

# The SEPA Implementation Plan for Malta

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# Contents

The National Implementation Plan

Challenges and benefits

The products

Early implementer: The public sector

Transposition of the Payment Services  
Directive

# Project Organisation

- Payment System Users' Group (PSUG)
- Focus groups
  - Credit Transfers
  - Direct Debits
  - Cards

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<http://www.centralbankmalta.com/site/sepa.htm>

# Participating Institutions

- The Malta Bankers' Association (MBA)
- The Central Bank of Malta
- Credit institutions providing retail services
  - APS Bank Ltd
  - Bank of Valletta plc
  - HSBC Bank Malta plc
  - Lombard Bank Malta plc
  - Volksbank Malta Ltd



# Participating Institutions

Participating institutions are committed to:

- Being reachable and compliant with the rulebooks for credit transfers and cards as from 28th January 2008
- Offering new products and services for originating customers
- Providing the required incentives to users enabling a smooth and gradual migration from the national non-SEPA schemes
- Developing value added services within a competitive space
- Developing debit instruction products settling through a pan-European Central Settling Mechanism (CSM) when this is possible as a result of the transposition of the Payment Services Directive
- Providing a data conversion service to bulk payment initiators for conversion of national account numbers to IBAN and BIC codes

# The services available today

## Credit transfers originating in Malta

Low-value credit instructions through bilateral arrangements

Salaries, dividends, pensions, low-value customer transfers

3.98m transactions in 2006 (of which 0.52m are cross-border)

for a total value of Lm 7.7bn

Priority Customer Payments

MaRIS during 2006: 21k transactions for a value of Lm 921m

## Direct debits

Limited intra-bank systems used by a limited number of economic players:

0.73m transactions in 2006 for a value of Lm 59.76m

## Credit and debit cards

511k cards issued

6.4m payment transactions for a value of Lm 174m

9.4m cash withdrawals for Lm 327m

# Challenges

- Credit transfers (3.98m)
  - The local direct credit system is highly efficient both in terms of the delivery time and the cost to its users.
  - However, it exposes the participating institutions to credit risk.
- Direct debits (730k)
  - Relatively new product which is untried by the community.
  - Requires communications effort.
  - New systems required by beneficiary institutions to generate claims.
  - Requires legislation which fosters public trust in the products and offers legal certainty to providers and users of the service.

# Challenges

- For cards (511k)
  - The introduction of chip and pin (156 ATMs and 8192 POS)
  - A fragmented service network
- Competing products
  - Reliance of consumers on other inefficient payment means
    - Cheques (12.54m transactions with value Lm 6.3b)
    - Cash (Lm 506m in circulation in 2006)

# Benefits to the community

- New products that make payments easier, standardised and faster throughout the euro area.
- A direct debit scheme that can substitute the use of cheques and remove many of the associated problems to businesses.
- Schemes that foster the development of value-added services like e-invoicing and e-reconciliation.
- Cheaper cross border euro payments as a result of Directive 2560/2001
- The possibility to use payment factories which industrialise payments at a fraction of the cost.
- Card products that are more secure and cheaper in a more competitive space.

# The (many) costs of operating cheques

- Banks provide an apparently free service, however costs are cross-subsidised by other services
- Even corporates cross-subsidise cheque processing by considering it an overhead, and therefore charging through other goods and services
- Users incur costs to issue invoices, to issue cheques, to reconcile accounts. The technology today allows us to fully automate this process
- Another huge cost to users is the 65k cheques that are dishonoured causing disruptions to business
- (Hidden) COSTS =
  - higher overheads
  - higher prices from suppliers
  - higher charges by banks

# The cost of operating cash

- Again institutions provide a relatively free service.
- Huge cost in managing risk of criminal activity.
- Huge cost in building internal controls to prevent misappropriation by collaborators.
- Substantially high cost of handling infrastructure, both for the business concerned, and more so for society, minting and printing is very expensive!
- (Hidden) COSTS =
  - higher overheads
  - higher prices from suppliers
  - higher charges by banks
  - higher tax burden

# Early implementer: The public sector

- Payments generated: 4 million (originating and beneficiary)
- Departments involved
  - Treasury Department
  - Income Tax & VAT
  - Social Services
  - Education
- Systems targeted
  - Salaries, pensions, social benefits, payments for goods and services, collection of tax and VAT, collection of customs duty.

# Transposition of the Payment Services Directive

- Pre-consultation discussions between regulators:
  - Central Bank of Malta
  - Malta Financial Services Authority
- Launch of consultation (Jan 2008) with:
  - Credit institutions
  - Financial institutions
  - Licensed Brokers
  - Players in the insurance industry
  - Constituted Bodies
  - Consumer rights groups and unions
  - Fund administrators
  - Government departments
- Consultation outcome (Mar 2008)
- Amendments to legislation and new directives (Dec 2008)
- Consultative document will be available at [www.centralbankmalta.com](http://www.centralbankmalta.com)
- PSD text:
  - <http://register.consilium.europa.eu/pdf/en/07/st03/st03613.en07.pdf>

# Why the Consultation?

- The directive strives to create a modern and efficient payment infrastructure for member states. It strives to rationalise the use of payment instruments and payments in general - one of the very basic infrastructures available to society and to the economy
- The consultation seeks to clearly identify the legislative options open to the Maltese legislator with a view to correctly understanding the operational implications of the options and selecting the regime most favourable to the Maltese economy in light of the new realities to be created by a Single Payments Market
- The Consultation seeks to initiate discussion and collect the views of stakeholders