

# PAYMENT AND SETTLEMENT SYSTEMS

**The smooth operation of the financial system is based on efficient and well-functioning payment and settlement systems. Management and development of interbank payment and settlement systems is one of the primary tasks of Eesti Pank.**

## **Development of payment and settlement systems**

2008 was the year of development and launch of the cross-border euro settlement system TARGET2. 2009 witnessed the improvement of the TARGET2 in all member countries of the European System of Central Banks as well as the European Central Bank.

In 2009 the business continuity of payment and settlement systems and related risk management were in the focus. In addition to addressing the operational reliability of the systems, Eesti Pank and other national central banks of the Eurosystem conducted further tests to the TARGET2 to ensure the system's business continuity in a financial or operational crisis.

A common statistics database was launched in 2009 to improve access to the data of TARGET2. In addition, the SWIFT Alliance LITE software was introduced to make the cost of accession to the TARGET2 more favourable for smaller banks.

In addition to the development of Estonia's interbank payment and settlement systems, Eesti Pank has set out to contribute to the harmonisation and integration of the European financial system. In 2009, Estonian banks continued preparations to join the Single Euro Payments Area (SEPA), established under the leadership of the European Payments Council (EPC). In addition to cross-border cooperation, the commer-

cial banks, Eesti Pank and the Estonian Banking Association collaborate in the Estonian working group of the EPC. In 2009, the working group made preparations for the application of the Payment Services Directive in the Estonian law.<sup>1</sup>

The amendments to the Real-Time Gross Settlement System EP RTGS included replacement of software to minimise operational and IT risks, and system developments to enable the use of International Bank Account Numbers (IBAN).

In 2009, Eesti Pank opened accounts for several new branches of foreign banks. In addition, preparations were made to connect to the interbank settlement systems. Thus, Estonia's systemically important payment systems can expect new users in 2010.

Last but not least, preparatory work for the expected adoption of the euro on 1 January 2011 was resumed.

## **Settlements**

**Eesti Pank is managing three interbank payment and settlement systems: the Settlement System of Ordinary Payments (ESTA), the Real-Time Gross Settlement System (EP RTGS) for domestic payments and TARGET2-Eesti for cross-border euro payments.**

Around 99,000 payments are settled every day via the interbank payment and settlement systems with the total value of 12.5 billion kroons.

The Settlement System of Ordinary Payments (ESTA) is among the fastest in Europe. Payments are transferred to accounts in other banks ten times a day. The payment is transferred from the originator's account to the payee's account

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<sup>1</sup> The Directive was applied in the Estonian legislation in January 2010.

in 30 to 90 minutes, depending on the time of the origination. The ESTA also enables to settle large-value payments.

The ESTA's customer-friendly functionality enables to settle the majority of interbank domestic payments: 98,600 payments are settled daily, which accounts for 99.7% of total interbank payments. In 2009, 1.5 billion kroons a day were settled through the ESTA on average. Compared to 2008, the number of ESTA payments increased 1% in 2009, whereas the value of payments decreased 17% (see Figure 1). Moreover, also the average payment decrease 18% to 15,300 kroons.

The Real-Time Gross Settlement System (EP RTGS) processes express payments – transfers between banks take around five minutes.

The number of payments settled through the RTGS declined 28%, year-on-year, owing to the 28% decrease in customer payments. On average, 193 transactions a day were settled in 2009 (see Figure 2). The express payments originated by bank customers account for 68%

of total transactions; on average, 130 domestic customer payments were settled a day with an average value of 5 million kroons.

The average daily value of express payments was 5.8 billion kroons. Banks' "compulsory" payments (transactions related to the collateral account of the ESTA) and purchase and sale transactions accounted for the largest share of the value (39% and 29%, respectively). Compared to 2008, the value of payments settled through the EP RTGS increased 6%.

The number of payments settled via the TARGET2-Eesti slightly grew in the second year of operation. The use of the TARGET2 – the alternative channel for euro payments – started to become more widespread at the end of 2008. In 2009, an average of 70 payments with the total value of 330 million euros (5.2 billion Estonian kroons) were settled a day (see Figure 3). Estonian bank customers and banks received an average of 200 TARGET2 payments a day with the value of 330 million euros (5.2 billion kroons).

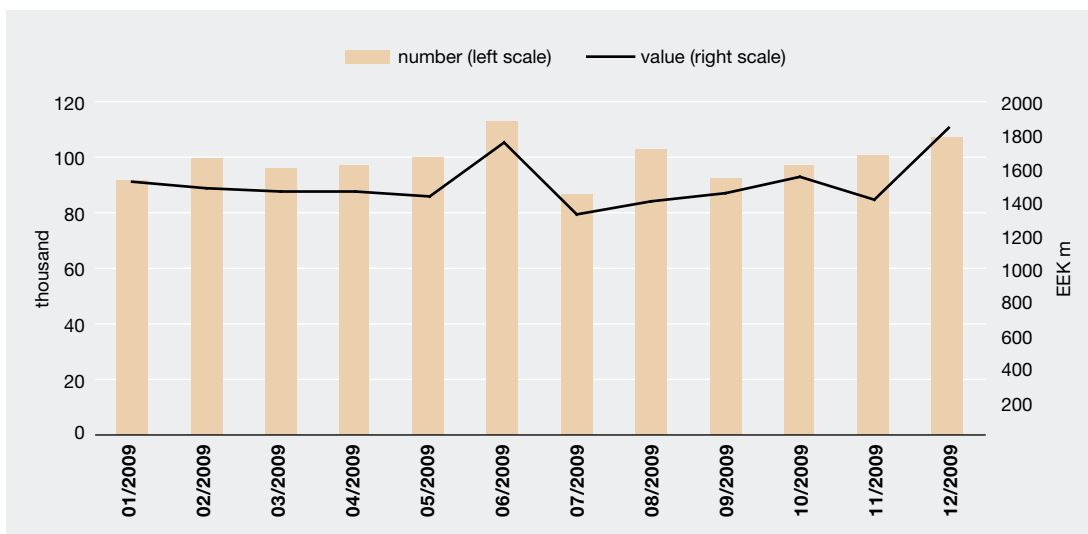


Figure 1. Number of payments processed in ESTA and their daily average value in 2009

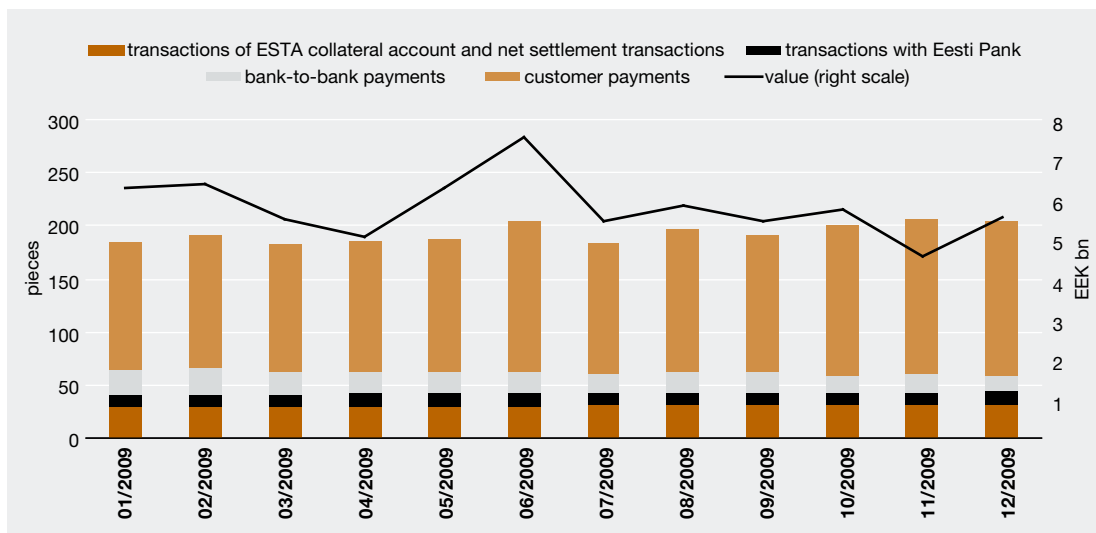


Figure 2. Number of payments processed in EP RTGS by transaction types and their average daily value in 2009

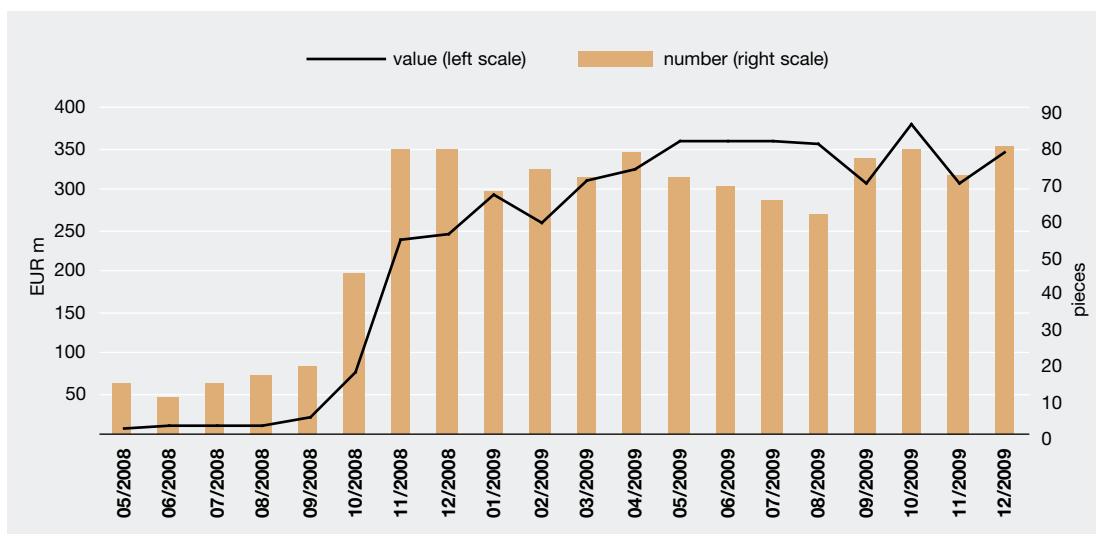


Figure 3. Number of payments processed in the TARGET2-Eesti and their average daily value