

# DANMARKS NATIONALBANK

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## Assessment of Betalingsservice

- Betalingsservice extensively complies with the ECB standards for direct debit schemes. At the same time, Danmarks Nationalbank has recommendations and remarks on how to strengthen Nets' management and operation of Betalingsservice.
- Nets has accountable, transparent and effective governance arrangements for Betalingsservice. There is a mature approach to the operation of Betalingsservice with policies for risk management, IT security and business continuity planning, based on recognised standards.
- Inter alia, Danmarks Nationalbank recommends that Nets strengthen the compliance area and formalise its requirements for the critical suppliers' risk management. It is also remarked that the transparency of the fee structure will be enhanced if the firms clearly show their own fees to the consumers. Nets can be conducive to ensuring this.

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**Important  
payment solution**

**200+ million  
payments  
per year**

Betalingsservice is the most widespread payment solution for fixed expenses

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**High  
priority**

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Nationalbank  
oversees**

Betalingsservice's compliance with international standards is assessed regularly

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Danish citizens and firms execute more than 200 million payments<sup>1</sup> annually via Betalingsservice. It is often Betalingsservice that is used for payment of fixed expenses.

Betalingsservice is among the most important payment solutions in Denmark, together with Dankort and credit transfers. That is why Danmarks Nationalbank oversees Betalingsservice (see Box 1).

Danmarks Nationalbank has assessed Betalingsservice according to the European Central Bank (ECB) standards for direct debit schemes ([link](#)).

Danmarks Nationalbank's overall assessment is that Nets has ensured that Betalingsservice extensively complies with the ECB requirements. At the same time, Danmarks Nationalbank has recommendations and remarks on how to strengthen Nets' management and operation of Betalingsservice.

Under the ECB standards, Nets is the governance authority for Betalingsservice. Accordingly, Danmarks Nationalbank's assessment, recommendations and remarks are addressed to Nets.

In August 2019, Nets and Mastercard entered into an agreement on Mastercard's acquisition of Betalingsservice (inter alia) from Nets. However, the agreement is conditional on approval by the relevant authorities, which can be expected in 2020 at the earliest.

Danmarks Nationalbank finds that the sale to Mastercard has no impact on the conclusions in this report, as the operation of Betalingsservice in the near future is expected to be carried on by the same functions and employees that Danmarks Nationalbank's assessment refers to.

## Assessment against the ECB standards

The ECB standards for direct debit schemes are based on the ECB's general framework for oversight of payment solutions ([link](#)). The basic requirements

### Danmarks Nationalbank's oversight of Betalingsservice

Box 1

Danmarks Nationalbank's oversight is based on international standards for oversight of payments infrastructure. The ECB standards for direct debit schemes are particularly relevant for the oversight of Betalingsservice.

Danmarks Nationalbank's oversight includes an assessment of Betalingsservice's observance of the ECB standards, and developments in Betalingsservice are monitored on an ongoing basis. Danmarks Nationalbank holds quarterly oversight meetings with Nets as the owner and operator of Betalingsservice. These meetings follow up on Nets' regular reporting on inter alia the organisation, operation and risk management of Betalingsservice.

Danmarks Nationalbank's oversight is described in more detail in its oversight policy ([link](#)).

that a payment solution like Betalingsservice must meet are:

*Standard 1* – The direct debit scheme should have a sound legal basis in the form of rules and contractual arrangements.

*Standard 2* – The direct debit scheme should ensure that comprehensive information is available to the relevant actors, including information on financial risks, for decision-making purposes.

*Standard 3* – The direct debit scheme should ensure an adequate degree of security, operational reliability and business continuity.

*Standard 4* – The direct debit scheme should have effective, accountable and transparent governance arrangements.

*Standard 5* – The direct debit scheme should manage and contain financial risks in relation to the clearing and settlement process.

In relation to standard 5, Danmarks Nationalbank performs separate oversight and assessment of the

<sup>1</sup> Danmarks Nationalbank, *Payments Statistics*, 2nd Half Year 2016 ([link](#)).

clearing and settlement that is a precondition for the functioning of Betalingsservice and the other Danish payment solutions.<sup>2</sup> Consequently, standard 5 has not been applied to the assessment of Betalingsservice.

On the basis of expositions and material from Nets, Danmarks Nationalbank has assessed the degree of Betalingsservice's compliance with the requirements in standards 1-4. Danmarks Nationalbank has used the CPSS-IOSCO scale<sup>3</sup> with the following categories for compliance with a standard:

**Observed** is used when all significant criteria have been observed and any gaps and shortcomings are minor, and adjustment can take place on a continuous basis in the normal course of business.

**Broadly observed** is used when the criteria have been broadly observed and one or more issues of concern have been identified which should be addressed with a view to managing risks or improving operation. This should be addressed within a defined deadline.

**Partly observed** is used when the criteria have been partly observed and one or more issues of concern have been identified that could become serious if not addressed promptly. Addressing these issues should have high priority.

**Not observed** is used when the criteria have not been observed and one or more issues of concern have been identified that warrant immediate action. Addressing these issues should have the highest priority.

## Danmarks Nationalbank's overall assessment

Danmarks Nationalbank's overall conclusion is that the ECB requirements are *broadly observed* for standards 1, 2 and 3 and *observed* for standard 4.

Danmarks Nationalbank's assessment, recommendations and remarks are described in more detail below.

### ECB standard 1

The overall requirement of standard 1 is that the governance authority should ensure a sound legal basis for the direct debit scheme. Under the standard, this implies compliance with two requirements:

- Complete and unambiguous rules for – and binding contractual arrangements between – the relevant actors in the direct debit scheme should be established.
- The rules, procedures and contractual arrangements under the scheme should be compliant at all times with applicable national and EU legislation.

In Denmark, it is up to the Danish Financial Supervisory Authority, the Danish Competition and Consumer Agency and the Danish Data Protection Agency to assess compliance with the relevant legislation. Accordingly, Danmarks Nationalbank's role is limited to assessment of whether Nets has established functions, procedures and processes that can ensure compliance with legislation.

#### Assessment

Standard 1 is assessed to be *broadly observed*.

Danmarks Nationalbank finds that there are complete and unambiguous rules for – and binding contractual arrangements between – the relevant Betalingsservice actors, i.e. citizens, firms, banks and Nets.

As regards the requirement of ensuring that Betalingsservice is at all times compliant with applicable national and EU legislation, the assessment is that Nets has extensively established functions, procedures and processes to ensure compliance.

<sup>2</sup> Danmarks Nationalbank, *Assessment of the Danish retail payment systems*, 9 May 2018 ([link](#)).

<sup>3</sup> CPSS-IOSCO, *Disclosure framework and assessment methodology*, December 2012 ([link](#)).

Nets has implemented a significant improvement by establishing three lines of defence in the organisation of ongoing compliance control and reporting. Moreover, by drawing up a compliance policy Nets has created a good point of departure for further work in this area. It is important to implement the compliance policy with any procedures, guidelines etc., necessary for its implementation.

The recommendation is that Nets follow up and ensure that the compliance policy is implemented together with the associated governance documents, tasks and organisation. Moreover, reporting should take place to enable the senior management level to assess the observance of the compliance policy. This control should be performed at least on an annual basis.

## ECB standard 2

The overall requirement of standard 2 is that the governance authority should ensure that all relevant actors have a proper basis for decisions in relation to the scheme.

The governance authority should thus provide for sufficient and readily available information to the relevant actors regarding inter alia the rules and contractual arrangements of the scheme, major changes, fees and fee structures and financial risks.

### Assessment

Standard 2 is assessed to be *broadly observed*.

Nets is assessed generally to have ensured that the relevant actors of Betalingservice have a proper basis for decisions in accordance with standard 2. Room for improvement is found as regards the transparency of the fees and fee structure and information on financial risks to the actors.

Betalingservice's fees and fee structure come across as clear and readily available to banks and firms (creditors). As regards consumers (debtors), Danmarks Nationalbank remarks that Nets can be conducive to greater transparency e.g. via the creditor rules. When charging a consumer a payment fee, the firm should clearly show the part of the fee to be paid to Nets in turn and the part constituting the firm's own fee.

In addition, Nets has an ongoing process for identification of and information on the financial risks to which the actors are exposed, e.g. in the event of fraud. The process comes across as reactive and informal. This absence of fixed routines should be viewed in the light of the fact that so far, Betalingservice has implied a low risk for the actors.

On the basis of discussions with Danmarks Nationalbank, Nets has created a formal routine procedure for identifying and assessing the financial risks to creditors and banks and informing them on the basis of this risk assessment. Danmarks Nationalbank recommends implementation of this procedure e.g. by incorporating it into Nets' annual risk assessment process for Betalingservice.

## ECB standard 3

The overall requirement of standard 3 is that the governance authority should ensure an adequate degree of security, operational reliability and business continuity for the direct debit scheme.

This standard comprises requirements in areas such as risk management, IT security, operational monitoring, incident management, system changes, safe payment procedures, fraud monitoring and response, production capacity planning, outsourcing and business continuity planning.

### Assessment

Standard 3 is assessed to be *broadly observed*.

Danmarks Nationalbank finds that Nets has a mature approach to safeguarding operations with policies for risk management, IT security and business continuity planning which are elaborated in underlying procedures and guidelines. These various governance documents are based on recognised standards and used widely within the organisation.

In order to ensure the necessary independence and thoroughness of the control effort, Nets also has three lines of defence in its organisation, as well as functions in both the first and the second lines of defence focused on following up on the risk identification and risk control work (IT Risk and Risk Management).

The overall assessment is that Nets is broadly observing the requirements of standard 3, and that it has thus ensured that Betalingsservice has an adequate degree of security, operational reliability and business continuity. At the same time, Danmarks Nationalbank finds that there is room for improvement in some areas.

Danmarks Nationalbank remarks that Nets can strengthen its risk management process by implementing a dedicated, collective system for risk registration and follow-up with appurtenant controls.

Moreover, Danmarks Nationalbank recommends that Nets strengthen its process for collection of IT security-related logs with a view to faster warning and response in the event of suspicious activity.

In addition, Danmarks Nationalbank remarks that Nets' log controls can be strengthened by automation and by an annual review of the controls needed. It is also important that Nets prevents dependence on key employees in this control work.

Moreover, Danmarks Nationalbank recommends that Nets strengthen its process for updating and testing its business continuity plans by systematically incorporating major incidents and attacks at firms in Denmark and abroad in its work on business continuity plans and test scenarios.

As regards Nets' outsourcing, Danmarks Nationalbank recommends that Nets formalise its quantitative and qualitative requirements concerning critical suppliers' risk management. In the longer term, these requirements should be incorporated into contracts with such suppliers.

## ECB standard 4

The overall requirement of standard 4 is that the governance authority should ensure effective, accountable and transparent governance arrangements for the direct debit scheme.

The standard contains the three following requirements:

- The actors' roles and responsibilities in the decision-making processes must be defined clearly and in a documented manner in the form of rules, contracts and procedures, etc. This implies that the actors should be involved in decisions on major changes.
- The service level and user friendliness of the direct debit scheme in relation to both debtors and creditors should be assessed, monitored continuously and reported to the management.
- Independent and effective internal controls are needed regarding the direct debit scheme, comprising, inter alia, reviews of operations and IT security. These control functions should have suitable competencies and report directly to the relevant management level.

### Assessment

Standard 4 is assessed to be *observed*.

In Danmarks Nationalbank's assessment, Nets has ensured an accountable, transparent and effective governance of Betalingsservice. In this connection the decision-making processes agreed between Nets and the banks are of particular importance.

However, in the area of internal controls, improvement of minor importance could be made in two respects.

Firstly, Danmarks Nationalbank remarks that Nets' IT security department is involved in the assessment of compliance with Nets' security policy and associated guidelines. At the same time, the IT security department has an executing role in the area. This entails a risk of weakening the control function.

Secondly, Danmarks Nationalbank remarks that Nets' internal audit function has a predominant focus on IT issues. This entails a risk of according lower priority to other relevant areas such as processes, management of person-related risks and compliance with internal and external requirements and legislation. It is relevant to examine how to strengthen internal audit in other areas than IT.

## ABOUT REPORT



Reports are periodical reports and accounts describing the activities and tasks of Danmarks Nationalbank.

Reports include e.g. Danmarks Nationalbank's annual report and the semi-annual report on monetary and financial trends.

The report consists of a Danish and an English version. In case of doubt regarding the correctness of the translation the Danish version is considered to be binding.

DANMARKS NATIONALBANK  
HAVNEGADE 5  
DK-1093 COPENHAGEN K  
WWW.NATIONALBANKEN.DK

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**DANMARKS  
NATIONALBANK**

## CONTACT

**Teis Hald Jensen**  
Communications  
and Press Officer

*tehj@nationalbanken.dk*  
+45 3363 6066

SECRETARIAT  
AND COMMUNICATIONS