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EUROSISTEMA
CENTRAL BANK OF MALTA



Malta Bankers' Association

The Maltese SEPA National Implementation Plan

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Version 1.5

The Maltese SEPA National Implementation Plan

Purpose of the Plan

This Plan describes the organisational set up of the Maltese national payments community and affirms its commitment towards the implementation of SEPA. It outlines the roadmap for the delivery of SEPA in Malta, and proposes a migration plan for achieving SEPA compliance for related instruments and clearing systems. It describes the governance structure that will manage this project.

Malta joined the European Union in May 2004. The Maltese Government targeted 1 January 2008 for Malta to adopt the euro as its national currency. This was a major driver for the implementation of SEPA in Malta since the planned introduction of SEPA and the euro coincided. The project thus offered the banking community the opportunity to develop innovative products and services to satisfy the expectations of users. This also posed a significant challenge both logistically and, more significantly, from a user perspective due to the number of changes that took place concurrently.

The Maltese community of banks adopted the IBAN standard for euro accounts (BBAN) on the 1 January 2004.

The National Community Organisation Structure

The Malta Bankers' Association (MBA) represents the local banking community. The **Payment System Users' Group (PSUG)** is the consultative body responsible for the definition of the policy and strategy governing all issues relating to payments for the Maltese banking community. The Group is made up of representatives of credit institutions operating in the domestic market and the MBA, and is chaired by the Central Bank of Malta.

The Group co-ordinates discussions on a number of issues that include the efficient functioning of payment systems and the clearing and settlement of various payment instruments. It is responsible for the implementation of SEPA at the national level, and acts as the Steering Committee for the project. The Group handled the implementation of SEPA Credit Transfers and is currently working on the implementation of the SEPA Direct Debits Scheme with the assistance of experts on the local schemes. It is also further assisted in the implementation of SEPA through a specialist sub-group focusing on the SEPA Cards Framework.

Each bank individually is responsible for developing operations and settlements solutions according to the SEPA implementation plan as agreed at Steering Committee level. Many of the participating banks have also established internal committees to manage the implementation of SEPA-related developments. Each institution has identified the best option to achieve reachability and to offer originator services, through marketing of new products and services. They have also effected all the necessary business process changes that were required for implementation. These included the transparent translation of conditions and charges to existing business processes, the

identification of changes to business rules required to implement the Scheme Rulebook requirements, and the implementation of changes in operational processes and systems.

Introduction

The Maltese banking community fully endorses the migration of Maltese payments processing towards SEPA.

In line with the European Payments Council (EPC) Plenary decision, the Maltese community was able, from 28 January 2008, to achieve critical mass in the processing of incoming SEPA Credit Transfers (receiving side) and is offering SEPA Credit Transfer originator products (sending side) both for domestic transfers and also where the beneficiary is within the rest of the SEPA area.

On the SEPA Direct Debit payment instrument side, the Maltese banking community was working towards a 1 November 2009 launch date. However due to the late clarification regarding interchange fees and subsequent changes to EU Regulation 2560 this date has been postponed to 1 November 2010. The banking community is thus now looking at implementing reachability (receiving side) by 1 November 2010, making it possible for each bank to also start offering a SEPA Direct Debit Creditor proposition by this date as well. This is, however, being left as a competitive area in view of the fact that an interbank direct debit scheme does not as yet exist in Malta.

The banking community expects to process and settle at least 80% of all interbank credit transfers and direct debit payment messages resulting from the use of these SEPA payments instruments in a European infrastructure by end2010, 80% being the market share that was initially fixed as the target of critical mass migration rate.

For card based instruments, the decision was to migrate the current acquiring instruments (ATMs and EPOS), which are mainly owned by two major banks, to EMV^{®1} compliancy. It was also agreed that these two banks would also start issuing EMV^{®1} "Chip and PIN" cards. However, as standards have still to be finalised for all domains of card payments, the Maltese banking community is not attempting an end-date for card payments migration.

Scope

Positive Scope

This migration plan covers the entire payment chain included within the three pan-European payment instruments currently defined in the EPC Rulebooks and Framework:

SEPA Credit Transfers
SEPA Direct Debits
SEPA Cards

¹ EMV[®] is a global standard for credit and debit payment cards based on chip card technology.

These three pan-European payment instruments will replace the existing Maltese instruments, taking into account a definite transitional period in which non-SEPA payment instruments will continue to exist alongside the newly introduced SEPA payment instruments. The aim of the participating institutions is that by end 2010 all the products for automated payments offered to consumers will be replaced by the new SEPA instruments.

In order that impact on customers is as low as possible, all possible efforts are being made to keep the transition as smooth and seamless as possible.

Negative Scope

There is general consensus within the community that the advantages of SEPA may only be achieved in Malta within the framework of a comprehensive retail payment services policy that will see the re-positioning of cash and cheques happen. Even if these instruments are highly inefficient, they remain the preferred payment medium used by both businesses and consumers for domestic transactions.

In order to achieve this, the Central Bank of Malta is currently analyzing the best way forward to tackle this problem. A public consultation entitled 'Consultative Paper on Retail Payment Services Policy and the Payment Services Directive' on payment systems policy in general and the Payment Services Directive specifically, was launched in the beginning of 2008.

Current thoughts and possibilities to approach this are:-

- i) rationalizing the economic incentives apparent to cheque users by reducing cross-subsidization of cheque-related costs and causing the introduction of more transparent pricing;
- ii) clearly laying down the rights and obligations of parties within a modern legal framework which updates what was currently in force within our law (Maltese law currently contains few provisions specifically regulating cheques and, for the most part, includes them under the detailed provisions on bills of exchange in the Commercial Code);
- iii) removing legal or operational barriers preventing more efficient cheque clearing, in order to reduce costs and the duration of the clearing cycle; and
- iv) mitigating fraud and credit risk within the economy by tackling abuses which may jeopardize the principle of trust that should preside over the circulation of cheques (e.g. through charges for cheques referred to drawer, or mandatory temporary/permanent revocation of cheque conventions for repeated abuse).

Scope: Summary

The following table shows the existing Maltese payment instruments, their SEPA equivalents and some implementation issues:-

Maltese Payment Instrument	SEPA Payment Instrument	Implementation Comments
Direct Credits	SEPA Credit Transfer (SCT)	Although the majority of Banks in Malta are SCT compliant, not all banks currently have an XML file solution in place. Corporate customers also have to start changing to the new XML standards.
Debit / Credit Cards	SEPA Cards Framework	Banks started to introduce Chip and PIN products. The current ATM reciprocity agreement between the two major banks will have to end in view of SEPA cards and Regulation 2560/2001. This has an impact on customers which were used to this free of charge service.
Cheques and Cash	Out of scope of SEPA	The amount of currency in circulation is around four times the Euro-12 average while cheques are still in great use. Banks need to work together to help in the repositioning of cash and cheques.
Direct Debits	SEPA Direct Debit (SDD)	Banks need to elaborate on the limitation of current Direct Debits system in view of developments within Europe as they are all dependent on third party suppliers. However they are looking forward to start offering this new product which could help in discouraging cheques and cash from circulation.

Inhibitors

Concerns

The implementation of SEPA revealed a number of uncertainties and inhibitors, both where there is interaction between national players, and more so when it comes to interacting with the wider SEPA area. These uncertainties relate mainly to the SEPA payment clearing infrastructure in view that take-up is deemed to be very slow, resulting in a number of payments being made by customers being rejected, due to banks not participating in a SEPA compliant clearing infrastructure and are thus not easily reachable. This is compounded by the fact that STEP2 payments cannot exceed €50,000, which limit does not apply to the SCT scheme. When this occurs, the relative payments are being mishandled by the STEP 2 processing engine. Another difficulty being encountered with the system is the inability of the current infrastructure in providing adequate reasons for failure, thus leaving originating banks with limited

information to adapt their systems, and more importantly, without the information expected by the originating customer in these circumstances.

ACH Connectivity

As from 28 January 2008, all the Maltese banks which have adhered to the SEPA Credit Transfer Scheme are indirectly connected to a SEPA compliant ACH², through a correspondent. The Malta Clearing House does not provide services for the clearing of credit transfers or direct debits, and is not an option for linking with the pan-European clearing arrangements. This however is leading to some confusion within the customer base in that not all the international ACHs and banks are offering the same cut-off and delivery times.

SEPA Direct Debit

In view of the limited and restricted service on the current local Direct Debit system, which is only available within the same bank, all the banks are looking forward to start offering this service. However, they are all dependent on third party suppliers that still have no indication on how to implement this service and also in view that current mandates may be inappropriate. Furthermore, the lack of clarity on certain rules, including charging structures, continue to add to this uncertainty. However on this innovative product for Malta, the service providers are contemplating a joint campaign to involve and inform stakeholders of the various aspects of the scheme, including its benefits, and to ensure that the introduction of the product with an interbank clearing arrangement is successful with the consumer take up of the service.

Payments Services Directive

The Payments Services Directive (PSD) must be transposed into national law by 1 November 2009 at the latest. While being a maximum harmonisation measure it does leave various options open to the national legislator in its implementation. The transposition alone is not sufficient to ensure take up in new payment products and the creation of a coherent implementation policy and strategy is essential. Furthermore, the implementation of the PSD forces a review of various related issues, in particular the regulatory capacity of the Central Bank of Malta in relation to payments systems, the regulation underpinning retail payment instruments which are not within the scope of the PSD, and the relative position of non-electronic payment instruments such as cash and cheques within the economy. This whole process will of course take time, which results in less time for the banks to actually start implementing the necessary changes as these differ between the various member states. This will be further amplified by the fact that all the Maltese banks will have to forward all their requirements to various third party suppliers and/or correspondents that might be connected to different ACH's.

Acceptance by Stakeholders

The support of all stakeholders is of utmost importance. To a certain extent this is already being tackled by the Central Bank of Malta for all the government's departments and agencies. The Treasury Department has initiated the process of migrating its payment initiating systems to SEPA compliance, and the migration is planned to be

² Automated Clearing House

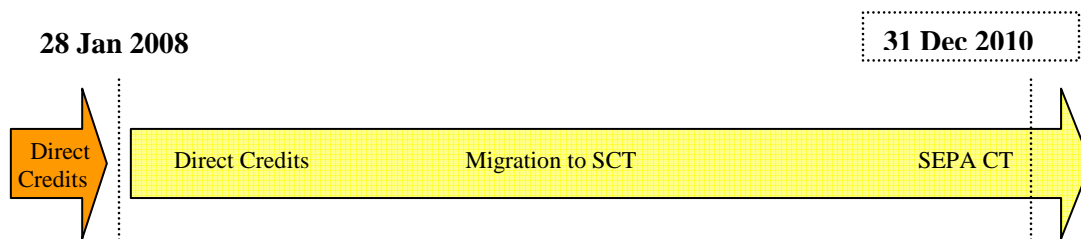
completed by the end of 2010. However when this comes to the Corporates and Small and Medium Enterprises (SMEs), this is still an untapped area. To mitigate this, Maltese banks have agreed that they will provide a data conversion service for BBAN numbers of accounts to an IBAN format. This will lead to a smooth and possibly quick migration of registered “direct credits” customers into a SEPA format, removing for corporates and the public sector the major difficulty in the conversion process. To keep control over this process, this conversion practice is limited to the migration period. Some banks are also offering the possibility to convert BBAN to IBAN for files and bulk payments. Banks together with the Malta Bankers’ Association need to interact effectively with other associations, such as the Chamber of Commerce and GRTU (General Retailers and Traders Union), to encourage SEPA take up and the adherence to new Customer-to-Bank standards.

Migration Timeframes

Different migration timeframes and timelines exist for the different payment instruments:-

Credit Transfers

The migration of the current credit transfers to full SEPA compliancy will take a migration period of around three years from the official launch date of 28 January 2008. However, due to the number of difficulties in this area, it is envisaged that only 80% of credit transfers will be migrated, as to achieve 100% migration would need the full commitment of all stakeholders. For credit transfers migration to be successful, significant challenges relating both to cost and efficiency must be overcome. National bulk credit transfers are delivered to the account of the beneficiary on t+0, under most circumstances in the early hours of the day. The use of existing pan-European clearing arrangements make this level of service difficult to achieve, and migration will see a deterioration to either the beneficiary, originator or possibly both.



Direct Debits

The launch of the SEPA Direct Debits had been postponed until 1 November 2009 in line with a number of other European countries as well as the legislation of the Payments Services Directive within the different countries. Furthermore, the updated EU Regulation 2560 requires reachability compliance by 1 November 2010 and full creditor offering by end 2012. The Maltese banks are seeing that it is going to be a very difficult task to manage the migration to full SEPA Direct Debits by 1 November 2009 and thus are going to comply with the new revised date of 1 November 2010. By this date all local banks must be reachable, thus making it possible for local banks to start offering a creditor proposition by this date as well. In view that to date a national Direct Debit

scheme does not exist, the offering of such a product is being deemed as competitive space, and thus each bank can start offering this service as from 1 November 2010 onwards. In this regard no migration process is necessary but any new interbank direct debit scheme will need to be SEPA Direct Debit compliant.

To date the assessment of the Maltese banking community concerning the launch of the direct debit payment instrument has been relatively low, in view that the adoption period of the Payment Service Directive has been set by means of a specific deadline of 1 November 2009.

Banks have started working on mandates and plan to iron out any issues related to them by end 2009 whilst finalising any service setup issues by the early months of 2010 so that they can then develop and implement a SEPA Direct Debit system in line with 1 November 2010 deadline.

Creditor Identifier

The Banks have also identified that SEPA Direct Debit Scheme needs a unique identifier that allow debtors as well as debtor banks to check collections received against mandate information received from debtors. In view that this checking needs a unique identification of creditors this cannot be issued by each individual bank. It is noted that this requirement is new to the Maltese community since currently a national Direct Debit system does not exist. As no new SEPA procedure has been created the Banking Community had to come up with a scheme whereby it does not tax either the originator (Creditor), the Creditor Bank in its obligations to provide a Unique Creditor Identifier (in line with Rulebook v3.1 section 5.7) or any other institution that would have to take up the role of providing/monitoring the issue of such identifier.

As a result it was identified that the best way forward, and in line with what other countries had previously adopted, would be to use the Tax return number which in case of a company is provided by the Tax Department and in the case of an individual is the National Identification number.

It has been thus agreed that the Maltese SEPA Direct Debit Identifier is built as follows:-

MTXXZZZ123456789X

Format Rule:

- 1) Positions 1 and 2 'MT' represent Malta's ISO country code (alpha)
- 2) Positions 3 and 4 'XX' represent the check digits (numeric)
- 3) Positions 5 to 7 represent the Creditor Business Code. When not used the value should be set to 'ZZZ' (alpha numeric)
- 4) Positions 8 to 16 '123456789' represent the Tax number or the individual's Identity Card number, with leading zeroes to pad up to nine digits (numeric)
- 5) Position 17 'X' represents 'T' for Tax number or the letter that follows the Identity Card number which could be either 'M', 'G', 'L' or 'H' (alpha)

Note: the calculation of the check digit requires the following preliminary steps:

- I. Disregard position 1 to 7

- II. Take the country specific part, positions 8 to 17
- III. Add the ISO country code and '00' to the right-hand end
- IV. Convert letters to digits in accordance with conversion table below
- V. Apply the check character system MOD 97-10 (see ISO 7064)

A = 10	G = 16	M = 22	S = 28	Y = 34
B = 11	H = 17	N = 23	T = 29	Z = 35
C = 12	I = 18	O = 24	U = 30	
D = 13	J = 19	P = 25	V = 31	
E = 14	K = 20	Q = 26	W = 32	
F = 15	L = 21	R = 27	X = 33	

Example:-

Calculating the Check Digits for **MTXXZZZ670169305T**

- 1) Take positions 8-17 (preliminary step II) and add the ISO code together with "00" to the right hand side (preliminary step III)

670169305TMT00

- 2) Convert the letters into digits in accordance to the conversion table (preliminary step IV)

67016930529222900

- 3) Work the Mod 97-10 of the whole number [(a) below]. If necessary the number can be divided into several subsequent calculations of integers (remainders). Thus Mod 97-10 is calculated on the first 9 digits, carrying the remainder to the next part [(b) below]. (Preliminary step V).

(a) MOD (67016930529222900;97) - Remainder is **48** or

(b) MOD (670169305;97) - Remainder is 88
 MOD (**88**2922290;97) - Remainder is 63
 MOD (**630**;97) - Remainder is **48**

- 4) Final step for obtaining the check digit is by subtracting the last integer from the number 98, hence:

$$98 - 48 = 50$$

- 5) The Creditor Identifier thus is **MT50ZZZ670169305T**

Way Forward

The participating institutions in Malta need to fully analyse and consider the impact of the new SEPA Direct Debit system, especially at an operational level and as a market proposition. If implemented correctly, the system can then be used as a driver to reduce

the usage of cheques and cash. The introduction of a new effective payments product requires very good understanding of user expectations and has to be accompanied by an intensive user information and awareness campaign.

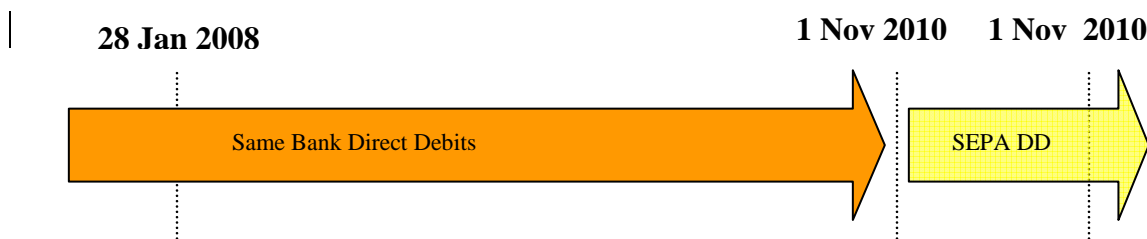
SEPA direct debits may be fully automated and based on the use of open standards and the best practices of straight through processing (STP) without manual intervention. Its objective is to offer a scheme with no disparities between national and cross-border payments and with full reachability throughout SEPA.

The scheme is set out according to the rules on the direct debit UNIFI (ISO 20022) XML standards. The scheme operates in euro at inter-bank level. However, the accounts of the debtor and of the creditor may be in euro or any other currencies, and does not limit the value of a debit claim. Reachability is a major assumption on which the Scheme is based and is therefore a key success factor for the scheme

Limitations

- *Restrictions of the current direct debit scheme where both the sender and receiver have to bank with the same bank together with the proprietary file formats being used.*
- *The dependency of the banks on third party providers of the SEPA Direct Debit who until now have not given any indication as to when and how they are going to provide this service.*
- *The present mandates which will have to be changed.*
- *Systems have to be SEPA compliant and XML (ISO 20022) standards should be used.*
- *A change in the present charging structure as the SEPA direct debit is based on shared principle such that creditor and debtor are charged separately and individually by the Creditor Bank and the Debtor Bank respectively.*
- *Time frames of acceptance/rejection/reversals and cancellations have to be adhered to under the scheme.*
- *The SEPA Direct Debit scheme cannot be assessed and analysed in isolation.*
- *The Payments Section has to be seen holistically and include both the SEPA credit transfers and the SEPA direct debit analysis thus having one system to handle both.*
- *Revisit our payment structure within the organisation and consider the bundling of products thus amalgamating departments and creating synergy between*

sections especially between the Foreign Payments (SEPA credit transfers) and SEPA direct debit.



Cards

In view that the Maltese banks were not EMV compliant, it was agreed that the banks offering such services will work towards achieving EMV compliance by making their ATMs, Point of Sale Terminals and Cards SEPA compliant in line with SEPA Cards Framework Version 2.0. The banks affected by this migration had started to work towards a full migration plan based on this framework. However, in view that standards still need to be finalised for all the domains of card payments (card-to-terminal, terminal-to-acquirer, acquirer-to-issuer and certification framework) it is premature to launch a reflection on introducing an end-date for card payments migration. In the meantime the local banks have continued to work on achieving EMV compliance as detailed below.

EMV Implementation

Card Acquiring Business:

Within the local context, there are two main credit institutions that handle practically all Maltese retail merchant accounts acquiring payments through Electronic Point-of-Sales (EPOS). The majority of EPOSs are provided by these two institutions free of charge to merchants. The upgrade of retail EPOS to handle SEPA compliant cards with the EMV cards is practically complete. The date in having all EPOS machines EMV and SEPA Cards Framework compliant will be revised, as the framework is being updated from time to time.

Automated Teller Machines (ATMs):

In Malta we currently have three ATM networks, two owned by the two major banks and are connected to VISA/MasterCard, and another one owned by one of the smaller banks, which services only that bank's cards.

All the ATMs have so far been physically upgraded to EMV standard. The two major banks are planning to have EMV certification from both card schemes.

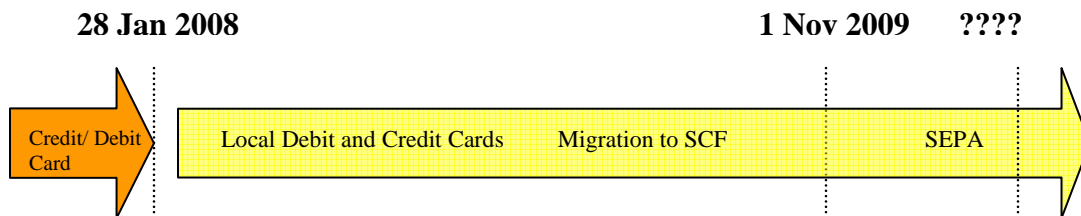
Card Issuing Business:

Presently, there is no national debit card scheme in Malta. The two largest financial institutions operate their own scheme. Each of these debit card schemes has a customer base of over 170,000 subscribers. The smaller banks have agreements with one of the major players to issue debit cards on their behalf.

Credit institutions also offer debit cards that are co-branded with international card schemes, and issue credit cards under the VISA and MasterCard International Card Schemes. At the beginning of 2008 all credit and debit cards in Malta were still dependent on mag-stripe technology. Some subsidiaries of foreign banks in Malta offer cards issued through their parent company.

As from 2008, the Maltese debit and credit cards started being upgraded to EMV. However, a mass migration process has still not occurred as this is dependent on finalisation of the aforementioned standards. The intention of the banks was to have the local debit cards co-branded with a debit card scheme. However this could also change in view of the said changing standards.

Migration Timeline



Reachability and Initiation

In line with the EPC's recommendations, most of the Maltese banks have signed the adherence agreements and were capable of receiving and sending a SEPA Credit Transfer payment as from 28 January 2008. As a result of this, almost all customers have access to at least one customer banking channel from where a SEPA Credit Transfer can be initiated. Those banks which are currently not offering such a solution are working to comply with the least possible delay.

BBAN – IBAN Conversion

The conversion of current data held by various customers or corporates referring to BBAN is the area that will need a lot of thought and work if the Maltese banking community really wants SEPA Credit Transfers to be a success. To mitigate this issue, Maltese banks have agreed that they will internally convert BBAN numbers of accounts into an IBAN format. This will lead to a smooth and possibly quick migration of registered "direct credits" customers into a SEPA format. To keep control over this process, this conversion practice is limited to the migration period. Some banks are also offering the possibility to convert BBAN to IBAN for files and bulk payments.

Customer information and announcement of communication events in 2007 and 2008

The Payments System User Group views customer information as being a key aspect of the Maltese national SEPA migration plan. The Payments Systems User Group is a Steering Committee which was set up by the Central Bank of Malta and the Malta Bankers' Association. This Steering Committee is actively consulting different players such as the Malta Stock Exchange, the Malta Stockbrokers College, the Malta Financial Services Authority and the Malta Clearing House.

With Malta's entry into the eurozone on the 1 January 2008, Maltese credit and financial institutions had to implement the Cross Border Payments in Euro regulation (i.e. regulation 2560/2001). This regulation brought about a rebalancing of euro payment charges. With the implementation of this regulation, the Maltese corporate and business community and the general public associate SEPA only with this regulation. As a result of this, the national SEPA communication strategy is constructed around the following main objectives:

1. *Informing the key stakeholders (i.e. the banking, public sector and the private sector) about, namely:*
 - a. *What the main objectives of SEPA are all about;*
 - b. *Project plans and the time frames involved; and*
 - c. *What developments are taking place at a Pan-European level with particular focus on the European Payments Council (EPC) and the European Central Bank (ECB) high level meetings;*
2. *Readdressing local understanding that SEPA is only related to Regulation 2560/2001 whilst stimulating a national debate on the repositioning of both cash and cheques to more electronic means of payments and the transposition of the Payments Services Directive into Maltese legislation.*

Information delivery Calendar

Title	Organized by	Type of event	Date
Making the Single Euro Payments Area (SEPA) a Reality in Malta: A National Conference to launch SEPA in Malta	- Central Bank of Malta - Malta Chamber of Commerce and Enterprise (CoCE) - Malta Bankers' Association (MBA)	National Conference	26 October 2007
Integration of Maltese financial services in the Single Euro Payments Area (SEPA)	- Institute of Financial Services Malta (IFS) - Malta Financial Services Authority (MSFA)	Workshop	Oct, Nov 2007
BOV/MHRA Q4 - 2007 Hotel Survey Presentation	- Malta Hotels and Restaurants Association (MHRA)	Business breakfast	06 June 2007

Information session on the PSD and SEPA for financial controllers	- Malta Hotels and Restaurants Association (MHRA)	Information session	26 March 2008
Unlocking the Challenges and Opportunities offered by the Single Euro Payments Area and the Payment Services Directive	- Malta Business Weekly - Bank of Valletta plc - Central Bank of Malta	Business breakfast	06 June 2008
The Single Euro Payments Area Project & the Payment Services Directive: An Awareness Programme on the Single Euro Payments Area Project and the Payment Services Directive	- Institute of Financial Services, Malta (IFS) - Malta Financial Services Authority (MFSA) - Central Bank of Malta	Awareness Programme	6 sessions (3 Hours) over May/ June 2008
Sessions with officials and/or members of the: - Malta Business Bureau (MBB) - Association of Licensed Financial Institutions (ALFI) - Malta Chamber of Commerce and Enterprise (CoCE) - Malta Hotels and Restaurants Association (MHRA) - Malta Federation of Industry	- Central Bank of Malta	Bilateral of multilateral information sessions following requests by these organisations	Various

Customer Guidance in C2B/ B2C domain

Customer Guidance in C2B and B2C domain are covered in the payments terms and conditions published by each operator and are based on Maltese legislation, Central Bank of Malta Directives, European legislation and the European Payments Council Rule Books and frameworks.

The banks are continuously reviewing these terms and conditions in view of developments taking place vis-à-vis the SEPA project and the anticipated transposition of the Payment Services Directive into Maltese legislation.

Terms and conditions are easily accessible at Bank branches or on the relative corporate website.