 2015/847.

³² RS Official Gazette, No 13/2018.

91. The NBS Instant Payment System (IPS NBS System) is implemented as an extension of the existing solution for the RTGS and clearing system of NBS. Overall liquidity of the IPS NBS System is based on funds in the RTGS system allocated for the execution of instant payments. Because of the 24x7 nature of the IPS NBS System, during the RTGS end of day procedure of synchronization between the IPS NBS System and the RTGS, NBS takes into consideration the participants' funds from the IPS NBS System for the monetary policy purposes (calculation of the minimum reserve requirements). Together with the design and functionalities of the IPS NBS System, participants have tools that can be used to manage liquidity risks, even beyond the working hours of the RTGS system. In the RTGS, participants are provided with different monetary policy instruments which facilitate their liquidity management. Based on their needs, all participants are able to allocate near the end of the RTGS business day funds for the provision of instant payments for times/days when the RTGS is closed, and to use the mechanism of limits provided in the IPS NBS System for the management of liquid exposure and fine tuning of allocated funds. As a source of liquidity, participants can also use incoming payments in the IPS NBS System. Participants are also provided with the real-time monitoring of available liquidity and information on reaching liquidity consumption parameters. Nevertheless, the nature of instant payments requires inevitable changes in the participants' framework for the management of liquidity risks. The IPS NBS System has been operational since October 22, 2018, and the participants in this system are the NBS, the Ministry of Finance and the banks and other payment service providers can participate too. The new payment system for instant payments provides:

- Interbank execution of instant payments – i.e. exchange of payments between its participants (banks, other payment service providers, etc.) measured in seconds;
- Central addressing scheme enabling client identification using “alias” e.g. tax id number, phone number, e-mail address, based on which participants in the system can obtain other data necessary for the execution of instant payments;
- Instant bill payments and obtaining bill information;
- Request for instant payment at point of sale.

92. The NBS adopted the necessary bylaw – Decision on General Rules on Instant Credit Transfers (RS Official Gazette, Nos. 65/2018, 78/2018 and 20/2019) which lays down the general rules on instant credit transfers (participation of payment service providers in execution of instant credit transfers, continuity in instant credit transfers, conditions and manner of executing instant credit transfers, use of payment instrument at the POS, use of IPS QR code, rules for refund and etc.). Furthermore, NBS adopted Operating rules for the instant payment system of the National Bank of Serbia (IPS NBS system), new Operating Rules of the RTGS Payment System of the National Bank of Serbia and revised its Operating Rules for the Clearing Payment System of the National Bank of Serbia. These set of operating rules of payment systems has been applicable since 22 October 2018, when the IPS NBS System started working.

93. The IPS NBS System is based on the latest standards and technologies of IT industry, uses XML (ISO 20022) message format and provides high level of performance, very low payment processing time and high availability level, designed in compliance with 24x7 mode operational requirements.

94. Deploying new infrastructures and technologies such as IPS QR codes and using open standards such as ISO 20022 payment messages will also add to the overall national payments modernization and competitiveness of Serbia.

Minimizing financial risks

95. The retail payment systems operated by NBS will be assessed in detail based on international principles and guidelines. While the CPMI-IOSCO Principles for Financial Market Infrastructures do not all apply to retail payments, a number of them has been identified by the European Central Bank (ECB) as important and relevant even for retail payment systems.³³ A similar approach to the ECB will be followed, the difference being that the CPMI-IOSCO Principles are not literally copied but rather transposed through LPS and relevant secondary legislation provided that prescribed requirements are at least equivalent in effect to the principles for retail payment systems and consistently applied to the NBS retail payment systems. NBS will use cross-checking of requirements prescribed by the legal framework with the CPMI-IOSCO principles and conduct a self-assessment of the payment systems.

96. NBS will also make sure that any payment systems operated by the private sector implement robust risk management measures in their clearance and settlement arrangements.

Leveraging digital ID infrastructure

97. The Law on Electronic Documents, Electronic Identification and Trust Services for Electronic Transactions is a significant step in the direction of digital ID infrastructure in Serbia. The law (which is to be in full effect soon) introduces the notion of electronic identification through electronic identification schemes (which are third party service providers), giving the opportunity for digital identity verification in the financial sector as well, in situations when the physical presence or stronger identity checking is not mandatory. In addition to this, in accordance with Article 3 (3) of the Law on the Protection of Financial Service Consumers in Distance Contracts, certain financial services contracts may be concluded by a consumer digitally without using his qualified electronic signature, if he gave consent to conclude that contract using at least two elements of consumer identity verification (authentication) or using an electronic identification scheme with a high level of reliability. Moreover, the Law on e-Government that has recently been adopted, mandates that all public/government entities enable (in a period of 18 months) electronic communication and electronic administrative procedures in those areas that are under their jurisdiction.

iv) Affordable retail payment services

Providing access for the unbanked and ensuring transparency

98. The banks, with support from the ASB and NBS, will introduce and offer a free or low-cost “basic” account product for currently unbanked customers under the recently adopted revised Law on Payment Services. This will assist with the overarching goal of increasing transaction account access for Serbian adults by 2024. In determining the pricing structure for usage and other features of the basic account, banks will bear in mind that their key target population are poor individuals for which a minimum balance requirement is not likely to be a viable option and which in addition may potentially receive some type of social transfers from the government. In any event, these basic accounts will make it possible for the respective target populations to transfer (receive) funds and pay electronically to/from as many parties as possible, but in particular to/from those parties with which these individuals transact regularly for routine issues.

99. NBS will regularly review its price database for services provided by banks to make sure it is meaningful for making comparisons across banks and will further disseminate it among existing and

³³ European Central Bank: “Revised Oversight Framework for Retail Payment Systems”
https://www.ecb.europa.eu/pub/pdf/other/Revised_oversight_framework_for_retail_payment_systems.pdf

potential new users. The contents of this price database will be reviewed every year to ensure that it includes all the relevant data items and other elements (i.e. comparability) that are necessary for bank customers to make informed choices. Consideration will be given to including a brief explanation of the consumer rights for remittance recipients. To this extent, NBS publishes data on costs and fees charged by financial institutions that provide remittance services receiving to/from 10 countries, chosen to constitute a representative sample in terms of the fees.³⁴

Achieving interoperability

100. The banks, NBFIs licensed as e-money issuers and NBS will aim to achieve Account-to-Account (A2A) interoperability between bank accounts and e-money accounts, as well as among e-money accounts themselves. The final objective is that an individual or business that has a transaction account, with any service provider, will be able to use it seamlessly with any other payer or payee throughout Serbia. Pre-requirements for this objective include achieving agreements for interoperability at the level of payment infrastructures and channels. NBS can play a crucial role in the process, either through moral suasion or regulatory action in order to ensure that service providers implement interoperable solutions via bilateral or multilateral partnerships. Interoperability is not only beneficial to end users but to providers as well given that it allows for cost sharing. For instance, PSD2 refers to open and interoperable Application of Programming Interfaces (APIs). Outside the EU, India is an example of a country that has achieved A2A interoperability through the Unified Payment Interface (UPI). Interoperability will also be vital in the context of instant payments that is being introduced in Serbia given the variety of service providers that could provide the service to their users across different types of transaction accounts.

101. NBS will work towards convincing e-money issuers to join the DinaCard clearing system so that e-money transactions in Serbia are also routed through the DinaCard system. This would allow for a larger volume of transactions to be processed through the DinaCard system, and thus, would also contribute to savings and more operational benefits for the system.

v) Expansion of access points and networks for retail payments

Expanding alternative access channels

102. NBS will continue working on facilitating payments over the Internet (e-commerce). As of now, there are three banks that are licensed to accept the DinaCard for Internet payments. The changes made in September 2017 in the operating rules of DinaCard intended to remove any remaining barriers from DinaCard being accepted online on domestic websites, regardless of the card issuing bank.

103. In 2017, NBS along with e-merchant acquirers organized a conference (*Electronic Commerce in Serbia*) in order to familiarize the general public with the benefits of e-commerce, the barriers that e-merchants face, the factors that affect the success of e-merchants, and the promotion of secure online payments using payment cards.

104. Overall, NBS has taken different measures (of regulatory and educational nature) to promote e-commerce in Serbia. Such measures include the work of NBS on instant payments, the public statement on the possibilities of testing innovative payment models in a limited network,³⁵ the changes to the Foreign Exchange Law whereby residents of Serbia are now allowed to purchase online software and other digital products in the country in foreign currency, delivered exclusively through telecommunications,

³⁴ To see more information, please visit: <http://www.nbs.rs/internet/cirilica/63/doznake/index.html>

³⁵ For more information: <http://www.nbs.rs/internet/latinica/scripts/showContent.html?pid=12542&konverzija=no>

digital or information-technology devices, under the condition that payment is made by using a payment card or electronic money through a payment service provider with a head office in the Republic.

105. Furthermore, provisions of Law on Law on Multilateral Interchange Fees and Special Operating Rules for Card-based Payment Transactions addressing the level of interchange fees for payment services are expected to have an impact on the expansion of access points, given that under the new actions, card-based transactions will be cheaper for both, consumers and merchants as indicated by the first information from the market obtained after the implementation of this law. Also, the instant payments solution will pave the way for new access channels such as e-banking and m-banking. NBS will track the progress of and monitor the market response to the new developments.

106. The usage of instant payments at merchants by using IPS QR codes will also be promoted by NBS and merchants, and has the potential to provide both, speed and cost efficiency for end users. It will also expand the use of instant payments beyond the typical traditional use cases that instant payments normally cover, such as person-to-person payments.

Inducing higher acceptance of electronic payments through pricing and incentives

107. The Ministry of Finance and the private sector will analyze the feasibility of providing a set of monetary/fiscal incentives to merchants and payers to accept electronic payments. Incentives may include: providing a temporary subsidy to smaller businesses for the rental of POS terminals or other transaction-acceptance devices; providing a temporary fiscal benefit (i.e. tax rebates) for purchases in which the business accepted cards or other electronic payment instrument as a means of payment.

108. NBS will collect and publish data on payment card fees for merchants (merchant discount rates), to the extent possible. The cost of accepting payment cards is one of the key determining factors for businesses to accept them. These costs include monthly rental fees for acceptance devices, the per transaction merchant discount rate (MDR), and other monthly or per transaction charges.

vi) Continued financial literacy efforts

Increasing the public's awareness of the NRPS and its benefits

109. The NBS, the ASB and PSPs will develop compelling messages explaining what benefits the implementation of the NRPS will bring to Serbia. The strategic objectives will have to be known to the business community and the general public, through public information and educational campaigns.

Informing and educating current and potential users on accounts and electronic payments

110. NBS, other public-sector entities, and payment service providers will intensify their efforts to educate Serbian citizens on the usage of transaction accounts and electronic payments through increased and targeted information provision. Financial literacy efforts will target the main aspects that inhibit individuals and businesses to change their payment habits. Hence, these efforts will specifically address how accounts can effectively help meet an individual payment and store-of-value needs, and will also target specific "fear" factors, such as: i) perception of lack of sound proof of payment if paper is not used; (ii) fear that the new modalities may be vulnerable to fraud; (iii) fear of dealing with unresponsive, complicated systems prone to operational error; and, (iv) perception of loss of privacy. Targeted activities will also be organized for remittance recipients. In this process, the DFCPE of NBS through the execution of the "NBS Financial Education Strategy for the Period 2016-2020" and other similar tools will play an important role.

111. Banks and NBFIs that provide payment services will make sure that sufficient hands-on training is provided as part of consumer onboarding. This refers to consumers understanding how a payments product or service works in practice, including its potential weaknesses. Special emphasis will be placed

on new users with limited first-hand exposure to electronic payment services. Hands-on training will also be provided to existing or new customers as part of the roll out of new or complementary payment products or services. In particular, the fact that Serbia is a major inward remittance country should be leveraged. That is, MTOs have a critical task and opportunity to educate their customers in terms of choosing cost-effective electronic channels for receiving remittances.

112. NBS will measure as objectively as possible the effectiveness of the financial education efforts and programs it has been undertaking. This is crucial to make informed decisions on whether changes and/or adjustments are necessary to aspects such as the training materials themselves, the form in which these are delivered and/or distributed, and the target group(s).

113. The DFCPE has established an evaluation process in order to receive feedback on the activities that it carries out. During designated seminars/lectures held, citizens have the opportunity to fill out an evaluation form and provide feedback on topics covered, the types of events held, and the educational material distributed. On this basis, the DFCPE produces an evaluation report based on the feedback received and on how it plans to incorporate the feedback in its future activities.

vii) Economies of scale in the NPS by leveraging large-volume low-value payment use cases

Digitization of government payments

114. Any remaining legal, regulatory, and infrastructural barriers to the collection and disbursement of payments by the government through non-cash means will be eliminated. Collections and disbursements could benefit from innovative business models, electronic and online channels, and centralized portals/platforms that eliminate the need to visit the bank branch or the premise of the government agency. In the case of beneficiaries who cannot afford to open and maintain a regular transaction account, the Ministry of Finance along with NBS and ASB will work together in order to channel government payments to the “basic” accounts under the revised LPS. The feasibility of using the “basic” accounts at little or no cost shall also be explored.

115. The Ministry of Finance, along with other relevant central government agencies is encouraged to undertake a stocktaking exercise of government payments, including mapping of use cases and need for digitization on the collection and disbursing side. In the digitization process, support should also be provided to local government agencies that collect/disburse payments on their own.

116. By introducing the option of payments by the national card (DinaCard) on the e-Government portal, NBS is supporting the efforts of the Serbian government in the process of digitizing government collections. This is an important step especially taking into consideration that the key objectives of setting-up a national card payment system were to accelerate the development of cashless payments and reduce the grey economy. At the moment, a limited number of governmental services and payments is offered through the e-Government portal, but it is constantly expanding.

Leveraging the role of large billers and transportation providers

117. Given the current situation of dominance of cash for utility bill collections and transit payments, more actions to discourage the use of cash and incentivize electronic alternatives will be taken. As of end-2017, only 26 percent of Serbian adults paid utility bills through a transaction account. In order to significantly increase this number, billers will analyze offering rebates and/or other incentives if bills are paid via electronic instruments. They will also carry out educational campaigns with their customers, their own employees and local authorities to clarify that bills paid with electronic means of payment are legally valid, and therefore paper proof is not required. Likewise, once they are able to accept electronic

payments, transit system operators will consider offering rebates to users when they pay electronically on a regular basis. Moreover, interoperability of designated electronic payment instruments used across transit systems (i.e. multipurpose prepaid card or debit card) is important for efficiency reasons, particularly for low income users who cannot afford to hold idle balances in more than one payment card.

[Facilitating account services for remittances](#)

118. NBS will increase competition and foster innovation in the Serbian remittance market to help realize the potential of remittances as a vehicle of financial access and inclusion. Further cooperation and partnerships between banks/e-money issuers and money transfer operators (MTOs) will also be promoted to enable product innovation. In the process, the recommendations from the “Review of the Market for Remittances in Serbia” will be followed by NBS and the other relevant actors in the remittances space.

119. The bilateral clearing and settlement system between Serbia and BiH has great potential for reducing the costs of remittances between these countries and for improving financial inclusion. The system is currently underutilized and banks are not taking full advantage of its potential. NBS will explore with banks how greater use could be made of the links so that for low value transfers between Serbia and BiH banks choose this channel rather than their own alternative arrangements. Additional cooperation between the CBBH in BiH, the banks, e-money issuers, and the payment institutions in Serbia, will also be helpful in determining if any improvements need to be made. NBS will also explore if it is possible to revive and fully implement the agreement signed on this topic with the Central Bank of Montenegro in September 2007. In addition, NBS will take the necessary steps to expand the number of participants in the System for international and interbank clearing by negotiating with other countries in the region.

120. Another issue that can be explored is the potential linkage of NBS instant payment system to TIPS. Linking the Serbian instant payment system to TIPS would create space for efficiencies to be gained in the context of remittances coming from EU countries. The instant payment system that has been introduced in Serbia has indeed the technical capacity to interoperate with TIPS.

121. The DinaCard network also offers the opportunity to MTOs and payment institutions to create prepaid instruments which could benefit from the low margins on foreign exchange conversion and commissions charged by the NBS. This highlights the possibility for remittance service providers to offer cheaper products to their customers, taking advantage of the extensive card network. The past attempts in this area were unsuccessful due to the lack of awareness and insufficient marketing efforts to promote the product to the population, and because the MTO that was participating in the Service withdrew from the project. However, the overall experience will be reconsidered, possibly leveraging the national platform offered by the DinaCard, making it available to all the international MTOs for the delivery of remittances and properly marketing it among users. In that context, NBS will examine other potential channels for delivering remittances, which would not be dependent on MTOs exclusively, discuss with the banks and encourage them to offer a product aimed at remittance receivers, which could be an enhanced version of the DinaCard, benefitting from low processing and foreign exchange fees and perhaps enhanced features, such as chip-based. This payment instrument could allow banks to benefit from some advantages in terms of clearing and settlement of the transactions and lowering the fees for their customers. Furthermore, cooperation has been established between the DinaCard system and one of the largest international card schemes, which will allow the national card to be used throughout the card reception network of that card scheme abroad.

122. Banks in Serbia will consider the opportunities to leverage their own infrastructure and electronic channels to send remittances. Today’s bank-based remittances are mainly account-to-account transactions, but there are opportunities for providing services that could enable unbanked recipients to

obtain funds in a more convenient and low-cost manner. Such services, if specifically tailored for remittances, have real potential to enhance the efficiency, reduce the cost, and enable straight through processing for banks that operate in this market. Additionally, banks will explore both the possibility to create partnerships with other banks in the major sending countries and the usage of the internal proprietary network for banks in the same group. Both these solutions could be based on simple correspondent accounts for the clearing and settlement of the positions and have the potential to create a low-cost service for the migrants and their families. On the sending side of the transaction, most migrants already have bank accounts, while on the recipient side Serbian banks could initially offer pre-paid instruments, in the case where the recipients are not banked, and progressively expand the level of financial inclusion of the receivers via the cross-selling of more sophisticated services.

viii) Strong NBS oversight and supervision of the retail payments market

123. NBS will continue exercising its oversight role based on the five principles set by CPMI.³⁶

- a. **Transparency:** Central banks should set out publicly their oversight policies, including the policy requirements or standards for systems and the criteria for determining which systems these apply to.
- b. **International Standards:** Central banks should adopt, where relevant, internationally recognized standards for payment and settlement systems.
- c. **Effective Powers and Capacity:** Central banks should have the powers and capacity to carry out their oversight responsibilities effectively.
- d. **Consistency:** Oversight standards should be applied consistently to comparable payment and settlement systems, including systems operated by the central bank.
- e. **Cooperation with Other Authorities:** Central banks, in promoting the safety and efficiency of payment and settlement systems, should cooperate with other relevant central banks and authorities.

124. NBS will make sure that payment service providers and payment system operators regularly review their cost and pricing structure, and that they avoid any abusive pricing practices. NBS will maintain close and continuous contact with the market in order to monitor pricing policies and watch against unfair practices. NBS will not allow distortive pricing practices in the provision of infrastructure services (i.e. including interchange fees in the payment cards market). To promote more transparent pricing, it will also persuade payment service providers and payment system operators to avoid cross-subsiding their payments business.

125. NBS along with regulatory authorities will guard against any anti-competitive practices in the retail payments market. In particular, they will monitor any actions from market players aimed at denying, hindering or limiting access to services that involve competitors (e.g. actions that inhibit customers from initiating payments to clients of other banks, or that prevent them from using the ATM or POS network of other banks by charging prohibitive fees). NBS will take directly all actions that are consistent with its legal mandate and policy responsibility to protect competition in retail payments.

126. NBS will make sure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced. These include aspects such as all fees and costs, how transactions are authorized and executed, maximum execution time and value dating of payments,

³⁶ “Central Bank Oversight of Payment and Settlement Systems”, CPMI 2015.

revoking payment orders, liabilities in case of unauthorized use of payment instruments, and refunds on payments.

V. IMPLEMENTATION OF THE NATIONAL RETAIL PAYMENTS STRATEGY: ROLES, RESPONSIBILITIES AND PROGRESS MONITORING

V.1 Roles and Responsibilities

127. The successful implementation of the strategy requires that specific roles and responsibilities be assigned to various stakeholders, under public accountability rules.

National Bank of Serbia

128. NBS is a critical actor in the implementation of the NRPS. The NBS will play a very proactive role in promoting the NRPS by supporting cooperation and coordination among stakeholders, and by prompting collective action from stakeholders whenever necessary. In its multifaceted payments capacity as a central bank, the NBS will:

- i. Catalyze retail payments reforms and development measures, largely by promoting cooperative actions and decisions by the private sector as well as from relevant public- sector entities, increasing access, ensuring a level-playing field, providing access to infrastructure for non-bank licensed payment service providers;
- ii. Draft (proposals of) laws and regulations (or changes thereof), as well as strategic documents;
- iii. Oversee the retail payments market and the broader NPS to ensure their safe and efficient functioning;
- iv. Provide clearing, settlement and infrastructure facilities, including ensuring finality and irrevocability in the payment and settlement of transactions, thus increasing confidence in the payment system; and
- v. Use the modern payments infrastructure and instruments and services for its own payment activities and that on behalf of its client institutions and customers; and

Association of Serbian Banks

129. The ASB will be responsible for:

- i. Coordinating and representing the interests of its members on any matters relating to the NRPS, including but not limited to the design and launch of new payment products across the banking industry, financial literacy and product/service pricing issues;
- ii. Continuing to operate retail payment systems and infrastructures, and promoting their integration with other infrastructures;
- iii. Designing and adopting standards across the banking industry (and with other payment service providers) to ensure uniformity and efficiency in operations; and,
- iv. Promoting and facilitating the interoperability of all bank accounts and between bank accounts and e-money accounts.

Government Agencies

130. Important roles and responsibilities are likely to be played by government agencies holding regulatory responsibilities in areas that have contiguities with the NRPS. These include regulatory agencies

for telecommunications, competition and consumer protection, as well as agencies competent for the disbursement of pensions, social and other similar payments.

131. Other government entities that could play a role in the context of the NRPS are the Ministry of Finance, the Ministry of Public Administration and Local Self-Government, the Ministry of Trade, Tourism, and Telecommunications, the Ministry of Education, Science and Technological Development, the Ministry of Labor, Employment, Veteran and Social Affairs, and the Ministry of Interior.

Payment Service Providers (banks and NBFIs that provide payment services)

132. The individual payment service providers will:

- i. Commit to transparency in carrying out their payments business vis-à-vis their customers (individuals, businesses and government entities that hold accounts with them, as well as merchants in their acquiring business);
- ii. Manage in a robust manner the risks associated with the payment services they provide to the public as well as their payment operations more generally;
- iii. Consider innovations as part of business strategies and encourage modernisation and further development of the retail payments market.

Payment System Operators

133. The individual payment system operators will:

- i. Encourage interoperability and to be part of cooperation leading to common standards, shared infrastructures/services, and collective action when needed;
- ii. Abide by regulations and international standards in risk management and emulate best practices that raise the bar of efficiency and effectiveness in serving market needs;
- iii. Maintain and enhance an open, fair, and risk-based access policy.

Industry Associations and Civil Society Organizations

134. Industry associations and civil society organizations will engage on specific issues to support strategy implementation and buy-in.

V.2 Progress Monitoring

135. A framework for monitoring and evaluating progress in the implementation of the NRPS will be developed up-front and become an integral part of the overall plan. Progress in the implementation of the NRPS will be assessed periodically against the vision and the measurable overarching objectives established at the outset of the NRPS. A number of “Intermediate variables” that convey the progress towards the agreed vision and overarching objectives will also be measured/calculated and monitored. This will help in identifying course correction requirements promptly.

136. In this regard, the measurable overarching objectives of the NRPS are:

- i. Increasing the current number of electronic payments per adult per year to 72 such payments by end-2024. The starting point is about 3.5 electronic payments per adult per month (or 43 per year) and the goal would be to reach 6 electronic payments per month.

- ii. Achieving an adult account ownership ratio of 90 percent by 2024. The starting point is 71 percent of adult account ownership observed as of end-2017.

137. In the progress reports, the NBS will identify the original baseline figure for each intermediate variable, and the expected direction of the variable (i.e. whether it should have a growing or decreasing trend in order to be compatible with the overarching objectives).

138. Some potential candidates for these intermediate variables are shown in **Table 5**.

Table 5: Indicative Variables to Assess Progress in NRPS Implementation³⁷

Intermediate Variable	Explanation
Access points	This would include metrics like ATMs and POS terminals (including asset light acceptance infrastructure such as IPS QR codes) per 1000 inhabitants and number of branches per 1000 adults. To get a more accurate assessment, a metric for specific geographic areas (region, urban <i>versus</i> rural, etc.) may also be developed.
Other access metrics	These set of metrics help in assessing the penetration of payment instruments and alternative access channels. This would include metrics like number of credit and debit cards per capita; share of accountholders subscribed to Internet banking and/or mobile banking; share of accountholders that use Internet banking and/or mobile banking at least once every month, etc.
Transactions per ATM and POS terminal	This is the number of transactions per ATM, POS or acceptance infrastructure over a period of time. This serves to measure the level of interoperability and usage of infrastructure.
Transactions at POS/ Transactions at ATMs	This number reflects the evolution in the usage of payment cards as an electronic payment instrument with merchants <i>versus</i> its usage as a cash distribution mechanism (i.e. at ATMs)
Total expenditure using payment cards/total consumer expenditure	This variable aims at reflecting the evolution of consumer expenses made with payment cards (debit and credit) as a percentage of total consumer expenditure.
Percentage of payment instructions received by PSPs purely through electronic means	This is the share of payment instructions received by payment service providers through electronic means in the total number of payment instructions (including electronic plus paper-based and face-to-face channels).
Percentage of payment instructions received and processed purely electronically by PSPs	Same as above, although this variable also includes whether payment instructions were processed electronically once they were received in electronic form (i.e. to identify evolution in straight-through processing)

³⁷ This is not a comprehensive list of potential intermediate variables.

Intermediate Variable	Explanation
Percentage of government payments made directly to beneficiary accounts	<p>This is the share of government payments (in volume) that were disbursed directly from the account of the government to the account of the beneficiary.</p> <p>Separate indicators may be calculated for payroll, vendors and suppliers, beneficiaries of social assistance programs, government-to-government transfers, etc.</p>
Evolution of the cost for a domestic funds transfer between parties with accounts at different payment service providers	<p>This is the <u>total</u> cost (for the originator and for the final beneficiary) of making a domestic funds transfer between parties maintaining accounts at two different institutions.</p> <p>To make it comparable, this should be for a representative amount and shown as a percentage of such amount, and for different institutions and different modes.</p>
Evolution of the cost of domestic funds transfers versus domestic remittances in cash	<p>This variable would compare the evolution of the previous variable versus the evolution of the cost of making the same transaction (i.e. transferring money) but using only cash.</p> <p>This variable is especially relevant for transfers from one city or town to another.</p>
Evolution of the fixed monthly cost to maintain a transaction account	<p>This is the cost for the consumer to maintain specific payment product accounts like a bank account for debit cards, e-money account, etc.</p> <p>Calculations to be done by type of payment service provider (banks vs. NBFIs), and by type of product (for example, basic and regular products in one category, and premium products in a separate category)</p>
Evolution of the cost to accountholders of per transaction charges	<p>This variable aims at measuring the evolution of the cost to accountholders of the various services that are charged solely on the basis of usage.</p> <p>This would include fees for “off-us” ATM withdrawals, fees for intra-bank and interbank transfers (separating by channel), etc.</p> <p>A representative indicator will need to be calculated (e.g. weighted average or similar) to convey the outcomes more easily</p>
Volume and value of frauds and operational errors.	<p>This is the count and value of frauds represented in percentage terms for specific categories of frauds and operational errors like late processing of a funds transfer, debit of a wrong amount, counterfeit fraud, repudiation related fraud, etc.</p>

Source: Adapted from World Bank (2012), “Developing a comprehensive national retail payments strategy”.

V.3 Implementation Plan

Strategic Area	Actions/Priorities	Main Implementing Entity/Unit	Timeframe (2019-2024)
Stakeholder Commitment	Organize working groups and meetings for the implementation of the National Retail Payments Strategy by involving a variety of public and private sector stakeholders.	NBS to coordinate	Ad hoc
	Continue with the development of adequate capacity and know-how on retail payments matters.	NBS	Ongoing
Enhancement of the Regulatory Environment for Retail Payments	Publish on the NBS website a list of commonly used payment services by users, in relation to their payment account and services that generate the highest costs, as part of the amendments to the LPS.	NBS	2019
	Application of the AML/CFT regulations will be analyzed, with special attention given to the possibility of application of simplified customer due diligence measures in certain cases, on a risk-based approach, in order to encourage the use of electronic transactions, in particular for non-face-to-face transactions.	NBS	2019-2020
New Supporting Retail Payments Infrastructure	Introduce instant payments at point of sale.	NBS, banks	2020
	Explore linking NBS instant payments system to TIPS.	NBS, banks	Ad hoc
	Explore the possibility of introducing new infrastructures and technologies such as IPS QR codes in conjunction with instant payments. Potentially expand usage at point of sale.	NBS, ASB, banks, other infrastructure providers	2019
	Use cross-checking of requirements prescribed by legal framework with the CPMI-IOSCO principles and conduct a self-assessment of the retail payment systems. Ensure that any payment systems operated by the private sector also implements robust risk management measures.	NBS	2020-2021
	Introduce digital ID infrastructure as part of	Government	By 2024

Strategic Area	Actions/Priorities	Main Implementing Entity/Unit	Timeframe (2019-2024)
	the Law on Electronic Document, Electronic Identification and Trust Services for Electronic Transactions.		
Affordable Retail Payment Services	Introduce and offer a free or low-cost “basic” account product for currently unbanked customers.	NBS, ASB, banks	2019
	Achieve Account-to-Account (A2A) interoperability between bank accounts and e-money accounts, as well as among e-money accounts themselves (if more than one e-money issuers start operating in the country).	NBS, ASB, banks, e-money issuer, other infrastructure providers	2019-2022
	Review the NBS price database of banking services to make sure it is meaningful for making comparisons across banks, and further disseminate it among existing and potential new users.	NBS	Annually
Expansion of Access Points and Networks for Retail Payments	Analyze the feasibility of providing a set of financial/fiscal incentives to merchants and payers to accept electronic payments: providing a temporary subsidy to smaller businesses for the rental of POS terminals or other transaction-acceptance devices; providing a temporary fiscal benefit (i.e. tax rebates) for purchases in which the business accepted cards or other electronic payment instrument as a means of payment.	Ministry of Finance	Ad hoc
	Collect and publish data on payment card fees for merchants, to the extent possible.	NBS	Annually as of 2020
Continued Financial Literacy Efforts	Draft and implement a new “Financial Education Strategy” once the current one expires.	NBS (Department for Financial Consumer Protection)	2020
	Continue measuring the effectiveness of the financial education efforts and programs through the existing evaluation tools.	NBS (Department for Financial Consumer Protection)	Ongoing
	Ensure that sufficient hands-on training is provided as part of consumer onboarding.	Banks, NBFIs	Ongoing
Economies of Scale by Leveraging	Remove any remaining legal, regulatory, and infrastructural barriers to the collection and disbursements of payments by the	Ministry of Finance and other government agencies	Ad hoc

Strategic Area	Actions/Priorities	Main Implementing Entity/Unit	Timeframe (2019-2024)
Large-Volume Low-Value Payment Use Cases	government through electronic means in order to achieve digitization of all government payments on the receiving and disbursing side.		
	Collaborate in inducing greater usage of electronic payment instruments for bill payments and for mass transit, which in turn could reduce collections costs. Billers will analyze offering rebates and/or other incentives if bills are paid electronically, and will also carry out educational campaigns with their customers, their own employees and local authorities in this regard.	Large billers, transit system operators	Ongoing
	Increase competition and foster innovation in the Serbian remittance market to help realize the potential of remittances as a vehicle of financial access and inclusion. In the process, follow the recommendations from the “Review of the Market for Remittances in Serbia”.	NBS, banks, NBFIs	Ongoing
	Explore with banks how greater use could be made of the bilateral clearing and settlement system between Serbia and BiH banks for low value transfers.	NBS, ASB, banks	Ongoing
	Investigate if it is possible to revive and fully implement the agreement signed on this topic with the Central Bank of Montenegro in September 2007.	NBS	Ongoing
	Take the necessary steps to expand the number of participants in the System for international and interbank clearing by negotiating with other countries in the region	NBS	Ongoing
	Examine potential channels for delivering remittances, which would not be dependent on MTOs exclusively, and encourage banks to offer a product aimed at remittance receivers, which could be an enhanced version of the DinaCard.	NBS, ASB, banks	Ongoing
	Consider the opportunities to leverage NBS and bank own infrastructure and electronic channels to send/receive remittances.	NBS, ASB, banks	Ongoing

Strategic Area	Actions/Priorities	Main Implementing Entity/Unit	Timeframe (2019-2024)
Strong NBS Oversight and Supervision of the Retail Payments Market	Ensure that payment service providers and payment system operators regularly review their cost and pricing structure, and that they avoid any abusive pricing practices.	NBS	Ongoing
	Guard against any anti-competitive practices in the retail payments market.	NBS, Commission for Protection of Competition	Ongoing
	Ensure that the contracts stipulating the rights and obligations for both service providers and users are clearly defined and enforced. These include aspects such as costs, how transactions are authorized and executed, maximum execution time and value dating of payments, revoking payment orders, liabilities in case of unauthorized use of payment instruments, and refunds on payments.	NBS	Ongoing
OVERARCHING GOALS			
Increasing Bank Account Access	From 71 percent ³⁸ to 90 percent.	All actors	2024
Increasing Electronic Instrument Usage	Increasing the current number of electronic payments per adult, from 3.5 per month to 6 per month.	All actors	2024

³⁸ Please note that as per footnote 2, all data from Global Findex are from 2017. Therefore, for this particular goal, the baseline of 71 percent is from 2017.

Annex 1. Glossary of Select Terms³⁹

Access Point	A point that is necessary to initiate a payment. Access points can include branch offices, ATMs, terminals at the POS, or a personal device of the user (for access via the Internet or other telecommunication networks)
Agent Banking	Business arrangements of banks and non-bank payment service providers using local entities (i.e. agents) such as small shops to provide basic payment and transaction account-related services on their behalf. In some cases, this arrangement is also referred to as banking through business correspondents.
Agent	An entity that provides payment services on behalf of a payment service provider. The type of service provided by the agent could vary from direct processing of transactions like disbursing cash or receiving deposits to accounts, to ancillary non-transaction-related services like collection of documents, opening a mobile money account, or addressing customer service queries, among others.
Automated Teller Machine (ATM)	An electromechanical device that permits authorized users, typically using machine-readable payment cards, to withdraw cash from their accounts and/or access other services such as balance inquiries, transfer of funds, or acceptance of deposits. ATMs may be operated either online with real-time access to an authorization database or offline. ATMs might be located at PSP branches or at other locations.
Branch	The physical outlet of a PSP that permits PSUs, to withdraw cash from their accounts and/or access other services such as balance inquiries, transfer of funds, or acceptance of deposits. These activities might be conducted via the teller or in the self-service area of a PSP.
Cash	Banknotes and coins issued by a central bank or government, which is recognized as legal tender in the country it has been issued.
Clearing	The exchange of payment instructions between the payer's bank and the payee's bank (or their agent.) which results in the calculation of payment obligations between system participants
Credit Card	A type of payment card, indicating that the holder has been granted a line of credit. It enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest is charged on the amount of any extended credit and the holder can be charged an annual fee. A special type of credit card is a charge card. A charge card is a type of payment card indicating that the holder has been granted a line of credit. It enables him to make purchases but does not offer extended credit, the full amount of the debt incurred must be settled at the end of a specified period. The holder is usually charged an annual fee. Examples of these include the travel and entertainment cards.
Debit Card	Payment card where the funds are debited in full for every transaction. It enables the holder to make purchases and/or withdraw cash. Some issuers of debit cards provide an overdraft feature, allowing the payer to use the card even without sufficient balance in the underlying account.
Direct Debit	A payment order or possibly a sequence of payment orders made for the purpose of collecting funds from the payer and placing at the disposal of the payee. The payment

³⁹ The definitions are taken from: "A Glossary of Terms Used in Payments and Settlement Systems", CPMI and "Developing a National Retail Payment Strategy", World Bank.

	instructions typically move from the payment service provider (PSP) of the payee/originator to the PSP of the payer, possibly via several other PSPs as intermediaries and/or more than one direct debit transfer system. If both, the payer and the payee are customers of the same PSP, the direct debit transfer can be processed without the involvement of other PSPs and/or direct debit transfer systems. Direct debit transfers are typically categorized as electronic-fund transfer payment instruments, the authorization (or mandate) founding the contractual basis for the (series of) direct debit transfer(s) is however often still paper-based.
Credit Transfer	A payment order or possibly a sequence of payment orders made for the purpose of placing funds at the disposal of the beneficiary. Both the payment instructions and the funds described therein typically move from the PSP of the payer/originator to the PSP of the beneficiary, possibly via several other PSPs as intermediaries and/or more than one direct credit transfer system. If both, the payer and the payee are customers of the same PSP, the direct credit transfer can be processed without the involvement of other PSPs and/or direct credit transfer systems. While direct credit transfers are typically categorized as electronic-fund transfer payment instruments, they can be a “hybrid payment instrument”, if they are initiated on paper forms. As part of the clearing process these paper forms are replaced with exchange of their images or more commonly digital substitutes.
Fully Electronic Payment	A payment instructions that is initiated electronically (e.g. entered into a payments system or a core banking system via the Internet or other telecommunications network) and processed electronically in all remaining steps up to where the account of the beneficiary is credited with finality (and the account of the payer is debited) . The device used to initiate the payment could be a computer, mobile phone, POS device, or any others. The payment instrument used is often a payment card product, electronic credit/debit transfers, an e-money product or other innovative payment products.
Interoperability	A situation in which payment instruments belonging to a given scheme may be used in platforms developed by other schemes, including in different countries. Interoperability requires technical compatibility between systems, but can only take effect where commercial agreements have been concluded between the schemes concerned.
Liquidity Risk	The risk that a bank will not have sufficient liquidity to meet its settlement obligations (temporary need for fund)
Mobile Banking	The access of an account held with a bank, MFI, or other PSP via a mobile phone to obtain account information and/or initiate transactions.
Mobile Money	E-money product where the record of funds is stored on the mobile phone or a central computer system, and which can be drawn down through specific payment instructions to be issued from the bearers’ mobile phone. It is also known as M-Money.
National Payments System (NPS)	Encompasses all payment-related activities, processes, mechanisms, infrastructures, institutions and users in a country or a broader region (e.g. a common economic area).
Oversight of payment and settlement systems⁴⁰	Oversight of payment and settlement systems is a central bank function whereby the objectives of safety and efficiency are promoted by monitoring existing and planned

⁴⁰ The first paragraph in this definition is the original definition from CPSS (2005) “Central Bank Oversight of Payment and Settlement Systems”. The second part is added from various WBG documents.

	<p>systems, assessing them against these objectives and, where necessary, inducing change.</p> <p>Payment systems oversight aims at a given payments system, rather than individual participants. In recent years, many central banks have expanded oversight activities to payment instruments and payment services.</p>
Pay Office	The physical outlet of a payee (e.g. in case of utility companies) or payer (e.g. in case of government agencies) that permits PSUs to transfer and receive funds. These activities might be conducted at the teller or in the self-service area of the paying office.
Payment Card Switch	A mechanism that connects various institutions allowing interchange of payment cards transactions of participating institution cardholders at other participating institution merchants, ATMs and other card acceptance devices. A payment card switch is typically used for routing authorization and authentication-related messages between participating institutions and can also generate and distribute clearing and settlement files. In some settings, the individual institutions could themselves have payment card switches to connect their own ATMs and POS terminals to their own internal card processing systems, and these payment card switches are then connected to a central inter-institution payment card switch. This term is often used interchangeably with payment card network but there are important differences: A switch in general refers to the technical infrastructure whereas a payment card network encompasses operational arrangements, payment products, rules, procedures, acceptance brands, etc.
Payment Instruction	An order or message instructing the transfer of funds to the order of the payee.
Payment Service Provider	An entity that provides payment services, including remittances. Payment service providers include banks and other deposit-taking institutions, as well as specialized entities such as money transfers operators and e-money issuers.
Payments System	Consists of a set of instruments, banking procedures and, typically, interbank funds transfer systems that ensure the circulation of money
Point-of-Sale (POS) Terminal	This term refers to the use of payment cards at a retail location (point of sale). The payment information is captured either by paper vouchers or by electronic terminals, which in some cases are designed also to transmit the information. Where this is so, the arrangement may be referred to as “electronic funds transfer at the point of sale” (EFTPOS). In the latter case, the terminal reads the account information from a payment card's magnetic stripe and/or embedded IC chip and in some cases also accept cardholders PIN entry; prepares a transaction authorization request based on transaction; transmits the authorization request to the acquiring institution; receives the authorization response; displays transaction completion status; and prints a transaction record.
Remote Payments	The physical location of the payer and the payee do not coincide. The retail payment can be initiated in the course of the (economic) transaction between the payer and the payee (e.g. Mail-Order/Telephone-Order or E-Commerce) or it can be separated from the underlying (economic) transaction (e.g. bill payment). Examples for remote payments are payments initiated via regular mail, the Internet/designated lines and via telephone/mobile phone network.
Switching	An electronic system employed to transfer payment instructions, initiated by customers, between participating banks within a retail payments market

Telephone/Mobile Phone Network	Voice or text communication network that allows users of payment services to access services such as balance inquiries or transfer of funds, via desktop or mobile phones.
Transaction Account	Broadly defined as an account held with a bank or other authorized and/or regulated service provider (including a non-bank) which can be used to make and receive payments. Transaction accounts can be further differentiated into deposit transaction accounts and e-money accounts.

Annex 2. The World Bank's Guidelines for Developing a Comprehensive Strategy for Reforming Retail Payments

The World Bank Payment Systems Development Group (PSDG) has developed a strategy for reforming retail payments systems, which contains a number of recommendations for the modernization of the NRPS.

The framework has been designed by capitalizing on the past studies carried out by the World Bank itself, the Committee on Payment and Settlement Systems, and other international and national bodies involved in payment system issues, as well as on the worldwide experience accumulated by the PSDG in supporting payment systems reforms in over 100 countries.

The framework builds on the following set of public policy objectives:

- Ensure the overall safety and efficiency of the national payment system
- Promote affordability and ease of access to payment services;
- Promote development of efficient infrastructure to support development of payment instruments and mechanisms to meet retail payment needs; and,
- Promote socially optimal usage of payment instruments.

To achieve these public policy objectives, the World Bank has formulated the following guidelines:

Guideline I: The market for retail payments should be transparent, have adequate protection of payers and payees interests, and be cost-effective.

Guideline II: Retail payments require reliable underlying financial, communications, and other types of infrastructure; these infrastructures should be put in place to increase the efficiency of retail payments. These infrastructures include an inter-bank electronic funds transfer system, an inter-bank card payment platform, credit reporting platforms, data sharing platforms, large value inter-bank gross settlement systems, availability of robust communications infrastructure, and also a national identification infrastructure.

Guideline III: Retail payments should be supported by a sound, predictable, non-discriminatory, and proportionate legal and regulatory framework.

Guideline IV: Competitive market conditions should be fostered in the retail payments industry, with an appropriate balance between co-operation and competition to foster, among other things, the proper level of interoperability in the retail payment infrastructure.

Guideline V: Retail payments should be supported by appropriate governance and risk management practices.

Guideline VI: Public authorities should exercise effective oversight over the retail payments market and consider proactive interventions where appropriate.

Annex 3: CPMI – World Bank “Payment Aspects of Financial Inclusion”

Financial inclusion undertaken from a payments angle should aim to achieve a number of objectives. Ideally, all individuals and businesses should be able to have and use at least one transaction account operated by a regulated payment service provider:

- To perform most, if not all, of their payment needs
- To safely store some value; and
- To serve as a gateway to other financial services

In this context, the following Guiding Principles were identified. Each of these also include a set of possible actions (not presented in this annex).

Guiding principle 1: Public and private sector commitment: Commitment from public and private sector organizations to broaden financial inclusion is explicit, strong and sustained over time.

Guiding principle 2: Legal and regulatory framework: The legal and regulatory framework underpins financial inclusion by effectively addressing all relevant risks and by protecting consumers, while at the same time fostering innovation and competition.

Guiding principle 3: Financial and ICT infrastructures: Robust, safe, efficient and widely reachable financial and ICT infrastructures are effective for the provision of transaction accounts services, and also support the provision of broader financial services.

Guiding principle 4: Transaction account and payment product design: The transaction account and payment product offerings effectively meet a broad range of transaction needs of the target population, at little or no cost.

Guiding principle 5: Readily available access points: The usefulness of transaction accounts is augmented with a broad network of access points that also achieves wide geographical coverage, and by offering a variety of interoperable access channels.

Guiding principle 6: Awareness and financial literacy: Individuals gain knowledge, through awareness and financial literacy efforts, of the benefits of adopting transaction accounts, how to use those accounts effectively for payment and store-of-value purposes, and how to access other financial services.

Guiding principle 7: Large-volume, recurrent payment streams: Large-volume and recurrent payment streams, including remittances, are leveraged to advance financial inclusion objectives, namely by increasing the number of transaction accounts and stimulating the frequent usage of these accounts.

Annex 4: CPSS – World Bank “General Principles for International Remittance Services” and Related Roles

GENERAL PRINCIPLES FOR INTERNATIONAL REMITTANCE SERVICES

The general principles are aimed at the public policy objectives of achieving safe and efficient international remittance services. To this end, the markets for the services should be contestable, transparent, accessible and sound.

Transparency and consumer protection

General Principle 1. The market for remittance services should be transparent and have adequate consumer protection.

Payment system infrastructure

General Principle 2. Improvements to payment system infrastructure that have the potential to increase the efficiency of remittance services should be encouraged.

Legal and regulatory environment

General Principle 3. Remittance services should be supported by a sound, predictable, non-discriminatory and proportionate legal and regulatory framework in relevant jurisdictions.

Market structure and competition

General Principle 4. Competitive market conditions, including appropriate access to domestic payments infrastructures, should be fostered in the remittance industry.

Governance and risk management

General Principle 5. Remittance services should be supported by appropriate governance and risk management practices.

ROLES OF REMITTANCE SERVICE PROVIDERS AND PUBLIC AUTHORITIES

A. The role of remittance service providers. Remittance service providers should participate actively in the implementation of the general principles.

B. The role of public authorities. Public authorities should evaluate what action to take to achieve the public policy objectives through implementation of the general principles.