STANDARD SUMMARY PROJECT FICHE

1. Basic Information

1.1 Désirée Number: 2002/000-282.04.07

1.2 Title: Implementation of the EU Payment Systems Standards

1.3 Sector: Internal Market and Economic Criteria

1.4 Location: Czech Republic

2. Objectives

2.1 Overall objective

The existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;

2.2 Project purpose

To ensure full compliance with the acquis as concerns payment systems, and Directives 97/05 EC and 98/26/EC, and Recommendations 87/598/EEC and 88/590/EEC in particular.

2.3 Accession Partnership and NPAA priority

AP 2001: Accession Partnership - Economic criteria - Priority to complete the restructuring of the banking sector

NPAA 2001: Priority covering monetary policy and financial services

In the field of financial services - banking are stipulated among others following priorities:
short term
- improvement of credit risk management in the banking sector by the implementation of the CNB provision on Capital Adequacy of Banks taking into account a market risk;
- medium term
- continuation of process of stabilization of the Czech banking sector
- preparation of integration of the Czech Banking sector into single market of banking services.

2.4 Contribution to National Development Plan

see 2.3

2.5 Cross Border Impact

n.a.

3. Description

3.1 Background and justification

3.1.1 General Background

Since 1989, the banking sector structure has undergone very dynamic development. A large number of the newly established banks were unable to cope with the strong competition and risky conditions associated with the economic transformation and were forced to terminate their operations. The tightening of the conditions for setting up new banks has restricted the entry of new entities into the sector, particularly since 1996.

As of 31 December 2000, there were 40 banks and foreign bank branches operating in the Czech Republic, a decrease of two compared with the end of 1999 due to the integration of Erste Bank Sparkassen into Česká spořitelna and to the decision of Banka Haná to terminate its banking operations. During June 2000, Investiční
a Poštovní banka (IPB) fell into an acute liquidity crisis - brought on chiefly by a sharp and extensive decline in its primary deposits - and found itself in serious solvency difficulties. Because of the unwillingness of the bank’s management to propose and promote effective measures to overcome this crisis and deal with its causes and of shareholders to adopt and implement them, coupled with the bank’s systemic importance for banking sector stability, the CNB decided to impose conservatorship upon IPB on 16 June 2000. After evaluating the overall condition of the bank’s finances and acquiring prior consent from the Czech National Bank, the conservator concluded an agreement to sell IPB’s business to Československá obchodní banka.

The continuing privatisation process has affected the ownership structure of the banking sector with respect to the share of foreign capital. As of 31 December, 16 banks out of the total of 40 were predominantly foreign-owned and 10 were foreign bank branches, 9 banks were controlled by Czech entities and 5 had controlling state (including municipal) interests. Foreign capital accounted for 54.5% of the total equity volume (excluding foreign bank branches). As of the same date, foreign-controlled banks and foreign bank branches managed 65.8% of the total assets of the banking sector. Once the privatisation of Komerční banka is completed, this share will be almost 90%.

One of the important trends in the banking sector is towards greater concentration, which is giving rise to a strong group of medium-sized banks. This process is being fostered on the one hand by the increasing activity of these banks and on the other hand by mergers resulting from the activities of parent banks or from the privatisation of large banks. The average bank size in the Czech Republic was CZK 68.0 billion as of 31 December, which is CZK 8.1 billion more than in 1999 and CZK 15.1 billion more than in 1998. The share of medium-sized banks in the total assets of the banking sector was 3.3 points higher than a year earlier at 19.7%. Against this, the share of large banks decreased in the same period by 4.3 points to 61.8%.

3.1.2. Situation in payment system area

The only interbank payment system in the Czech republic is operated by the Czech National Bank according to the Act on Banks. New draft of this Act, which has not been adopted yet, should enable other interbank payment systems. The CNB prepared the new Act on Payments implementing the provisions of Directive 98/26/EC on settlement finality in payment systems, the Directive 97/5/EC on cross-border credit transfers, a part of Directive 2000/46/EC on the taking up, pursuit of and prudential supervision of the business of electronic money institutions regarding and Recommendation 97/489/EC on electronic payment instruments. In July 2001 the draft was approved by the Banking Board. The Czech Government approved this draft in September 2001 and passed it to the Czech parliament to be disscused by following the parliamentary legislative procedures. This act is scheduled to enter into force on 1st January 2003.

At the same time, the CNB prepared a new Act on Financial Arbitration implementing Recommendation 98/257/EC on the principles applicable to the bodies responsible for out-of-court settlement of consumer disputes ammended by Commission Recommendation of 4 April 2001 on the principles for out-of-court bodies involved in the consensual resolution of consumer disputes. The Czech government approved this draft in September 2001 and passed to the Czech Parliament for approval. This act is scheduled to enters into force on 1st January 2003. According to this Act a new office of the finacial ombudsman should be established within the structure of the Czech National Bank. The financial ombudsman should responsible for out-of-court settlement of disputes in the area of payment system.

The payment system in the Czech Republic is provided by banks and the Czech postal system. Banks operate on the basis of the 1992 Banking Act (to which there have been several amendments, the most recent in 1998), which lays down both the conditions to be met for setting up banks as well as banks’ rights and obligations when performing banking activities.

Banks provide current accounts that can be used to make cashless payments. It is not common for deposit accounts to be used to make payments.

Credit transfers are the dominant form of cashless payment in the Czech Republic. This method is used by legal entities and investors, in particular to settle their contractual liabilities. However, credit transfers can be used for all kinds of payments. Banks also carry out recurring payments for their customers (e.g. for the payment of rent and water or gas bills) based on customers’ standing orders. Customers can present their payment orders in electronic or in paper form. Some banks have also introduced home banking services. In recent years the share of customers’ orders sent to banks in electronic form has grown markedly.

In the Czech Republic direct debits are commonly used for certain types of payments, such as energy and telecommunications charges, for liabilities arising from the processing of cheques and payment cards or for payments arising from some commercial contracts. In contrast to credit transfers, direct debits are presented by the payees to their banks for collection.
Payment cards have been used in the Czech Republic since 1990. Mostly banks issue debit cards (Eurocard/MasterCard and VISA). Some non-banks issue single-purpose prepaid cards.

Further developments in cashless payments in the Czech Republic are expected. For example, many banks are introducing home banking, telephone banking, Internet banking and other new payment services. Czech banks are also adopting the latest international standards such as new S.W.I.F.T. subsets or data interchange based on EDIFACT.

3.2 Linked activities
No linked activities exist.

3.3 Results

b) Substantial number of Czech National Bank and Czech commercial banks payment system officers, specialists, managers and trainers fully trained in new Standards:
   - partly covered by open courses in the Banking Institute – College of banking please see activities below – max 300 trainees, the rest covered by the trained trainers in the banks);
   - Approximately 90 payment system standards specialists from commercial banks and the CNB (Payment system department) trained in new standards, including via fellowships/study visits please see means below to EU Member States (one week or two weeks seminars)
   - Approximately 50 top bank managers from Czech commercial banks trained in new EC payment system standards, via workshop seminars (maximum 1 or 2 days workshops);
   - Approximately 50 Czech trainers trained, under the selection of the commercial banks, including via fellowships/study visits please see means below to EU Member States

3.4 Activities

**Technical Assistance (1.0 M€)**
Services will be provided via a single Training contract, providing:

- development and delivery of training programmes including seminars, workshops, study visits/consultations with commercial banks from EU-member states and the training-of-trainers.
- Production of handbook on EC Payment Systems Standards.

The experts will work in co-operation with the Payment specialists from Payment Systems Departments of the Czech commercial banks, experts of In-house Training Departments of Commercial banks and experts of the Banking Institute – College of Banking.

As regards project beneficiaries commercial banks – members of Association of Banks will participate in the project. Prerequisite for a bank to become a member of Association of banks is to be licensed to banking business under the Act on Banks. There will be only one selection criterion for participation in the project – to be a member of Association of Banks.

In view of commercial role of the main project beneficiaries, co-financing will be provided to support the Project's goals, primarily provided form the commercial banks themselves (this will represent a "head fee" per trainee and will be used to cover:

- Costs associated with logistic expenses (estimated at approx. 0.2 MEUR, covering simultaneous interpretation, translation of training documents, etc.) plus
- Costs associated with study visits to selected commercial banks in the EU (estimated at approx. 0.1 MEUR, covering travel and subsistence).

Training programme will focus on the impacts of the EC Payment Systems Standards and the Czech Act on Payment systems on the following types of Payment system services –

1. cashless payment transfers,
2. payment cards, cheques and
3. home banking, phone banking and internet banking.

Training will be provided at three levels of specialists of banks working in area of payment systems:
- top management of the banks (in the form of workshops) to ensure support of the management to a new standards;
- payment system specialists from Payment systems Departments of banks including the Czech National Bank (in amount of about 50) to ensure the implementation of a new standards in the form of local seminars and study visits/consultations in EU-Member States with commercial banks applying the proposed standards. To ensure further transfer of knowledge within participating banks trainers shall be identified from payment systems specialists and trained properly;
- officers executing payment transfers (in amount of about 500) to ensure the application of a new standards in day-to-day work in the form of local seminars
- the training of trainees will be included to have staff which will ensure continuation of the systematic training in this field.

3.5 Lessons learned
All relevant recommendations concerning previous projects will be taken into consideration.

4. Institutional Framework

The project shall be implemented under the authority of the Banking Association and its Committee for Payment Systems and managed by the Steering Committee consisting of members the Committee for Payment Systems of the Banking Association, representatives of European Commission, Czech National Bank Phare Implementation Unit and the Banking Institute-College of Banking.

Senior Programming Officer at the CNB shall be responsible for the preparation, technical control and implementation of the project.

5. Detailed Budget (mil.€)

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* There will be parallel co-financing:
Beneficiary commercial banks will cover following project costs in total amount of 0,3 M €
- logistic expenses (simultaneous interpretation, translation of training documents, rooms, etc.) of about 3,500 training man-days (approx. 60 €/a training man-day) in amount of 0,21 M€;
- costs of study visits to chosen commercial banks from EU member-states in amount of 0,09 M€.

6. Implementation Arrangements

6.1 Implementing Agency
Responsibility for the administration related to the procedural aspects of procurement, contracting and accountability will rest upon the CFCU.
Responsibility for the administration related to the preparation, technical control and implementation will rest with the Project Implementation Unit at the Czech National Bank, Mr. Jan Málek, Head of Phare PIU/SPO, Czech National Bank, Na Prikope 28, 115 03 Prague 1.

6.2 Twinning n/a

6.3 Non-standard aspects
The Practical Guide to Phare, ISPA and SAPARD will be followed.

6.4 Contracts
(1) service contract -1,0 M €

7. Implementation Schedule
7.1 Start of tendering/call for proposals 1 Q / 2003
7.2 Start of project activity 2 Q / 2003
7.3 Project Completion 2 Q / 2004
8. Equal Opportunity

Equal opportunity principles and practices in ensuring equitable gender participation in the Project will be guaranteed.

9. Environment
n.a.

10. Rates of Return
n.a.

11. Investment Criteria
n.a.

12. Conditionality and Sequencing

No conditionality is foreseen, as the project is in line with the National Programme for Accession and the Accession Partnership.

ANNEXES TO PROJECT FICHE

1. Logical framework matrix in standard format
2. Detailed implementation chart
3. Contracting and disbursement schedule by quarter for full duration of programme
## LOGFRAME PLANNING MATRIX

<table>
<thead>
<tr>
<th>Project title: Implementation of the EU Payment Systems standards</th>
<th>Programme number: 2002/000-282.04.07</th>
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<tbody>
<tr>
<td><strong>Beneficiary institution:</strong> Czech Commercial banks and CNB</td>
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<tr>
<td>Overall objective</td>
<td>Objectively verifiable indicators</td>
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<tr>
<td>the existence of a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union;</td>
<td>Volume of operations, banking population, number of banks, licenses, services offered, etc.</td>
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<tr>
<td>Project purpose</td>
<td>Objectively verifiable indicators</td>
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<tr>
<td>- To ensure full compliance with the acquis as concerns payment systems, and Directives 97/05 EC and 98/26/EC, and Recommendations 87/598/EEC and 88/590/EEC in particular.</td>
<td>Implementation of EU payment systems standards by the participating banks</td>
</tr>
<tr>
<td>Results</td>
<td>Objectively verifiable indicators</td>
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<td>- EU payment Systems Standards Manual to be drafted and issued; - Substantial number of Czech National Bank and commercial bank payment system officers, specialists, managers and trainers fully trained in the application of payment standards as applied in the EU. - Training of trainers, - Model training programme designed, - Study visits, workshop seminars.</td>
<td>- Trainees trained, max 300 (as indicated) - Trainers trained and Banking Institute is to reutilize the trained trainers (approx 50) - Bank Managers trained via seminars (approx 50)</td>
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<tr>
<td>Activities</td>
<td>Means</td>
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- Production of handbook on EC payment systems standards,
- Training of bank staff as indicated under results,
- Training of trainers as indicated under results through Specialised Training Programme for Trainers
- Open seminars organised in the Banking institute-College of Banking
- In-house seminars for three types of participants as indicated above organised in participating banks by a contractor;
- Identification of suitable commercial banks from EU Member-states applying EC Standards for study visits/consultations and defining the programme of the study visits (issues and timing) with the chosen EU banks (all personal costs associated with visits/consultations will be covered by beneficiary commercial banks).

<table>
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<th>Service Contract(s):</th>
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<td>T.A. services provided by specialist firm(s) in the field of EC payment system standards with services provided via training seminars, identification of suitable commercial banks from EU Member-states applying EC Standards for study visits/consultations and defining the programme of the study visits (issues and timing) with the chosen EU banks (all personal costs associated with visits/consultations will be covered by beneficiary commercial banks).</td>
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- Beneficiary commercial banks shall cover costs in the total amount of app.
0.3 MEUR (logistic expenses, costs of study visits).

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<th>Preconditions</th>
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<td>Czech legislation on payment systems has been harmonised in the new act on payment systems, passed by the government in autumn 2001, and scheduled to enter into force on 1/1/2003.</td>
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<td>A draft act on financial arbitration (banking ombudsman for the payment system) is also under preparation.</td>
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<td>Beneficiaries of this project are to be the Czech National Bank and private banks.</td>
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<td>- All major banks agree to participate, provide necessary co-financing and nominate trainers to be trained (a declaration of support will be issued by the Association of banks)</td>
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<td>The Banking Institute – College of Banking shall provide the contractor with premises, organisational and logistic support for Open seminars. The costs associated with realisation of those duties will be covered in the form of “head-fee” per trainee paid by beneficiary commercial banks.</td>
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## ANNEX 3

**CONTRACTING AND DISBURSEMENT SCHEDULE BY QUARTER FOR FULL DURATION OF PROGRAMME**

### Cumulative Quarterly Contracting Schedule (mil.€)

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<th>Project</th>
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### Cumulative Quarterly Disbursement Schedule (mil.€)

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Total: 1,0 mil.€