

The SEPA Implementation Plan for the Banking Sector in Malta

1. Purpose

This Plan outlines the organisational set up of the national payments community in Malta and affirms its commitment towards the implementation of SEPA. It defines the scope and the roadmap for the delivery of SEPA in Malta, and proposes a migration plan for achieving SEPA compliance for related instruments.

2. The National Payments Community

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

The PSUG 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 within the banking sector, and acts as the Steering Committee for the project. The PSUG is assisted by experts on the local schemes and through a specialist sub-group focusing on the SEPA Cards Framework. The PSUG is represented by the MBA on the National SEPA Coordination Committee.

Each credit institution is individually responsible to develop operations and settlement solutions according to the SEPA implementation plan as agreed at Steering Committee level. Many of the participating credit institutions have also established internal committees to manage the implementation of SEPA-related developments. Institutions are identifying the best option to achieve reachability and to offer originator services, through marketing of new products and services. They are also effecting the necessary business process changes that are required for implementation. These include the identification of changes to business rules to accommodate the Scheme Rulebook requirements, and the implementation of changes in operational processes and systems. This will continue to align the credit institutions to the requirements of Directive 1 of the Central Bank of Malta which calls for the transparent translation of conditions and charges to existing business processes.

The Maltese banking community adopted the IBAN standard for euro accounts on the 1st January 2004.

3. Scope

This implementation plan covers the entire payment chain included within the three pan European payment instruments currently defined in the EPC Rulebooks and Framework, which include SEPA Credit Transfers, SEPA Direct Debits and SEPA Cards.

The original plan was that the 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 until 1st February 2014, in line with the SEPA End Date Regulation. Notwithstanding this, it is noted that this objective is not entirely possible in view of the fact that there is no legal obligation to migrate cards to SEPA compliance. However the aim of the participating institutions is that by end of 2013, where possible, products for automated payments offered to consumers will be replaced by the new SEPA instruments.

4. Implementation

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

In line with the EPC's recommendations, most of the Maltese credit institutions have signed the adherence agreements and were capable of receiving and sending a SEPA Credit Transfer payment as from 28th 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.

On the SEPA Direct Debit payment instrument side, the Maltese banking community was working towards a 1st November 2009 launch date. However due to the late clarification regarding interchange fees and subsequent issue of EU Regulation 924/2009 (superseding EU Regulation 2560/2001) this date was revised to 1st November 2010. As a result some credit institutions started to implement the reachability proposition (receiving side), thus making it possible for customers to receive SEPA Direct Debits from any bank within Europe. This was rather on a competitive state level in view that a National Direct Debit scheme does not exist in Malta.

Subsequent to this, and in view that take up of these new SEPA instruments was slow, a new EU Regulation 260/2012 (more commonly known as the SEPA End Date Regulation) was issued by the European Parliament and the Council of the European Union calling for a migration from domestic credit transfers and direct debits to SEPA by 1st February 2014.

In order to minimise the impact on customers, the Maltese banking community have agreed to provide a data conversion service for BBAN account numbers 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 credit institutions are also offering the possibility to convert BBAN to IBAN for files and bulk payments.

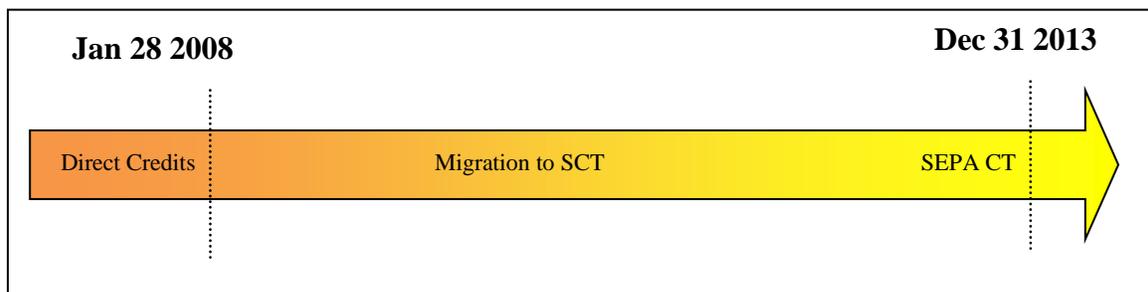
Credit institutions together with the MBA need to interact effectively with their customers, through the constituted bodies, to encourage SEPA take up and the adherence to new Customer-to-Bank standards. Similarly the Central Bank of Malta needs to interact with the Treasury and the Ministry of Finance, the Economy and Investment to ensure that Government departments and public entities are working on the process of migrating their payment initiating systems to SEPA compliance, and that full migration is achieved by the target date at the end of 2013.

For card based instruments, the decision was to migrate the current acquiring instruments (ATMs and EPOS), which are mainly owned by two major credit institutions , to EMV compliance. It was also agreed that these two credit institutions will also start issuing EMV “Chip and PIN” cards. However, as standards have still to be finalised for all domains of the card payments it was decided that an end-date for card payments migration should not be defined especially as such an end date is also out of scope of the SEPA End Date Regulation.

4.1 Credit Transfers

The migration of the current direct credits to full SEPA compliance will take till end 2013. For credit transfers migration to be successful, significant challenges relating both to cost and efficiency must be overcome. Currently national bulk direct credits 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 possibly see a deterioration to either the beneficiary, originator or possibly both.

Although the majority of credit institutions in Malta are SCT compliant not all of them currently have an XML file solution in place. Although it is optional for corporate customers to originate transactions in the new XML standards as they can use conversion services, it is nevertheless obligatory on credit institutions to be able to accept this standard.



4.2 Direct Debits

The launch of the SEPA Direct Debits had been postponed until 1st November 2009 in line with a number of other European countries as well as the legislation of the Payments Services Directive¹ within the different countries. Furthermore, the updated EU Regulation 924/2009 asked for reachability compliance by 1st November 2010.

In view that in Malta a national Direct Debit scheme does not exist (and thus the reachability clause is not applicable) the offering of such a product has been deemed as competitive space and thus credit institutions started offering this service as from 1st November 2010 onwards at their discretion. Currently there are four credit institutions which are reachable under the Core Direct Debit Scheme, while two credit institutions are reachable under the B2B Direct Debit Scheme.

The main issues under discussion with regards to Direct Debits include the need for a creditor identifier, the migration of existing Direct Debit mandates, and the take-up of Direct Debit as a payment instrument.

- *Creditor Identifier*

The banking community has identified that SEPA Direct Debit Scheme needs a unique identifier that allows debtors as well as debtors' 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 institution. It is noted that this requirement is new to the Maltese banking community since currently a national Direct Debit system does not exist. As no new SEPA procedure has been created the PSUG has 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 such it was identified that the best way forward, and in line with what other countries had previously adopted, the Tax Return number (which in the case of a company is provided by the Tax Department) and the National Identification number for an individual are used. However, in the exceptional case where an institution does not have a Tax Return number or a National Identification number, the Central Bank of Malta takes responsibility of issuing a unique identity number on their behalf. The specification for the Maltese SEPA Direct Debit Creditor Identifier can be found in Annex 1.

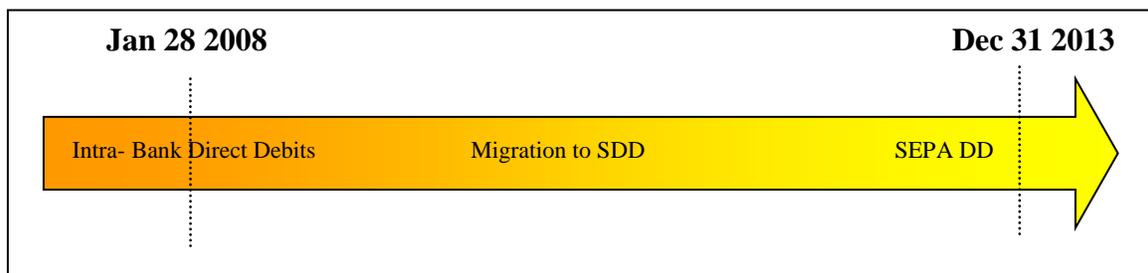
¹The Payments Services Directive was transposed into national law on 1st November 2009, as a Central Bank of Malta Directive 1. This regulation paved the way for SEPA Direct Debits as it stipulates the rights and obligations for both payment service providers and users, including how to authorise and execute transactions, liability in case of unauthorised use of payment instruments, refunds on payments, revoking payment orders, maximum execution time and value dating of payments.

- ***Existing Direct Debit Mandates***

Discussions are being held with a view that any existing authorisations to collect recurring Direct Debits in Malta shall continue to remain valid after 1st February 2014. This would be in line with the spirit of Article 25 of the End Date Regulation. It shall be considered as representing the consent to the payer's Payment Service Provider to execute the recurring direct debits collected by that payee allowing for unconditional refunds and refunds backdated to the date of the refunded payment where such refunds have been provided for within the framework of the existing mandate. Another issue that needs to be addressed is the ability of the creditor to migrate the current manual mandates onto an electronic platform as these details need to be transmitted with the transaction details.

- ***Direct Debit Take-up***

Although the take-up of direct debit payment instrument to date has been rather limited and restricted, the Maltese banking community believe that going forward market requirements will address this. To further support the introduction of this innovative product for Malta, the banking community is launching 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. If implemented correctly the system can also have positive effects on the reduction of cheque and cash usage.



4.3 Cards

Maltese credit institutions were not EMV compliant prior to 2008. The institutions offering such services have since actively worked towards achieving EMV compliance by making their ATMs, Point of Sale Terminals and Cards EMV compliant in line with the SEPA Cards Framework.

The credit institutions had also started working towards a full migration plan based on Version 2.0 of the Cards Framework. However, as standards still need to be finalized for all the domains of card payments (card-to-terminal, terminal-to-acquirer, acquirer-to-issuer and certification framework), it is not possible at this stage to determine a date for

full card payments migration. This is also in line with the SEPA End Date Regulation which states in recital 6 that card transactions should not be covered at this stage.

EMV Implementation

- ***Card Acquiring Business***

Within the local context, there are two main credit institutions which handle practically all Maltese retail merchant accounts acquiring payments through Electronic Point-of-Sales (EPOS). The majority of EPOS are provided by these two institutions free of charge to merchants. The upgrade of retail EPOS to handle EMV cards that are SEPA compliant is complete.

- ***Automated Teller Machines (ATMs)***

In Malta, there are currently five ATM networks, all of which are connected to one or more of the major international card schemes. All the ATMs have been physically upgraded to EMV standard. So far, 70% of ATMs have been certified and are in operation. This number is expected to increase to around 75% by the end of 2012, and to 100% by the end of 2013.

- ***Card Issuing Business***

Debit Cards

At present, there is no National debit card scheme in Malta. Four credit institutions operate their own closed-loop scheme, with a total customer base of around 410,000 cardholders. The institutions opted not to upgrade these debit cards to EMV.

Credit institutions also offer debit cards that are co-branded with international card schemes which therefore need to be EMV compliant. Only 0.5% of these cards have yet to be upgraded to EMV, which upgrade should be completed by the end of 2012.

Credit Cards

Credit cards are issued under the VISA and MasterCard International Card Schemes. The upgrading of credit cards to EMV is also at a very advanced stage, with 94% of such cards already upgraded. All credit cards are expected to be EMV compliant by the end of Quarter 2 2013.

Annex 1: Specification for the Maltese SEPA Direct Debit Creditor Identifier

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, the individual's Identity Card number or the unique identity number issued by the Central Bank of Malta, 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', 'H' or in the case where the unique identity number is issued by the Central Bank of Malta 'C' is used

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**