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**Overview of Payment Systems and Development of Payment Services Market Oversight Results for 2016**

Almaty, 2017

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# INTRODUCTION

The National Bank of the Republic of Kazakhstan started to reform the payment services market and build payment systems of the Republic of Kazakhstan as a part of transition to the market relations and building a new financial system, after Kazakhstan declared its sovereignty.

Due to the focused efforts, the up-to-date payment infrastructure has been formed that satisfy the needs of the general public, business and the State in transactions effecting.

Currently the following payment systems of the National Bank of Kazakhstan are functioning in Kazakhstan - Interbank System of Money Transfer and Interbank Clearing System, which ensure functioning of the country’s financial system. In addition, the settlement services are also provided by the private payment systems, which are represented by the card systems that process payment cards transactions, and money transfer systems. Interbank payments can be also settled through the direct correspondent accounts opened between the banks and organizations engaged in certain types of the banking operations.

The key providers of the payments services in Kazakhstan are the banks and organizations engaged in certain types of banking operations, including Kazpost JSC (National Postal Operator), and private payment organizations duly registered by the National Bank of Kazakhstan.

At the same time, for the past years Kazakhstan payment market has undergone significant changes, and after implementation and application of new technology solutions there has been seen an increasing shift from traditional methods of making payments to the use of remote channels and alternative payment methods.

To make remote payments Kazakhstan banks offer the customers Internet services and mobile banking, remote access devices such as POS-terminals, automated teller machines, bank kiosks and instant payment terminals.

Development of innovative digital technologies have resulted in emergence of new players in the payment services market – non-bank operators that provide the payment services through payment terminals, electronic money, internet and mobile applications. Regulation of these private non-bank payment organizations are governed by the Law of the Republic of Kazakhstan dated 26 July 2016 “On Payments and Payment Systems”.

To this effect, during 2016 the National Bank of Kazakhstan carried out works to update the legal framework for payments and payment systems aimed at further improvement of procedures of payment services delivery and regulation and oversight of the payment services market.

In addition, the norms of payment systems functioning oversight have been tighten and the payment system operators are required to inform the National Bank of Kazakhstan about their activities in Kazakhstan, while the banks are required to inform about their participation in the payment system, including a foreign payment system. Requirements have been strengthened for the payment systems operators in terms of the services providing procedure. A number of requirements has been stipulated for the operators of systemically important and important payment systems, including requirements to organization running and risk management (liquidity risk, operational risk and other types of risks), self-assessment of payment systems conducting, assessment of quality of services provided, and reporting to the National Bank of Kazakhstan, including those on payments made by important clients.

In this respect, the oversight function of payment system is concerned with:

1) monitoring of the systemically important payment system~~s~~;

2) analysis and assessment of functioning of the systemically important and important payment systems for their compliance with the international standards, including analysis of impact of the important clients of the payment system participants on the payment system operation;

3) collection and processing of information on payments and (or) money transfers, on payment systems functioning received from the operators, operation centers and payment system participants, and on, including data on amount of payments and (or) money transfers made through the systemically important or important payment systems, those made by important clients of said payment systems participants;

4) check of activities of the operators and (or) operating centers of systemically important and important payment systems;

5) supervision of compliance by the participants of systemically important payment systems with the requirements to the organizational measures and software and hardware instruments, which ensure access to the systemically important payment systems.

As a part of control of the payment services market it is provided for that the National Bank of Kazakhstan performs analysis of the payment services market and application of the payment tools; collects and processes data on the payment services provided that has been received from the payment services providers; carries out the record registration of payment organizations and keeps a register of such organizations; keeps a register of the important providers of the payment services and checks activities of the payment services providers.

In accordance with the powers established by the Law of the Republic of Kazakhstan “On Payments and Payment Systems”, since February 2017 the National Bank of Kazakhstan has been keeping the registers of payment systems, payment organizations and important providers of the payment services. Said registered are placed on the Internet resource of the National Bank of Kazakhstan.

A register of payment systems comprises classification of the systems by types: systemically important, important and other payment systems in accordance with the criteria and indicators established by the above-mentioned Law and Resolution of No.222 dated 31 August 2016 of the Management Board of the National Bank of Kazakhstan “On Approval of the Values of Criteria for Important Payment Systems.” Based on analysis performed during 2016, the Interbank System of Money Transfers was qualified as a systemically important payment system, while Interbank Clearing System, system of settlements for VISA payment cards and system of money transfer “Zolotaya Korona” (“Golden Crown”) were included in the list of the important payment systems. The payment system register will be updated as a new payment system is established or enters into Kazakhstan market, and when the level of importance of a payment system changes.

Based on results of activities related to the record registration of payment organizations, the National Bank has formed a register of payment organizations, which is updated as new payment originations are registered.

A register of important payment service providers includes those payment service providers that have a large share in the particular market segment (for example, in the payment card market, electronic money market, in terms of remote servicing of clients through the remote access systems and electronic terminals), in accordance with the criteria set by the Law of the Republic of Kazakhstan “On Payments and Payment Systems” and given the indicators established by the Resolution No.223 dated 31 August 2016 of the Management Board of the National Bank “On Approval of the Indicators on the Basis of Which a Payment Service Provider is Qualified as Important Payment Service Provider.” The register will be also revised by the National Bank on a regular basis following analysis of the payment services market, or if the National Bank receives as a written application from a payment services provider.

The overview covers the latest trends in Kazakhstan payment services market; it provides results of oversight of the payment systems, including payment systems of the National Bank of Kazakhstan, money transfer systems and analysis of payments settled through the correspondent accounts opened between the banks and organizations engaged in certain types of banking operations. Information on the trends in use of payment tools, development of the market of electronic payment services provided through the remote access systems, market of payment cards and electronic money is provided as a part of analysis of development of the payment services market.

# SECTION 1. PAYMENT SYSTEMS OF THE NATIONAL BANK OF KAZAKHSTAN

The payment systems of the National Bank of Kazakhstan comprise **the Interbank System of Money Transfer (ISMT) and Interbank Clearing System (ICS), which process interbank payments between the system participants in the national currency – tenge.**

* Process 96.7% of all cashless interbank payments made in Kazakhstan;
* Comply with the international standards;
* High level of business continuity of payment systems.

ISMT participants are all banks of Kazakhstan, Kazpost JSC, Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan, Non-commercial Joint-Stock Company State Corporation “Government for Citizens”, Central Securities Depository, Kazakhstan Stock Exchange, and certain international banks and non-resident financial organizations. ICS participants comprise Kazakhstan banks, Kazpost JSC, Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan, Non-commercial Joint-Stock Company State Corporation “Government for Citizens” and Central Securities Depository.

The operating center of the payment systems of the National Bank of Kazakhstan is the state enterprise with the right of economic management “Kazakhstan Interbank Settlement Center of the National Bank of the Republic of Kazakhstan (KISC), a subsidiary of the National Bank of Kazakhstan.

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| **Box 1 – KISC profile**  KISC was established on the basis of the Resolution No. 252 dated 10 December 1995 of the Management Board of the National Bank of Kazakhstan, in accordance with the Program of Reforms in the Banking System of the Republic of Kazakhstan. KISC founder and authorized body is the National Bank of the Republic of Kazakhstan.  KISC is an independent economic entity and forms a part of the structure of the National Bank of Kazakhstan. The KISC’s principal activity is to make interbank settlements and money transfers through ISMT, ICS and to provide technical support to the payment systems functioning.  Data on KISC principal activities and organization chart is provided on KISC website at [www.kisc.kz](http://www.kisc.kz)  In accordance with the Rules of ISMT Functioning approved by the Resolution No.201 dated 31 August 2016 of the Management Board of the National Bank of Kazakhstan and Rules of ICS Functioning approved by the Resolution No.211 dated 31 August 2016 of the Management Board of the National Bank of Kazakhstan, KISC performs functions of acceptance and processing of the payment orders and on the basis thereof makes transfers from the position of a participant-remitter to the position of a participant-recipient; KISC also performs functions of acceptance, processing and delivery of information messages to the participants on the transactions performed and other operating and technological functions, which are carried out to ensure functioning of the payment systems determined by Article 8 of the Law of the Republic of Kazakhstan “On Payments and Payment Systems”. |

# 1.1. Summary of the payment systems

**Settlements in ISMT are made on a real-time basis, i.e. every payment document, once entered in the system, is settled immediately, within a few seconds.**

The system is operating all days of week, except for the holidays and weekends. ISMT operating day is from 9.00 am till 7.00 pm. If necessary, an operating day can be prolonged on the basis of an application from a system participant.

* Real time settlements;
* Individual processing of each payment;
* FIFO principle in making settlements;
* High-priority and immediate payments of the financial sector

Prior to commencement of an operating day ISMT transfers money from the correspondent accounts of the payment system participants opened with the National Bank of Kazakhstan to the system’s account. The National Bank of Kazakhstan informs KISC about the amount of money transferred to each participant. Based on this information KISC posts the cash amounts from ISMT account to positions of the participants in KISC. During an operating day, ISMT makes the irrevocable and final settlements of the payment orders sent by the participants, by debiting positions of those participants that send money. If there is no sufficient liquidity to make payment, a payment order is queued. Payment documents in a queue are processed according to FIFO (first-in-first-out) principle. Payment system participants have a right to set and change a sequence of settlement of the payment documents. In this case, it is provided for that the priority of a payment order can be changed without its recall from the payment system. The payment system participants can recall a payment document in a queue.

ISMT also provides money transfers based on results of clearing in the retail payment systems, for example, settlement of net positions based on results of multilateral clearing in ICS, in-country interbank transactions using Visa and MasterCard[[1]](#footnote-1) payment cards.

ISMT is a systemically important payment system of Kazakhstan, and is intended for high-priority and real-time payments of the financial sector and economic entities (an average amount of one payment is KZT 41.7 million).

**All payments in ICS are made on a net basis, by offsetting the mutual requirements and obligations of the participants.**

* клиринговая система;
* построение платежных сообщений в очередь в течение операционного дня;
* многосторонний клиринг сообщений;
* без предварительного депонирования средств;
* перевод денег по результатам клиринга в МСПД;
* розничные платежи на небольшие суммы (ограничение по сумме – до 5 млн. тенге).

The system is oriented at making retail payments of the bank clients for small amounts, in particular, payments of the general public in the sector of C2B, C2G (utilities, tax payments, payments for goods and services), and ensures settlements of a major number of payments in the country. Maximum amount of one payment should not exceed KZT 5 million.

* Clearing system;
* Queuing of payment messages during an operating day;
* Multilateral clearing of messages;
* Without money pre-depositing;
* Money transfer to ISMT based on clearing results;
* Retail payments for small amounts (capped by KZT 5 million).

The system is operating on a 7/24 basis. ICS specific feature is that the payment documents are not processed individually but are queued until settled. At 3.00 pm the payment messages in a queue are cleared and net positions of the participants are settled. Interbank clearing is made on a multilateral basis without money depositing on the account of a payment system participant. After the net positions are settled, a new operating day of the system opens.

It is possible to use a value date in said payment system, i.e. to send the payment documents to the system with a future payment date up to three days, which enables the participants to plan their liquidity in advance. Each system participant has access to the information about all its payments available in the system.

Taking into account the significance of these payment systems for the economy of Kazakhstan, the main focus in the system operation is made on a high level of security and accessibility (continuity) of the system operation. Said objectives are fully achieved by means of the operating risks management methods used, including ongoing monitoring and analysis of the payment systems operation.

Payment systems of the National Bank of Kazakhstan complies with the international standards, including Principles for the Financial Market Infrastructures developed by the Committee on Payments and Market Infrastructures (CPMI) of the Bank for International Settlements and Technical Committee of the International Organization of Securities Commissions (Principles for FMI).

# 1.2. Payment systems compliance with Principles for FMI

When exercising oversight of payment systems the central (national) banks attach special attention to assessment of compliance of the payment systems with the international standards, in particular, Principles of FMI.

To ensure compliance of the payment systems with the Principles for FMI, the National Bank of Kazakhstan in 2013 proceeded to works on implementation of said Principles. In January – February 2014, during the joint mission of IMF and World Bank, the experts made a technical assessment of the payment systems for compliance with Principles of FMI. Based on results of technical assessment a number of recommendations was given to bring the payment systems and legal framework governing the matters of functioning of the payment systems in compliance with the Principles for FMI. In 2014 the National Bank completed the self-assessment of the payment systems. Results of the self-assessment of “Payment System” component were placed on the official site of the National Bank of Kazakhstan in section “Publications and Reports”.

During 2015-2016 the works were performed to improve the legal framework governing the payments and payment systems, and other measures were taken to ensure compliance of the payment systems with Principles for FMI. In particular, within the frameworks of the Law of the Republic of Kazakhstan “On Payments and Payment Systems” there were determined the classification of the payment systems and requirements for assessment of compliance with Principles for FMI imposed on the operators of the systemically important and important payment systems as well as requirements to execution of the risk management documentation.

There were also determined the norms for irrevocability (finality) of payments, including those that address a matter of completeness of payments in case when a client is subject to the streamlined rehabilitation procedure, procedure of the debtor insolvency settlement, rehabilitation procedure and procedure of the client’s declaring bankrupt. Glossary of Terms used in the Law of the Republic of Kazakhstan “On Payments and Payment Systems” has been brought in compliance with the CPMI Glossary of Terms.

To improve further the methods of management of liquidity risk, credit risk and systemic risk, a mechanism has been built into ISMT to provide the system participants with the additional daily liquidity (overdraft) against securities pledged as collateral.

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|  | **Box 2 – Summary of compliance of the payment systems of the National Bank of Kazakhstan with Principles for FMI** |
| ***Principle 1: Legal basis***  *An FMI should have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.* | |
| *Summary* | The regulatory legal acts of the Republic of Kazakhstan and KISC documents have set a sufficient, well-founded, clear, transparent, and enforceable legal basis for each material aspect of activities in ISMT and ICS. The major law, which governs the regulatory norms in the area of payment systems functioning, is the Law of the Republic of Kazakhstan “On Payments and Payment Systems”.  All aspects of ISMT and ICS activities have been determined in details in the respective regulatory legal acts: Rules of ISMT Functioning and Rules of ICS Functioning. Regulatory legal act, including the laws of the Republic of Kazakhstan, are binding on all legal entities and individuals in the Republic of Kazakhstan; therefore, they cannot be suspended or invalidated without adoption of an appropriate legal act. KISC documents approved by KISC General Director are binding on all participants of the payment systems.  Regulatory legal acts governing the matters of functioning of the payment systems should be agreed with the participants of the payment systems and interested state authorities. Resolutions of the Management Board of the National Bank of Kazakhstan are subject to mandatory agreement with the Association of Financiers of Kazakhstan, the members of which are the second-tier banks of the Republic of Kazakhstan, and with the National Chamber of Entrepreneurs. After approval the resolutions of the Management Board of the National Bank are subject to mandatory registration with the Ministry of Justice of the Republic of Kazakhstan to ensure full compliance thereof with the legal requirements of the Republic of Kazakhstan. In addition, an ongoing monitoring of the current regulatory legal acts is exercised for their relevance, compliance with the legislation of the Republic of Kazakhstan and absence of corruption and other unacceptable norms. |
| ***Principle 2: Governance***  *An FMI should have governance arrangements that are clear and transparent, promote the*  *safety and efficiency of the FMI, and support the stability of the broader financial system,*  *other relevant public interest considerations and the objectives of relevant stakeholders.* | |
| *Summary* | A control mechanism, on the basis of which the management bodies of the National Bank of Kazakhstan (a payment system operator) are operating is determined by the Law of the Republic of Kazakhstan “On the National Bank of the Republic of Kazakhstan” and Statute of the National Bank of Kazakhstan.  The management bodies of the National Bank of Kazakhstan are the Management Board and Board of Directors. Functions of the Management Board and Board of Directors are specified in the Law of the RK “On the National Bank of the Republic of Kazakhstan” and Statute of the National Bank of Kazakhstan. |
| ***Principle 3: Framework for the comprehensive management of risks***  *An FMI should have a sound risk-management framework for comprehensively managing legal, credit, liquidity, operational, and other risks.* | |
| *Summary* | Framework for the risk management in the payment systems is aimed to ensure their effective, safe and uninterrupted functioning. Assessment of risks inherent in the payment systems is carried out by the National Bank of Kazakhstan as a part of analysis of the business process “Ensuring functioning of the payment systems” and oversight of the payment systems.  Risk management and risk minimization methods are provided for each type of risk (see Principle 4 Credit Risk, Principle 7 Liquidity Risk and Principle 17 Operating Risk).  Information on risks inherent in the payment systems and methods of management thereof is provided in the respective regulatory legal acts. |
| ***Principle 4. Credit risk***  *An FMI should effectively measure, monitor, and manage its credit exposures to participants and those arising from its payment, clearing, and settlement processes. An FMI should maintain sufficient financial resources to cover its credit exposure to each participant fully with a high degree of confidence. In addition, a CCP that is involved in activities with a more- complex risk profile or that is systemically important in multiple jurisdictions should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the two participants and their affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions. All other CCPs should maintain additional financial resources sufficient to cover a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would potentially cause the largest aggregate credit exposure to the CCP in extreme but plausible market conditions.* | |
| *Summary* | ISMT is a system of real time gross settlements, which guarantees that settlements are made within one operating day. There is no preliminary deposit of cash in ICS and settlements are made by means of clearing of the payment messages. Methods of management of liquidity risk and systemic risk are provided in the description of Principle 7 Liquidity Risk.  To manage credit risk ISMT comprises a mechanism, by which the National Bank of Kazakhstan provides intraday liquidity to a payment system participant, if the latter has a problem with liquidity to complete a payment. Mechanism of entering into “overdraft” transaction is fully automated and implies provision of liquidity within a few minutes.  In addition, the procedures are stipulated, which are aimed at replenishment of liquidity of the payment system participants in certain stress situations. |
| ***Principle 5: Collateral***  *An FMI that requires collateral to manage its or its participants’ credit exposure should accept collateral with low credit, liquidity, and market risks. An FMI should also set and enforce appropriately conservative haircuts and concentration limits.* | |
| *Summary* | In ISMT the National Bank of Kazakhstan provides “overdraft” liquidity to the participants against the pledge of government equity securities issued by the Ministry of Finance of the Republic of Kazakhstan on behalf of the Government of the Republic of Kazakhstan (government treasury bonds), except for the long-term government saving treasury bonds linked to the inflation index.  Liquidity (overdraft) is provided within the daily limit, which is set on a monthly basis (limit for a payment system participant to be used during one operating day of ISMT is calculated as a percentage ratio set by the National Bank of Kazakhstan of the median value of the amount of outgoing cashless payments of said user made through ISMT during previous six months). The liquidity received is used to complete payments of the clients of the payment system participants and may not be used to make payments in the internal and external currency, money and stock markets, including payments according to the clients’ instruction. |
| ***Principle 6: Margin***  *A CCP should cover its credit exposures to its participants for all products through an effective margin system that is risk-based and regularly reviewed.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. |
| ***Principle 7: Liquidity risk***  *An FMI should effectively measure, monitor, and manage its liquidity risk. An FMI should maintain sufficient liquid resources in all relevant currencies to effect same-day and, where appropriate, intraday and multiday settlement of payment obligations with a high degree of confidence under a wide range of potential stress scenarios that should include, but not be limited to, the default of the participant and its affiliates that would generate the largest aggregate liquidity obligation for the FMI in extreme but plausible market conditions.* | |
| *Summary* | To manage liquidity risk the following mechanisms are used in ISMT:  1) a queue management mechanism;  2) additional money transfers from a correspondent account of a payment system participant opened with the National Bank of Kazakhstan to its position in ISMT:  - if there is not sufficient liquidity to settle the net position in ISMT based on the clearing results;  - if a participant has a queue of payment documents at the end of the operating day (within thirty minutes before the operating day closing). If there is no sufficient money on the correspondent account of a payment system participant with the National Bank of Kazakhstan, a responsible officer of the National Bank of Kazakhstan, jointly with the participant, considers methods to settle this queue;  3) the National Bank of Kazakhstan provides liquidity to a payment system participant against pledge of securities (“overdraft” transaction);  4) if at the end of the ISMT operating day two or more participants have the unsettled queues of payment documents, KISC offsets the payment document in the queue with due account of the balance of cash of the participants in the system.  To manage liquidity risk ICS uses mechanism of «queue unwinding» of payment documents and recalculation of new positions of the payment system participants.  In this regard the National Bank of Kazakhstan exercises the continuous monitoring of positions of the payment system participants in real time and make analysis of information on the unused (recalled) payments in ISMT, queue of the payment documents for the preceding day, annulled payment documents in ICS, on a daily basis as a part of oversight of the payment systems. |
| ***Principle 8: Settlement finality***  *An FMI should provide clear and certain final settlement, at a minimum by the end of the value date. Where necessary or preferable, an FMI should provide final settlement intraday or in real time.* | |
| *Summary* | ISMT ensures a final settlement of each payment document individually, in real time. ICS ensures a final settlement within one operating day. |
| ***Principle 9: Money settlements***  *An FMI should conduct its money settlements in central bank money where practical and available. If central bank money is not used, an FMI should minimize and strictly control the credit and liquidity risk arising from the use of commercial bank money* | |
| *Summary* | Money is transferred to ISMT within the limits of amounts available on the correspondent accounts of the system participants with the National Bank of Kazakhstan. Settlements based on the clearing results in ICS are made in ISMT. Money available on the accounts with the second tier banks (commercial banks) is not used. Therefore, the National Bank of Kazakhstan appears to be the only settlement bank and operator of ISMT. |
| ***Principle 10: Physical deliveries***  *An FMI should clearly state its obligations with respect to the delivery of physical instruments or commodities and should identify, monitor, and manage the risks associated with such physical deliveries.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. |
| ***Principle 11: Central securities depositories***  *A CSD should have appropriate rules and procedures to help ensure the integrity of securities issues and minimize and manage the risks associated with the safekeeping and transfer of securities. A CSD should maintain securities in an immobilized or dematerialized form for their transfer by book entry.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. |
| ***Principle 12: Exchange-of-value settlement systems***  *If an FMI settles transactions that involve the settlement of two linked obligations (for example, securities or foreign exchange transactions), it should eliminate principal risk by conditioning the final settlement of one obligation upon the final settlement of the other.* | |
| *Summary* | Only money settlements are made in ISMT and ICS. In ISMT money settlements are made in relation to the securities transactions as well. When payments are made in relation to securities transactions, each transaction is performed individually, on a gross basis in real time: money settlements separately from settlements on securities. Settlements on securities transactions are made on the DVP basis – “delivery versus payment.” |
| ***Principle 13: Participant-default rules and procedures***  *An FMI should have effective and clearly defined rules and procedures to manage a participant default. These rules and procedures should be designed to ensure that the FMI can take timely action to contain losses and liquidity pressures and continue to meet its obligations.* | |
| *Summary* | The National Bank of Kazakhstan may send to KISC a notice about termination of the expense transactions of a payment system participant in accordance with the terms of the correspondent account agreement signed by the participant with the National Bank of Kazakhstan. Once KISC receives a letter from the National Bank of Kazakhstan about temporary suspension of certain provisions of the participation contract signed with a system participant, KISC suspends transactions on the position of this participant, except for the transactions for money acceptance (crediting) in favor of the participant.  To manage liquidity risk and systemic risk (risk of default of one or several users on one or a few money transfers caused by default of one or several users) the mechanisms specified under heading Principle 7 will apply. |
| ***Principle 14: Segregation and portability***  *A CCP should have rules and procedures that enable the segregation and portability of positions of a participant’s customers and the collateral provided to the CCP with respect to those positions.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. |
| ***Principle 15: General business risk***  *An FMI should identify, monitor, and manage its general business risk and hold sufficient liquid net assets funded by equity to cover potential general business losses so that it can continue operations and services as a going concern if those losses materialize. Further, liquid net assets should at all times be sufficient to ensure a recovery or orderly wind-down of critical operations and services.* | |
| *Summary* | The National Bank of Kazakhstan acts as an operator of the payment systems. The operating center (KISC) is a subsidiary of the National Bank of Kazakhstan established in the form of a state enterprise based on the right of economic management, and in its financial activity it is accountable to the National Bank of Kazakhstan (state enterprise). As KISC is a national state enterprise on the right of economic management, the capital management is performed according to the legislation of the Republic of Kazakhstan and legal documents of the National Bank of Kazakhstan. |
| ***Principle 16: Custody and investment risks***  *An FMI should safeguard its own and its participants’ assets and minimize the risk of loss on and delay in access to these assets. An FMI’s investments should be in instruments with minimal credit, market, and liquidity risks.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. Money of the participants is held on the correspondent accounts opened with the National Bank of Kazakhstan. |
| ***Principle 17: Operational risk***  *An FMI should identify the plausible sources of operational risk, both internal and external, and mitigate their impact through the use of appropriate systems, policies, procedures, and controls. Systems should be designed to ensure a high degree of security and operational reliability and should have adequate, scalable capacity. Business continuity management should aim for timely recovery of operations and fulfillment of the FMI’s obligations, including in the event of a wide-scale or major disruption.* | |
| *Summary* | To manage the operating risk KISC uses the necessary methods of management of physical and information security, which are based on the international standards. In addition, for the purposes of the operating risk management a payment system recovery plan has been developed and is updated on the annual basis; information in backed up in real time in the standby center; data is archived; the underlying hardware is updated; a recovery team is available; operation of the standby center is duly arranged; the management analyzes fulfillment of measures of control to minimize the identified risk factors and application of the cryptographic protection facilities; and other measures of the operating risk management are applied. Special documents have been worked out, which determine actions required to manage this risk.  To manage the operating risk as a part of the payment system oversight the National Bank of Kazakhstan checks the organization and functioning of the payment systems; makes analysis of the results of transfer of the payment system operation to a software-hardware complex of a standby center and takes, jointly with KISC, other risk management measures.  The back up center of the payment systems has technical and communication parameters identical with the primary center. Data between the primary center and back up center is synchronized in real time; if an extraordinary situation takes place in the primary center, processing of the payment messages will continue in the back up center.  Requirements to the payment system participants have been set in terms of ensuring the workstation security, by which communication is maintained with the payments systems, including requirements to availability of the backup communication channels and backup workstations, and requirements to the disaster recovery plan of a payment system participant. |
| ***Principle 18: Access and participation requirements***  *An FMI should have objective, risk-based, and publicly disclosed criteria for participation, which permit fair and open access.* | |
| *Summary* | Criteria of access to ISMT and ICS are stated in details in the Rules of functioning of these payment systems, are uniform for all participants and accessible for the public and all entities. |
| ***Principle 19: Tiered participation arrangements***  *An FMI should identify, monitor, and manage the material risks to the FMI arising from tiered*  *participation arrangements.* | |
| *Summary* | There are no tiered participation arrangements in ISMT and ICS. The direct participants of ISMT and ICS are the banks and organizations carrying our certain types of banking operations, which have signed contracts with the National Bank of Kazakhstan for participation in the system and with KISC for having services in the system.  Indirect participants of ISMT and ICS are the clients (individuals and legal entities) of the direct participants whose payment instructions the direct participants send to the payment system for settlements and with whom the payment system participants have signed the bank service contracts (bank account, money transfer and bank deposit contracts).  It is provided for that the operators of the systemically important and important payment systems have to submit to the National Bank of Kazakhstan data on payments made by the important clients of the payment system participants. |
| ***Principle 20: FMI links***  *An FMI that establishes a link with one or more FMIs should identify, monitor, and manage link-related risks.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. |
| ***Principle 21: Efficiency and effectiveness***  *An FMI should be efficient and effective in meeting the requirements of its participants and the markets it serves.* | |
| *Summary* | The National Bank of Kazakhstan and KISC in their activities are governed by the principle of full service of the participants of ISMT and ICS. The major advantages of ISMT and ICS are the high security level, high-speed information transfer; in addition, ISMT is able to make payments in real time.  ISMT has to continue to be the leader in provision of services of interbank money transfers and guarantee the world-class quality level and ensure compliance with the international standards (Principles for FMI). In this regard, KISC performs, in good faith and thoroughly, its undertakings with relation to the participants following the principle “Loyal and equal attitude to any participant”. While working with the participants the principle “respectful and prompt performance of services on the user’s request” is in force.  To determine whether ISMT complies with the requirements and meets the needs of the participants a questionnaire survey of the participants is performed, annual meetings (seminars) with the ISMT users are held in order to address the general issues, inform about new projects and lines of business and discuss the latest trends.  The National Bank of Kazakhstan is carrying out, on the ongoing basis, the works related to monitoring and improvement of the regulatory legal acts that determine the terms and procedure of organization and functioning of ISMT and ICS. |
| ***Principle 22: Communication procedures and standards***  *An FMI should use, or at a minimum accommodate, relevant internationally accepted communication procedures and standards in order to facilitate efficient payment, clearing, settlement, and recording.* | |
| *Summary* | ISMT/ICS do not use the international formats of messages and use the internal SWIFT-like formats of messages. In this regard, to ensure the interoperability with the international formats of messages (for integration with the foreign payment systems in future), the international standards for the numbers of bank accounts and bank identification codes ISO 13616: IBAN (International Bank Account Number) and ISO 9362: BIC (Bank Identifier Codes) were implemented in Kazakhstan payment systems.  It should be noted that the participants may use different types of communication (modem, dedicated channels, Internet) to communicate with KISC. KISC offers an opportunity to be connected to all KISC services using the Frame-Relay, MPLS IP VPN, Internet technologies and additional Dial-Up (dial-up access) for the payment systems and authorization center. |
| ***Principle 23: Disclosure of rules, key procedures, and market data***  *An FMI should have clear and comprehensive rules and procedures and should provide sufficient information to enable participants to have an accurate understanding of the risks, fees, and other material costs they incur by participating in the FMI. All relevant rules and key procedures should be publicly disclosed.* | |
| *Summary* | Rules and procedures of ISMT and ICS, including those which determine the actions of the participants and operator, operating center of the payment systems, risks and risk management methods, tariffs valid in the payment systems, formats of messages are disclosed in the Rules of Functioning of said systems as well as other documents. In this regard, said documents are placed on the Internet resource of the National Bank of Kazakhstan, KISC website (including KISC documents “System of Payments - Procedure of Exchange and Forms of Messages”, “Checks Applied in Review of Payment Messages”) and in “Yurist” (“Lawyer”) information system.  Data on changes in requirements to the software/hardware interaction between KISC and participants of the payment systems, procedure of exchange of electronic messages is mandatory agreed on and communicated to the participants. Statistics on functioning of ISMT and ICS is openly published on the internet resource of the National Bank of Kazakhstan |
| ***Principle 24: Disclosure of market data by trade repositories***  *A TR should provide timely and accurate data to relevant authorities and the public in line with their respective needs.* | |
| *Summary* | Provisions of this Principle are not applicable to ISMT and ICS. |

Based on results of the works done, it is possible **to state that the payment systems of the National Bank of Kazakhstan comply with the established Principles for FMI**, including in terms of the legal framework. Risk management, information security and technical support.

# 1.3. Payment system development indicators

During 2016 the tendency of annual growth in the volume of payments through the payment systems of the National Bank of Kazakhstan preserved. Thus, **during 2016, 35.3 million transactions for the amount of KZT 590.7 trillion were settled through IMTS and ICS**.

During 2016, on average 144.1 thousand transactions per day for the total amount of KZT 2.4 trillion were settled through the payment systems.

For comparison, the volume of GDP produced in Kazakhstan in 2016 (according to the operational data) amounted to KZT 46.2 trillion[[2]](#footnote-2). Thus, the volume of payments settled through the payment systems exceeded Kazakhstan GDP for 2016 by almost 12.8 times, that is, on average during a month the amount of payments through the payment systems exceeds the amount of Kazakhstan annual GDP.

Compared with 2015, a number of payments in the payment systems increased by 0.3%, while **the amount of payments increased by 2.5 times**.

In this regard, over the past five years, a number of payments settled through the payment systems has increased by 9.1%, while the amount of payments has increased by 3.5 times.

**Volumes of payments in the payment systems  
of the National Bank of Kazakhstan**

Growth of the amount of payments in the payment systems has been due to increase in the volume of payments related to transactions with securities and deposits.

In particular, said increase has resulted from transactions with government securities and deposit operations between the National Bank of Kazakhstan and second-tier banks of the Republic of Kazakhstan, which were carried out to regulate tenge liquidity.

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| --- | --- |
| **In this regard, ISMT accounts for the major portion of the amount of payments settled through the payment systems of the National Bank of Kazakhstan (99%),** while the bulk of payment messages is processed through ICS (60%).  An average amount of one payment message in ISMT in 2016 was equal to KZT 41.7 million and increased by 2.5 times (by KZT 25.0 million) as compared with 2015. An average amount of one payment message in ICS for 2016 was equal to KZT 282.4 thousand, having increased by 10.9% (KZT 27.8 thousand) as compared with 2015. | **ISMT**  **ICS**  282.4 thousand тенге |

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# 1.4. ISMT performance indicators

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| **14.0 million transactions were settled through ISMT during 2016 for the total amount of KZT 584.7 trillion.** Compared with 2015, a number of payment messages increased by 3.8%, while the amount of payments increased by 2.6 times.  At the same time, during 2016, on average 57.2 thousand transactions per day for the amount of KZT 2,386.4 billion were settled through ISMT. | **Dynamics in the payment flows in ISMT** |

Growth in the volume of payments in ISMT has been due to increase in the volume of transactions with securities and deposits.

**Volumes of payments by types of purposes of payments in ISMT**

*\* comprise pension payments and benefits, specific transfers, payments to/from budget.*

**In ISMT a proportion of payments and money transfers of the individuals[[3]](#footnote-3) of the total amount of payments and money transfers settled through the system is insignificant (KZT 1,280.9 billion or 0.2%), while legal entities account for 99.8% of all payments and money transfers.** An average amount of one payment message generated and sent by a participant of the system based on the instructions of a legal entity was KZT 2.9 million. An average amount of one payment message generated in accordance with the individual’s instructions was about KZT 479.0 thousand. At the same time, an average amount of one payment of an individual under the heading "Pension payments" is about KZT 5.9 thousand, while the amount of payments to the budget is KZT 181.8 thousand.

Payments for the amount under KZT 3 million account for a major portion of the payment messages in ISMT - 87.4%, while payments for the amount from KZT 500 million to KZT 1 billion represent the smallest portion of payments (0.3%). At the same time, payments within the range of over KZT 1 billion account for the bulk of payments - 85.9%.

**Number of payments in ISMT by ranges of amounts**

**Value of payments in ISMT by ranges of amounts**

|  |  |
| --- | --- |
| **Box 3 – Comparison of indicators**  *To compare the indicators of development of the payments systems and payment services market the data broken down by EEU member states is used hereunder.*  During 2016, 70.1 million of payments for BYR 517.4 billion (equivalent to KZT 89.0 trillion) were made through the payment system of the Republic of Belarus - Belarus Interbank Settlement System (BISS).  3.4 million payments for RUB 560.1 trillion (equivalent to KZT 2,826.2 trillion) were settled through the Bank of Russia Real Time Gross Settlement System (BESP System) of the Russian Federation during 2016.  70.1 million of payments for KGS 4,980.2 billion (equivalent to KZT 24.4 trillion) were settled using the Real-Time Gross Settlement System (RTGSS) of the Kyrgyz Republic during 2016. | |
| **Payments and money transfers settled through the payment systems of EEU member states**   |  |  |  |  | | --- | --- | --- | --- | | **Name of the payment system** | **Turnover in the national currency** | **KZT equivalent (KZT trillion)** | **Increase compared with the previous period** | | ISMT | KZT 584,671.7 billion | 584,7 | by 2.6 times | | BISS | BYR 517.4 billion | 89,0 | 18.5% | | BESP | RUB 560,123.2 billion | 2 826,2 | 4.6% | | RTGSS | KGS 4,980.2 billion | 24,4 | by 2.9 times | | |
| Tariffs in the payment systems of the National Bank are differentiated by the payment timing and vary from KZT 57 to KZT 114 in ISMT. | |  |  | | --- | --- | | **Time of settlement** | **Tariff** | | From 8.00 am to1.00 pm | 57,0 | | From 1.00 pm to 7.00 pm | 114,0 | | **Total** |  |   **ISMT tariffs** |

The ISMT capacity is 23 messages per second.

# 1.5. ICS performance indicators

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| --- | --- |
| **21.3 million electronic payment messages for KZT 6.0 trillion were processed in ICS during 2016**. Compared with 2015, a number of payment messages in the clearing system decreased by 1.8%, while the amount of payments increased by 8.9%. On average, 86.9 thousand of payment messages for KZT 24.6 billion were settled per day during 2016. | **Dynamics in payment flows in ICS** |

ICS processes mostly payments of the individuals and economic entities related to settlements for the goods and intangible assets, services provided and payments to the budget (payment of taxes and other mandatory payments to the budget) and payments from the budget.

The main impact on the increase in payments in ICS has been due to increase in the volume of payments for transactions related to goods - by 8.6%, services - by 6.0% and deposit transactions - by 21.0%.

**Dynamics in payments by types of purposes of payments in ICS**

KZT billion

↑ 6,1%

↑ 6,0%

↑ 8,6%

↑ 21,0%

↓ 7,1%

↑ 33,5%

↑ 31,7%

Payments made by individuals in ICS accounted for 8.1% of the total amount of payments, while payments of the legal entities accounted for 91.9%, respectively. An average amount of one payment message generated on the basis of the instructions of a legal entity was KZT 38.8 thousand. An average amount of one payment message in ICS generated according to the instructions of an individual was KZT 26.4 thousand. Payments for goods and intangible assets (28.7%), payments to the budget (21.4%) and payments for the services (21%) accounted for the bulk of the payment messages sent to the system by participants. In 2016, the overall growth of payments made by individuals through ICS was 9.8% as compared with 2015.

In terms of the payment amounts, payments below KZT 500 thousand account for the largest number of transactions in ICS (90%), while payments from KZT 500 thousand to KZT 1 billion account for the smallest number of transactions (3%). Payments above KZT 1 million make the bulk of payments (77.6%).

**Payments in ICS by ranges of amounts**

**Number Amount**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| In this regard, tariffs in ICS are differentiated by timing and range from KZT 9 to KZT 22 per payment. | **ICS tariffs**   |  |  | | --- | --- | | **Time of settlements** | **Tariff** | | From 4.00 pm to 9.00 am | KZT 9 | | From 9.00 am to 1.00 pm | KZT 11 | | From 1.00 pm to 4.00 pm | KZT 22 | | **Total** |  | |
|  |  |

# 1.6. Money liquidity and turnover in payment systems

To manage liquidity risk and systemic risk in the payment systems, which, if realized, may significantly affect the financial stability of the country, the National Bank of Kazakhstan and participants of payment systems exercise ongoing monitoring and control over the participants' positions in the systems.

An average daily volume of liquidity in ISMT (the amount of money that the users transfer to the system to make payments and money transfers) was **KZT 1,072.8 billion in 2016, having increased by 24.7% (KZT 212.5 billion) compared with 2015.** Compared with 2007, liquidity in ISMT has increased by 84.9%, which contributed to the significant reduction in credit and liquidity risks.

**ISMT liquidity ratios**

In 2016 an average annual liquidity volume of the participants in ISMT was 45.0% of the average daily amount of payments.

**Dynamics in change of liquidity of ISMT participants in 2016**

Calculation of the money turnover ratio is used in ICS to analyze efficiency, which shows how many times the money counter-flow has been used to make payments, as well as analysis of the net position of the system participants. Thus, in 2016 an average daily **MTR (Money Turnover Ratio) was equal to 5.0** (for example, if there is 1 unit of liquidity in the payment systems, 5 units are transacted in the system at the expense of turnover of counter-payments).

At the same time, an average daily amount of net positions of the users, based on the clearing results, was KZT 5.1 billion, which exceeds the same value for 2015 by 8.6%. A proportion of the net positions of the participants in ICS in relation to the average daily turnover of the participants in ISMT[[4]](#footnote-4) is 0.2%, which indicates that in case of failure to calculate the net positions of the ICS participants in ISMT, the risk is insignificant.

**Liquidity and turnover ratios in ICS for 2016**

# 1.7. Payment system operability indices

Up-to-date ISMT and ICS, through which the main flow of payments in the country runs, play a prominent role in promoting development of Kazakhstan economy. One of the important functions of the National Bank of Kazakhstan in this regard is to exercise oversight of the payment systems, which includes a whole package of arrangements, including monitoring of functioning of these payment systems and evaluation of their performance for reliability and efficiency.

**ISMT business continuity ratio (operability) for 2016 was 99.803%, and that of ICS - 99.976%, which exceeds, in general, the established targets[[5]](#footnote-5) and is characteristic of the high efficiency of the systems operating in the country**.

# 1.8. System of Mass Electronic Payments

With the development of innovative technical solutions, the needs have arisen in the existence of retail payment systems that provide instant payment settlement or on-line transfer of information on payments made to the service provider. Therefore, in August 2016 the System of Mass Electronic Payments (SMES) was put into operation, and the SMES operator is KISC.

This system has been designed to make the guaranteed immediate payments for small amounts with transfer of information on the payments made and function of settlement of the multilateral clearing position once a day. The money is transferred to SMEP using the money of its participants available in IMTS and it is not necessary to raise additional liquidity to start operating in SMEP. The system is functioning in a round-the-clock mode without days off and has lower tariffs compared with those of ICS.

As at 1 January 2017, 4 participants - Halyk Bank of Kazakhstan JSC, VTB Bank JSC, Subsidiary Bank “Alfa-Bank” JSC and Treasury Committee of the Ministry of Finance of the Republic of Kazakhstan – were the users of SMEP.

|  |  |
| --- | --- |
| During the period from September to December 2016, 690.9 thousand payments for KZT 65.0 billion were settled through the system, which is 3.2% of payments made in ICS during 2016. | **Volumes of payments through SMEP in 2016** |

Payment systems of the National Bank of Kazakhstan (ISMT and ICS) comply with the established international standards (the Principles for FMI), are characterized by high level of efficiency and business continuity, and ensure processing of the major volume of payments in the national currency in Kazakhstan. The volume of payments in the payment systems keeps grows from year to year.

At the same time, each system has its own target audience and its functional purpose. ISMT is a systemically important payment system of the country and is intended to make the high-priority and urgent payments of the financial sector and business entities (an average amount of one payment is KZT 41.7 million), due to this fact this system accounts for the major portion of the payments. ICS is oriented at making the retail payments of the general public for small amounts (the amount is limited by KZT 5 million, an average amount of one payment is KZT 282.4 thousand), in particular, these are the payments of the general public in the sector C2B, C2G (utilities, tax payments, payments for goods and services); ICS ensures settlements of the most of payments between the financial organizations.

# SECTION 2. PAYMENT INSTRUMENTS

This Section deals with analysis of the use of payment instruments in Kazakhstan, including transactions with individuals and legal entities, which are carried out using the credit instruments[[6]](#footnote-6), debit instruments[[7]](#footnote-7) and other means of payments and money transfers[[8]](#footnote-8).

**Payments of legal entities**[[9]](#footnote-9)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Legal entities[[10]](#footnote-10) performed 582.0 million transactions through the banks and Kazpost JSC using payment instruments, for the total amount of KZT 561.0 trillion. | |  |  |  | | --- | --- | --- | | **Sub-types** | **Number (thousand transactions)** | **Amount**  **(KZT billion)** | | Credit payment instrument s | *297,6* | *512 000,5* | | *Proportion in the total structure (in %)* | *51,1%* | *91,3%* | | Debit payment instruments | *35,5* | *13 586,4* | | *Proportion in the total structure (in %)* | *6,1%* | *2,4%* | | Other | *248,9* | *35 456,3* | | *Proportion in the total structure (in %)* | *42,8%* | *6,3%* | | **Total** | **582,0** | **561 043,2** | |

|  |  |
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| **Proportion of the total number of payment instruments of legal entities in 2016** | **Proportion of the total amount of payment instruments of legal entities in 2016** |

Payments and money transfers of the legal entities settled using the transfer orders and payment orders account for the largest portion of payments - 47.1% and 42.3%, respectively; while in terms of the amount, transfer orders account for the major volume – 90.0%, which are used to make payments and money transfers from the legal entities’ bank accounts in accordance with the instructions provided by these legal entities.

**Payment of individuals**[[11]](#footnote-11)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| 644.1 million transactions for KZT 46.0 trillion were settled by the individuals[[12]](#footnote-12) through the banks and Kazpost JSC using payment instruments. | |  |  |  | | --- | --- | --- | | **Sub-types** | **Number (thousand transactions)** | **Amount**  **(KZT billion)** | | Credit instruments | 72,4 | 25 648,0 | | *as % to the total* | *11,2%* | *55,8%* | | Debit instruments | 25,9 | 2 648,3 | | *as % to the total* | *4,0%* | *5,8%* | | Other instruments | 545,8 | 17 708,0 | | *as % to the total* | *84,7%* | *38,5%* | | **Total** | **644,1** | **46 004,4** | |

|  |  |
| --- | --- |
| **Proportion of the total number of payment instruments in 2016** | **Proportion of the total amount of payment instruments in 2016** |

Transactions of the individuals using the payment cards and payment orders account for the largest portion – 51.4% and 32.7%, respectively, and are characterized by the use of the payment orders for small amounts between the banks and their customers, including payment of the bank services, payment of interest on the customers’ current accounts. In terms of the amount the payment orders and payment cards account for the bulk of payments -55.0% and 22.6%, respectively.

# SECTION 3. PAYMENT SERVICES MARKET

The payment services market is closely related to the information and communication technologies; based on the level of development and penetration of these technologies one can judge whether the electronic payment documents are accessible for the general public. Accordingly, in many researches, covering the analysis of the payment services market, attention is paid primarily to the Internet penetration rate, use of smartphones and other electronic terminals.

* Country-wide implementation of the innovative financial solutions;
* Development of the remote communication channels;
* Active development of Internet and mobile applications;
* Entry of new players (private payment organizations)

Current developments have also affected Kazakhstan payment market, which has undergone significant structural changes. Due to development of the financial technologies, one can see and increased number of new bank payment services related to the use of remote communication channel, in particular Internet. New payment services participants (private payment organizations) are also active in the market and offer the clients an opportunity to have instant payments using the innovative payment documents.

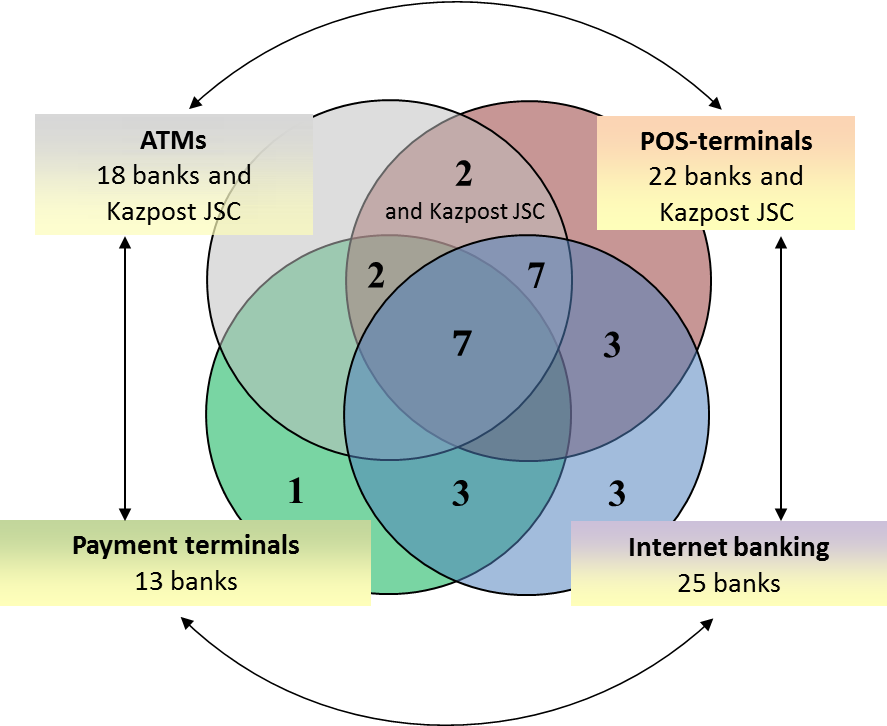
According to the data of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, in 2016 a share of Internet users at the age from 16 to 74 years old was 80.2%. In this case, out of the total number of the bank clients – individuals only 20% use the Internet banking services. Thus, there is a substantial potential in Kazakhstan to increase a share of the bank clients using the up-to-date remote methods of access to the bank services.

At the same time, a stable exchange rate of the national currency has significant impact on development of cashless money circulation. During the period of sharp change in tenge exchange rate, there was a noticeable slowdown in the growth rate of cashless payments settled using the payment cards (a major instrument of cashless retail payments in Kazakhstan). Thus, in 2015 (during the period of significant change in tenge exchange rate) the volume of cashless payments settled using the payments cards increased by 4.2% as compared with 2014. In 2016 this indicator was 57.2%, which is characteristic of, among other things, stabilization of situation in the domestic currency market, increase in confidence to the financial system and active development of the innovative financial solutions.

## 3.1. Infrastructure of the market of electronic payment services

Currently, to make the remote payments Kazakhstan banks offer their customers the systems of Internet banking and mobile banking as such remote access devices and POS-terminals, ATMs, bank kiosks and instant payment terminals.

In Kazakhstan **91% of the second-tier banks** (30 out of 33) and Kazpost JSV have their own electronic terminals and/or Internet banking to serve the customers.



As at 1 January 2017, the infrastructure of electronic bank terminals is characterized by the following metrics:

- 107,498 POS-terminals, out of which 99,433 POS-terminals are installed in the trade organizations and service companies (increase by 38.1% and 41.2%, respectively, on the YoY basis);

- 9,561 ATMs, of which 1,545 ATMS are of cash-in type (increased by 4.5% and 14.2%, respectively);

- 1,522 bank kiosks (growth by 31.2%);

- 14,447 instant payment terminals to accept cash payments (increase by 1.2%).

**Dynamics of development in the network of electronic terminals**

Since 2014 a **tangible expansion of the network of services for the payment card holders has been noted due to installation of POS-terminals in the trade organizations and/or service companies**, which is attributed, inter alia, to the established regulatory requirements for the trading entities to accept payment cards for payments while carrying our certain types of activities[[13]](#footnote-13).

Emergence of new payment instruments in the market and imposition of tougher requirements to the operation of equipment force the acquirers to respond to the changes and improve further their equipment. Whereas in the past POS-terminals were stationary, today the majority of POS-terminal maintain the cellular communication standards and are mobile, and are also able to serve the contactless payment instruments.

Small trading organizations and/or service companies have an opportunity to use mPOS[[14]](#footnote-14), by connecting thereof to a smartphone. Active development of the network of payment terminals promoted improvement of ATMs by means of implementation of the “cash-in” function. 16% of ATMs have this function.

* Development of financial technologies (NFC technologies, QR codes);
* Maintenance by POS-terminals of cellular communication standards
* “cash-in” functions in ATMs

Contactless technologies have evolved, which allow making payments without physical contact of a payment card with electronic terminals or other devices at the time of transaction (Near Field Communication – NFC). 30% of POS-terminals installed in the point of sales/service points have technology of contactless payment. Solutions for use of QR-codes with encoded details of entrepreneurs to pay for goods and services are also available in the market.

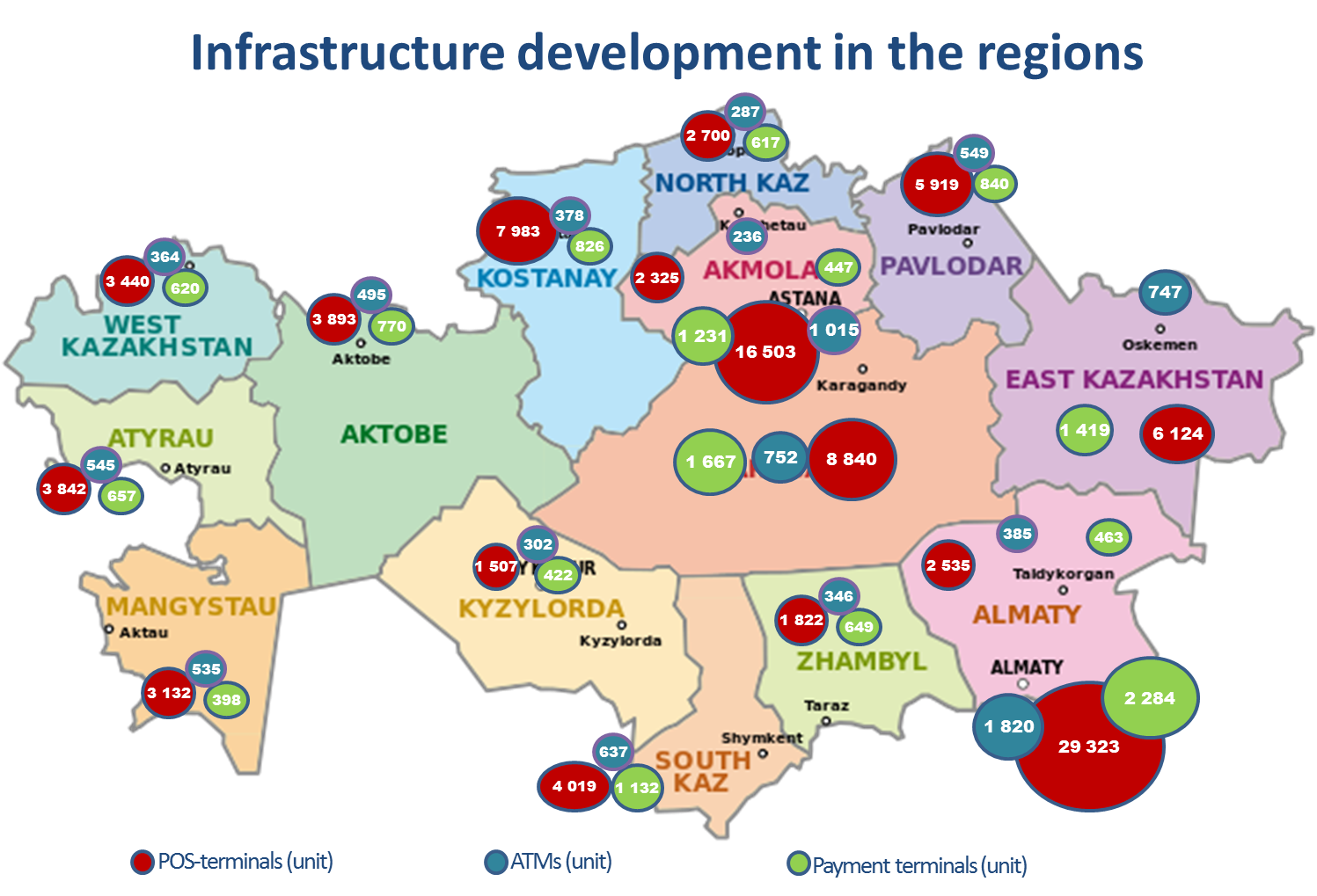
When correlating quantitative indicators of electronic bank terminals with payment cards in circulation, there are 8 POS-terminals and 1 ATM per 1,000 holders.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Box 4 – Comparison of indicators**   |  |  |  | | --- | --- | --- | | **Country** | **per 1,000 payment cards in circulation (2016)** | | | **POS-terminals** | **ATMs** | | Kazakhstan | 6,3 | 0,6 | | Russia | 7,0 | 0,8 | | Belarus | 9,1 | 0,4 | | Kyrgyzstan | 3,5 | 0,8 |   It follows from the Table that Kazakhstan is behind the Russian Federation and Republic of Belarus in terms of the number of POS-terminals per 1,000 payment cards in circulation. |

**Almaty has the most developed network of the remote bank services in absolute terms;** in Almaty there are 28.6% of the total number of POS-terminals installed at entrepreneurs and banks; 29.1% of entrepreneurs that have signed agreements for installation of POS-terminals with banks; 28.6% of points of sale where POS-terminals are installed; 19.3% of ATMs; 14.7% of bank kiosks and 15.8% instant payment terminals of those installed throughout the country.

In terms of the ratio of a number of payment card holders to a number of electronic terminals, the most favorable situation is in Astana and Pavlodar Oblast, where there is the least number of card holders per unit of electronic terminal. At the same time, the largest number of payment card holders per unit of electronic terminal is in South Kazakhstan Oblast and Zhambyl Oblast.

When installing electronic terminals (developing network of electronic terminals) the banks take into account the existing and potential customers – payment card holders and their paying capacity. Thus, there a direct correlation between the level of general public income and level of development of the network of electronic terminals. According to the data of the Statistics Committee of the Ministry of National Economy of the Republic of Kazakhstan, the highest per capital nominal cash income is in the city of Astana and, at the level of Oblasts (except for the oil-producing regions) – Pavlodar Oblast has the highest per capital nominal cash income. The lowest income level is in South Kazakhstan Oblast and Zhambyl Oblast.



Load on electronic terminals varies; in particular, **there are about 2 transactions per day per one POS-terminal, 63 transactions per ATM, 11 transactions per bank kiosk and 25 transactions on instant payment terminal (be means of cash-in payment).**

## 3.2. Payment services provided through the remote access systems

During 2016, the volumes of remote access system transactions were as follows: **474.7 million transactions for KZT 12.4 trillion.** Compared with 2015, a number of transactions increased by 13.6%, while the amount of transactions increased by 28.6%.

* Over the last five years the volume of transactions made through the remote communication channels and electronic terminals almost doubled.

Cash withdrawals from payment cards account for the major portion of said transactions – 44.2% of the number and 70.4% of the amount. Thus, cash withdraws from payment cards amounted to 209.6 million transactions for KZT 8.7 trillion, having increased compared with 2015 by 12.8% in terms of the number and by 21.6% in terms of the amount. 139.8 million transactions for KZT 1.8 trillion were performed without the use of payment cards – by means of “cash-in” function built in electronic terminals.

**Cashless payments and money transfers through the remote access systems** (remote service channels and equipment) **comprised 125.3 million transactions for KZT 1.9 trillion**, having increased, as compared with 2015, by 38.8% in terms of the number and by 44.6% in terms of the amount.

**Dynamics in payment services provided through the remote access systems**

**kzt billion**

Internet/mobile payments settled through the remote access systems and payments settled through POS-terminals account for the major portion of cashless transactions - 41.8% of the total number of transactions and 44.2% of the total amount, and 46.8% of the total number and 42.8% of the total amount, respectively. Other devices (ATMs, bank kiosks and others) account for 11.5% и 13.0% of the total number and amount of cashless payments, respectively.

**Proportion of the number of cashless transactions settled through the remote access systems by the transaction environment**

**Proportion of the amount of cashless transactions settled through the remote access systems by the transaction environment**

## 

## 

## 3.3. Internet and mobile payments

In recent years a high growth rate is noted in the area of the remote services that the financial organizations provide by means of Internet/mobile banking. The banks continue working on further improvement of the Internet payment services and Internet and mobile banking systems as a whole; a range of the services provided to the customers is steadily expanding and more and more entrepreneurs are involved in such systems.

* Wider range of the services provided;
* 2.3 times increase in the amount of payments through Internet/mobile banking as compared with 2015.

**During 2016, 58.3 million transactions for KZT 934.0 billion** were settled through Internet/mobile banking. Compared with 2015 a number of transactions increased by 69.4%, while the amount of transactions increased by 2.3 times.

**Dynamics in Internet/mobile banking transactions**

Transfers between bank accounts make a major volume of Internet/mobile banking transactions – 37.89% of the total number of Internet payments or KZT 354.1 billion.

In this regard, the most frequent Internet transactions are payments for mobile operator services – 37.7% of the total number of Internet payment or 22.0 million transactions.

## 3.4. Payment card market

A payment card remains in Kazakhstan a major payment instrument to provide remote payment services for the general public; payment cards are issued by 26 banks and Kazpost JSC.

As at 1 January 2017, 15.7 million payment cards were in circulation, and a number of card holders was 14.2 million; there was a decrease in these figures as compared with the same period of 2015 – by 8.5% and 0.7%, respectively.

* Higher activity in use of payment cards;
* Wider service network: over the last three years, a number of POS-terminals has increased by 2.3 times, while the number of entrepreneurs that accept payment cards has increased by 2.9 times.

**Dynamics of development of the payment card market**

Decrease on the number of cards in circulation has been due to mergers of a number of banks, which occurred during 2016, and optimization of their card business. Thus, in 2015 out of the total number of cards in circulation, on average only 43% were used per month; in 2016 this figure increased up to 51% (by 8 percentage points). Therefore, while the number of payment cards in circulation decreased by 8.5%, the number of active users increased by 11.3% - from 7.1 million to 8.0 million.

|  |  |
| --- | --- |
| International payment systems account for the major portion of payment cards in circulation – 98.7%, which are represented by the payment cards of VISA International (71.1%), MasterCard Worldwide (19.7%), Union Pay International (7.5%) and American Express International (0.3%). Local systems have a market share of 1.3% and are represented by such systems as Altyn Card and local cards of Citibank Kazakhstan. The share of debit cards is 81.0%; that of credit cards is 15.1%, while overdraft debit cards and prepaid debit cards account for 3.9%. | **Proportion of payment card systems in total number of payment cards in circulation** |
| **Proportion of different types of payments cards in total number of payment cards in circulation** |

During 2016 **the 331.1 million transactions for KZT 10.4 trillion were settled using the payment cards of Kazakhstani issuers** (compared with 2015 the number of transaction increased by 22.0%, while the amount increased by 25.9%). Out of said transactions, the cashless transactions account for 36.4% of the total number of transactions and for 15.6% of the total amount; cash withdrawals account for 63.6% and 84.4%, respectively. In this regard, it is possible to note an outrunning growth of the number and amount of cashless transactions, which has increased by 42.5% and 57.2%, respectively, compared with 2015 and comprised 120.5 million transactions for KZT 1,620.6 billion.

**Dynamics in transactions settled using payment cards of Kazakhstani issuers**

On average, one of two citizens of Kazakhstan is a payment card holder (in South Kazakhstan Oblast and Almaty Oblast – on average, one of three citizens). Almaty is in sharp contrast to such background as many of its residents hold a few payment cards issued by different banks.

**Interbank payments**.Interbank payments(other issuers’ cards in the bank’s network)[[15]](#footnote-15) using payment cards of Kazakhstani issuers accounted for 56.3 million transactions for the amount of KZT 1,137.9 billion, which corresponds to 17.9% and 11.4% of the total number and amount of in-country payments settled using the payment cards of Kazakhstani issuers.

|  |
| --- |
| **Box 5 – Processing services**  In Kazakhstan, the card transactions are processed by 18 processing centers, of which 14 centers are located in the Republic of Kazakhstan; 4 subsidiaries of the foreign banks use the processing centers of the parent companies. In this regard, a share of banks, which have established their own processing centers, is 70.4% of the total number of issuing banks |

The majority of the cash withdrawal transactions is performed by the customers in the networks of their own banks that have issued the cards (88.0% and 92.6% of the total number and amount, respectively), which is due to the low charges for such transactions in the bank’s own network (usually zero rates are provided under the companies’ wages and salaries packages) as compared with the rates for such transactions in the networks of other banks. The customers can make cashless payments through the payment cards both in the networks of their issuing banks and other banks of Kazakhstan, as in this case the payment card holders bear no expenses on such transactions.

In this case the interbank payments using payment cards are settled in Kazakhstan through the infrastructure of the international payment systems (VISA, Mastercard, UnionPay, American Express), using Host 2 Host connections[[16]](#footnote-16) between the banks, which are served in different processing centers, and within one and the same processing center (1 PC).

The level of development of the payment services market depends on the extent, in which payment services of accessible for the general public, and how convenient and rapid they are. To make remote payments Kazakhstani banks provide their customers with such remote access devices as POS-terminals, ATMs, bank kiosks and instant settlement terminals as well as Internet and mobile banking services.

Development and active implementation of Internet and mobile communication promoted changes in the available business models and to a greater degree of transition to the use of remote communication channels. Given the global trends – to switch to electronic banking services, over the last five years the volume of transactions made through the remote communication channels and electronic terminals has almost doubled and reached 474.7 million transactions for KZT 12.4 trillion in 2016. Countrywide implementation of digital technologies has resulted in increased volume of transactions made through Internet/mobile banking, which amounted to KZT 934.0 billion in 2015 and exceeded that of 2015 by 2.3 times.

Positive dynamics has been preserved on the payment card market. More than 50% of the payment cards in the circulation have been actively used. In this regard, the banks focus increasingly on development of cashless methods of payments. Given the works carried out by the banks and government, a network for acceptance of payment cards to make payments for goods and services has expanded significantly: the number of POS-terminals as well as the number of entrepreneurs that accept payment cards increased (by 2.3 times and 2.9 times, respectively, over the last three years), which promoted increase in the number of the cashless payments. Thus, the amount of cashless payments made using payment cards increased by 57.2% as compared with 2015, while the amounts of cash withdrawals grew by 21.4%.

# SECTION 4. MONEY TRANSFER SYSTEMS

The volumes of transfers through the systems of money transfers satisfy the needs of the general public in the immediate and, as a rule, free money transfers. In Kazakhstan during 2016, payment services for immediate money transfers for the public were provided through 16 systems of money transfers, the amount of which has changed insignificantly over the last three years.

* Convenience (no need to open account) and quickness;
* Insignificant volume of money transfers – covers the needs of the general public in making immediate transfers;
* Mostly free money transfers;
* Transfers from Kazakhstan exceed significantly transfers to Kazakhstan (negative net position).

Thus, in 2014 payment services for money transfers through the second-tier banks and branches of Kazpost JSC were provided through 18 money transfer systems, while during 2015 there were operating 15 money transfer systems.

|  |  |
| --- | --- |
| **Volumes of money transfers through the money transfer systems** | Total volume of **transactions settled through the money transfer systems** in 2016 comprised **2.4 million transactions for the amount of KZT 405.3 billion**, and increased by 26.2% as compared with 2014 and by 6% as compared with 2015.  Money transfer systems are mostly oriented at making specific free transfers in favor of other individuals – 2.4 million transfers for KZT 402.5 billion were made |

during 2016,which accounted for 99.6% of the total number of transactions and 99.4% of the total amount of transfers made by the individuals.

|  |  |
| --- | --- |
| **Dynamics in change of volumes of money transfers during 2014 - 2016** | **In most cases the money transfer systems use used by the general public to make transfers abroad** (payments and transfers abroad settled through the systems accounted for 90.3% of the total number and 94.3% of the total amount of transactions settled through the systems). |

|  |  |
| --- | --- |
| At the same time, these systems are also used to make immediate payments inside Kazakhstan, with an average amount of transfer being about KZT 100 thousand. Thus, **in 2016 volumes of money transfers inside Kazakhstan settled through the money transfer systems comprised 230.7 thousand transactions for the amount of KZT 23.1 billion**, and decreased | **Money transfers inside Kazakhstan in 2016 by types of payments** |
| by 2.2 times as compared with 2015 in terms of the volume of payments.In this case, out of the total number of transfers, 193.5 thousand transactions for KZT 10.3 billion were settled in the national currency (83.9% and 44.7% of the total number and total amount of money transfers settled through the money transfer systems inside Kazakhstan). | |

|  |  |
| --- | --- |
| **Proportion of total number of transfers inside Kazakhstan sent through MTS[[17]](#footnote-17)** | **Proportion of total amount of transfers inside Kazakhstan sent through MTS** |

**The most popular money transfer system inside Kazakhstan is Faster system,** which accounted for 36.0% and 29.7% of the total number of transactions and total amount of transactions, respectively, settled in Kazakhstan in 2016 using the money transfer systems. Citizens of Kazakhstan also actively use such systems as Western Union and “Zolotaya Korona” (“Golden Crown”) to make money transfers inside Kazakhstan.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **System** | **Number**  **(thousand transactions)** | ***Proportion of total number, in %*** | **Amount**  **(KZT million)** | ***Proportion of total amount, in %*** |
| Faster | 83,0 | *36,0%* | 6 857,1 | *29,7%* |
| Western Union | 19,5 | *8,4%* | 5 099,1 | *22,1%* |
| Golden Crown | 15,2 | *6,6%* | 3 674,2 | *15,9%* |
| Blitz | 12,2 | *5,3%* | 1 933,6 | *8,4%* |
| Unistream | 6,0 | *2,6%* | 1 726,7 | *7,5%* |
| Contact | 2,4 | *1,1%* | 1 537,7 | *6,7%* |
| Postal transfers | 89,2 | *38,7%* | 1 247,4 | *5,4%* |
| Instant money transfers without opening a bank account | 3,0 | *1,3%* | 574,1 | *2,5%* |
| Leader | 0,2 | *0,1%* | 429,2 | *1,9%* |
| MoneyGram | 0,0 | *0,003%* | 1,7 | *0,007%* |
| **Total** | **230,7** | ***100,0%*** | **23 080,7** | ***100,0%*** |

Volume of money transfers aboard settled through the money transfer systems for 2016 **comprised 2,136.8 thousand transactions for the amount of KZT 382.2 billion**, which were by **4.1%** less in terms of the number of transactions but by **14.9%** more in terms of the amount of payments compared with 2015.

|  |  |  |
| --- | --- | --- |
| |  |  | | --- | --- | | Comparative analysis of data for three years shows that the volume of money transferred aboard through the money transfer systems has increased significantly from 2014 to 2016 (from KZT 280.4 billion to KZT 382.2 billion). | **Money transfers through MTS in 2016 by types of payments** | |

In this regard, transfers from Kazakhstan made through the money transfer systems **exceed significantly transfers to Kazakhstan**. Thus, for 2016 **money transfers received from abroad comprised 1.2 million transactions for the amount of KZT 248.5 billion** (negative balance was as high as KZT 133.7 billion).

“Golden Crown” MTS remains the leader in money transfers abroad and from abroad to Kazakhstan. Other systems that have significant proportions in money transfers are: Western Union, Contact, Unistream, Blitz and Faster.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Proportion of total number of money transfers sent aboard through MTS** | | **Proportion of total amount of money transfers sent aboard through MTS** | | |
| **System** | **Number**  **(thousand transactions)** | ***Proportion of total number, in %*** | **Amount**  **(KZT million)** | ***Proportion of total amount, in %*** | |
| Golden Crown | 911,0 | *42,6%* | 150 432,9 | *39,4%* | |
| Western Union | 262,8 | *12,3%* | 78 341,0 | *20,5%* | |
| Contact | 156,3 | *7,3%* | 44 941,4 | *11,8%* | |
| Unistream | 233,3 | *10,9%* | 41 147,9 | *10,8%* | |
| Blitz | 278,6 | *13,0%* | 29 048,5 | *7,6%* | |
| Faster | 189,5 | *8,9%* | 23 792,9 | *6,2%* | |
| MoneyGram | 24,7 | *1,2%* | 7 036,4 | *1,8%* | |
| Universal Postal Union system | 73,2 | *3,4%* | 3 629,3 | *0,9%* | |
| Leader | 6,8 | *0,3%* | 3 295,2 | *0,9%* | |
| InterBanking | 0,4 | *0,02%* | 390,2 | *0,1%* | |
| Blizko | 0,1 | *0,005%* | 87,0 | *0,02%* | |
| Anelik | 0,1 | *0,003%* | 26,5 | *0,01%* | |
| Bystraya pochta (Quick Mail) | 0,0 | *0,0002%* | 2,5 | *0,001%* | |
| International postal transfers | 0,0 | *0,002%* | 1,5 | *0,0004%* | |
| **Total** | **2 136,8** | ***100,0%*** | **382 173,1** | ***100,0%*** | |

Majority of payments and money transfers flows to Kazakhstan through such systems as Golden Crown, Western Union, Unistream and Faster

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Proportion of total number of money transfers received from abroad through MTS** | | **Proportion of total amount of money transfers received from abroad through MTS** | | | | |
| **System** | **Number**  **(thousand transactions)** | | ***Proportion of total number, in %*** | **Amount**  **(KZT million)** | ***Proportion of total amount, in %*** |
| Golden Crown | 417,2 | | *34,7%* | 117 600,7 | *47,3%* |
| Western Union | 287,2 | | *23,9%* | 49 419,0 | *19,9%* |
| Unistream | 65,7 | | *5,5%* | 25 518,6 | *10,3%* |
| Faster | 94,2 | | *7,8%* | 18 932,3 | *7,6%* |
| Blitz | 135,2 | | *11,2%* | 15 366,8 | *6,2%* |
| MoneyGram | 56,6 | | *4,7%* | 10 022,0 | *4,0%* |
| Contact | 38,8 | | *3,2%* | 6 970,4 | *2,8%* |
| Universal Postal Union system | 100,9 | | *8,4%* | 2 972,9 | *1,2%* |
| Leader | 7,3 | | *0,6%* | 1 575,4 | *0,6%* |
| Blizko | 0,4 | | *0,03%* | 113,2 | *0,05%* |
| Anelik | 0,0 | | *0,002%* | 18,4 | *0,01%* |
| International postal transfers | 0,1 | | *0,01%* | 7,1 | *0,003%* |
| **Total** | **1 203,8** | | ***100,0%*** | **248 516,9** | ***100,0%*** |

The main flows of money transfers through the money transfer systems were directed to the Russian Federation, Republic of Kazakhstan, People’s Republic of China, Kyrgyz Republic and Republic of Turkey.

**Money transfer destination countries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Number**  **(thousand transactions)** | ***Proportion of total number, in %*** | **Amount**  **(KZT million)** | ***Proportion of total amount, in %*** |
| Russian Federation | 1 058,5 | *49,5%* | 162 235,7 | *42,5%* |
| Uzbekistan | 426,4 | *20,0%* | 64 367,7 | *16,8%* |
| China | 35,3 | *1,7%* | 29 408,1 | *7,7%* |
| Kyrgyzstan | 149,1 | *7,0%* | 23 654,9 | *6,2%* |
| Turkey | 50,2 | *2,4%* | 20 141,4 | *5,3%* |
| Ukraine | 68,0 | *3,2%* | 12 411,1 | *3,2%* |
| Azerbaijan | 33,8 | *1,6%* | 7 319,8 | *1,9%* |
| Tajikistan | 62,8 | *2,9%* | 6 985,3 | *1,8%* |
| Armenia | 12,3 | *0,6%* | 3 857,1 | *1,0%* |
| Georgia | 16,8 | *0,8%* | 3 232,2 | *0,8%* |
| United Arab Emirates | 4,7 | *0,2%* | 2 905,9 | *0,8%* |
| United States | 6,0 | *0,3%* | 2 066,2 | *0,5%* |
| Belarus | 14,5 | *0,7%* | 2 025,8 | *0,5%* |
| Other | 198,6 | *9,3%* | 41 561,8 | *10,9%* |
| **Total** | **2 136,8** | ***100,0%*** | **382 173,1** | ***100,0%*** |

The main source of money transfers to Kazakhstan is the Russian Federation.

**Money transfer originating countries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Number**  **(thousand transactions)** | ***Proportion of total number, in %*** | **Amount**  **(KZT million)** | ***Proportion of total amount, in %*** |
| Russian Federation | 701,4 | *58,3%* | 135 867,1 | *54,7%* |
| Kyrgyzstan | 33,0 | *2,7%* | 16 255,0 | *6,5%* |
| Uzbekistan | 31,6 | *2,6%* | 11 518,7 | *4,6%* |
| Republic of Korea | 30,1 | *2,5%* | 10 279,8 | *4,1%* |
| Germany | 85,7 | *7,1%* | 8 430,1 | *3,4%* |
| United States | 53,6 | *4,5%* | 8 363,6 | *3,4%* |
| Turkey | 30,3 | *2,5%* | 4 974,8 | *2,0%* |
| Other | 238,3 | *19,8%* | 52 827,8 | *21,3%* |
| **Total** | **1 203,8** | ***100,0%*** | **248 516,9** | ***100,0%*** |

To make rapid transfers can be used the services of such money transfer systems as Golden Crown, Western Union, Unistream, Contact, Leader, Anelik, Universal Postal Union system, Bystraya Pochta (Quick Mail), MoneyGram, Faster and other. These systems are used as a rule to make free transfers of the individuals. In this regard, in most cases the citizens use the money transfer systems to make transfers abroad (proportion of transfers made abroad through the above systems was 93.4% of the total amount of transfers abroad). In this case, money transfers from Kazakhstan through money transfer systems significantly exceed money transfers to Kazakhstan (negative net position is KZT 133.7 billion).

# SECTION 5. PAYMENTS THROUGH DIRECT CORRESPONDENT ACCOUNTS

Banks and organizations engaged in certain types of banking operations can also make payments through direct correspondent accounts opened between them. Direct correspondent relations are the contract relations between the banks as well as between the banks and non-bank organizations, which arise when banks and non-bank organizations open correspondent accounts to make transactions related to delivery of the banking services provided for by the correspondent account contract and legislation of the Republic of Kazakhstan.

**In 2016** the total payments and money transfers settled through correspondent accounts of the banks (both inside Kazakhstan and aboard) **amounted to KZT 229.9 trillion, while the number of transaction was 9,200.6 thousand**.

**Volumes of payments and money transfers settled through the systems of correspondent relations between the banks**

|  |  |
| --- | --- |
| In this case, the volume of payments and money transfers settled through the correspondent accounts **inside Kazakhstan comprised 6.5 million transactions for the amount of KZT 18.3 trillion.**  Most of the payments and money transfers settled through correspondent accounts in Kazakhstan were denominated in USD (62%) and KZT (33.6%). | **Proportion of the total amount of payments and money transfers settled inside Kazakhstan** |

Inside Kazakhstan the direct correspondent accounts are used to make payments related to deposits and transfers of the banks’ and their customers’ own funds (44.1%), and payments related to transactions with foreign currency and precious metals (22.2%).

**Volumes of payments and money transfers through correspondent accounts by types of the payment purposes**

At the same time, the system of correspondent relations is associated with the risks of financial reliability of counteragents. In this regard, to manage the risks the National Bank of Kazakhstan has set the limit for the banks and non-banking organizations for a monthly volume of payments to be settled **between the resident financial organizations in the national currency**. This limit is equal to 5% of the total amount of the bank’s or non-banking organizations’ payments settled through the payment systems of the National Bank of Kazakhstan during the previous month.

The volume of payments and money transfers settled by the banks through the direct correspondent accounts in tenge opened between the resident banks amount to KZT 2.8 trillion in 2016. In this regard, in 2016 the ratio of limit utilization by the banks participating in the correspondent relations was only 25.5% (in 2015 this figure was 36.7%).

**Table of the limit utilization**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Quarter** | **2015** | | | **2016** | | |
| **Amount of payments in tenge through DCA between residents (in KZT billion)** | **Limit amount**  **(in KZT billion)** | ***Limit utilization ratio*** | **Amount of payments in tenge through DCA between residents (in KZT billion)** | **Limit amount**  **(in KZT billion)** | ***Limit utilization ratio*** |
| I quarter | 507,3 | 1 340,3 | 39,1% | 423,9 | 2 605,9 | 17,4% |
| II quarter | 766,9 | 1 024,7 | 74,1% | 628,4 | 2 900,4 | 23,0% |
| III quarter | 369,8 | 2 362,2 | 15,8% | 780,6 | 4 763,2 | 22,6% |
| IV quarter | 560,8 | 3 165,9 | 17,9% | 948,9 | 2 427,0 | 39,1% |
| **Total** | **2 204,9** | **7 893,3** | **36,7%** | **2 781,9** | **12 539,2** | **25,5%** |

|  |  |
| --- | --- |
| **KZT 211.6 trillion** were sent abroad through correspondent accounts, **with the number of transactions being 2.7 million.** Most of the payments abroad settled through the correspondent accounts were denominated in US dollars – 76.2%. | **Proportion of the total amount of payments and money transfers abroad** |

The main flow of money transfers through correspondent accounts was directed to the USA – 56.5%.

**Money transfer destination countries**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Country** | **Number**  **(thousand transactions)** | ***Proportion of total number, in %*** | **Amount**  **(KZT billion)** | ***Proportion of total amount, in %*** |
| United States | 124,3 | *4,5%* | 119 609,2 | *56,5%* |
| Russian Federation | 1 262,5 | *46,0%* | 17 563,0 | *8,3%* |
| Germany | 106,6 | *3,9%* | 6 758,2 | *3,2%* |
| United Kingdom | 57,7 | *2,1%* | 6 251,2 | *3,0%* |
| Other | 1 194,7 | *43,5%* | 61 446,0 | *29,0%* |
| **Total** | **2 745,9** | ***100%*** | **211 627,6** | ***100%*** |

In this case, the direct correspondent accounts are also used to make payments related to deposits and transfers of the banks’ and their customers’ own funds (45.1%) and payments related to transactions with foreign currency and precious metals (41.7%).

**Amounts of payments by types of purposes of payments settled through correspondent accounts**

Correspondent accounts opened between the banks are one of the channels for interbank payment settlements. The total amount of money transfers through correspondent accounts of the banks (made both inside Kazakhstan and abroad) in 2016 amounted to KZT 229.9 trillion with the total number of transactions being 9,200.6 thousand.

At the same time, settlements through the direct correspondent accounts may be exposed to risks, where a counteragent bank (with which a correspondent account has been opened) may be unable to ensure completion of settlements. Therefore, the international standards notice, first of all, the efficiency and reliability of settlement through the national (central) banks. In this connection, in order to mitigate risks associated with settlements through the correspondent accounts opened with the commercial banks the National Bank of Kazakhstan has set a limit for the amount of payments per month to be made between the resident financial organizations in the national currency. The limit is equal to 5% of the total volume of payments of a bank or non-bank organization made through the payment systems of the National Bank of Kazakhstan during the previous month. Limit utilization ratio was 25.5% of the total limit.

In this case, the correspondent accounts are the main channel for cross-border payments. Thus, in 2016 the volume of payments made aboard through the correspondent accounts comprised 2.7 million transactions for KZT 211.6 trillion.

# SECTION 6. ELECTRONIC MONEY

The most important impulse for development of the e-money market in Kazakhstan was the adoption of the Law of the Republic of Kazakhstan dated 21 July 2011 “On making amendments to certain legislative acts of the Republic of Kazakhstan concerning the matters of electronic money.” Said Law introduced the concept of electronic money, procedure of making payments using e-money, and determined the key norms as related to the e-money issuers, owners and participants thereof in case of e-money issue and use.

* Electronic money market has been actively developing since 2013, and in recent years the increased growth rate has been observed;
* Drivers of the electronic money market development comprise: increased Internet penetration rate, e-commerce development, and development of innovation technologies.

In accordance with the current legislation of the Republic of Kazakhstan the right to issue e-money is vested with the National Bank of Kazakhstan, second-tier banks and National Postal Operator. It has been due to the fact that the activity for issue of e-money relates to attraction of money of individuals and legal entities.

A trend of emergence of new systems is observed, which has been caused by the wish to present a new payment product in the market and to occupy one’s own niche in the newly formed market. Thus, in 2015 eight e-money systems were operating in Kazakhstani market, while in 2016 there were 16 e-money systems: E-KZT, Wooppay, Visa Qiwi Wallet, Lichnaya Kassa (“Personal Cash Office”), Tau-tenge, Paypoint, Dar, Homepay, Halyk, AllPay, Wallet One, Kaspi Bank, AlemPAy, Koin, Altynpay and MultiB@nk.

Increase in e-money popularity is due to convenience of its use and expansion of infrastructure for its servicing.

The amount of e-money in circulation as at 1 January 2017 is KZT 3.3 billion. During 2016, the issued e-money amounted to KZT 129.7 billion, and KZT 90.5 billion of e-money were repaid.

|  |  |
| --- | --- |
| During 2016 the volume of transactions settled in Kazakhstan using e-money of Kazakhstani issuers comprised 43.3 million transactions for KZT 154.2 billion (compared with 2015 the number of transactions increased by 2.7 times, while the amount increased by 3.5 times). | **Transactions settled using e-money** |

In this regard e-money transfers in favor of legal entities and individual entrepreneurs in 2016 comprises 39.3 million transactions for KZT 130.4 billion (91% in terms of the number and 85% in terms of the amount of transactions), having increased by 2.6 times in terms of the number of transactions and by 3.4 times in terms of the amount of payments, compared with the figures of 2015.

Since 2013 the e-money market has been rapidly developing. As at 1 January 2017, e-money is issued by 11 banks of the Republic of Kazakhstan, and 16 e-money systems provide services to the public. Volume of transactions using these innovative instruments increased by 3.5 times compared with 2015 and amounted to KZT 154.2 billion. Given the global trends, it is expected that the need in this instrument will keep growing.

# CONCLUSION

Payment systems play a key role in ensuring efficiency and continuity of all financial and economic processes in the country. Changes caused by active penetration of digital technologies in all industries also influence the specifics of the payment system functioning, emergence of new payment mechanisms and instruments, which provide opportunity to get to a whole new level.

Moreover, payment services today are an inseparable part of everyday life of public – getting wages, pensions, social payments, paying taxes, insurance, loan repayments and many other things are impossible without access to the payment services. Importance of the payment services makes these services socially important, which impose new requirements for their regulation, ensuring their accessibility and continuity.

Adoption of the Law of the Republic of Kazakhstan "On Payments and Payment Systems" dated 26 July 2016 proved to be an important step to determine the types of legal entities of Kazakhstan payment industry, types of payment services, characteristics and categories of the payment service providers, as well as regimes and new approaches to regulation and oversight of payment systems and payment service providers. Thus, a legal framework has been established to improve further the payment relations, improve transparency of the services being provided and protect the consumer, taking into account the current requirements.

Today, the payment industry of Kazakhstan is at the active stage of its development; the key quality indicators of the market are demonstrating positive dynamics. In the retail sector, electronic money and new tech methods of payments using contactless technologies, QR codes have got widespread use along with the payment cards. A number of participants is increasing, which promotes the competitive growth and diversification of the services provided.

Further actions of the National Bank of Kazakhstan will be aimed at assistance and support to the services providers in broadening a range of payment services and improvement of quality of products by creating a favorable legal environment.

As a part of further development of the existing payment systems, it is also planned to consider the implementation of the international standard for electronic data interchange ISO20022 "Financial services - Universal financial industry message scheme", which is commonly considered as "financial Esperanto” - a universal language of interaction of different automated systems of the financial and trading market participants.

To create conditions for further development of the payment services market, including remote services, the National Bank of Kazakhstan jointly with the banking community and institutions of the payment market will take additional measures to ensure an efficient settlement and payment infrastructure, increase transparency of operations in this segment and enhance public confidence in the payment industry.

1. National interbank clearing for in-country interbank transactions in the national current using Visa/Master Card payment cards. [↑](#footnote-ref-1)
2. http://www.stat.gov.kz – website of the Statistics Committee of the Ministry of the National Economy of the Republic of Kazakhstan. [↑](#footnote-ref-2)
3. “Households” economic sector means the institutional units comprising individuals and small groups of individuals (families) who live together, pool (in full or in part) their income and property and consume together certain types of goods and services (dwelling, food products, etc.) [↑](#footnote-ref-3)
4. Average amount of net debit position of users correlate to average daily turnover of users in ISMT, as net positions of the clearing users are settled at the expense of funds of users available in ISTM. [↑](#footnote-ref-4)
5. According to the international standards, indicator above 99% characterizes high efficiency of the systems functioning in the country. [↑](#footnote-ref-5)
6. Credit instruments comprise payment orders, checks, payment advices, postal orders, tax payments and other mandatory payments made through ATMs. [↑](#footnote-ref-6)
7. Debt instruments comprise payment demand orders, collection orders, direct account debiting. [↑](#footnote-ref-7)
8. Other instruments comprise payment cards (cash withdrawals, cashless payments) and payment orders, as these instruments can be used for both credit transfer and debit transfers, and other methods of making payments. [↑](#footnote-ref-8)
9. Sector of economy of the remitter – central government (1); regional and local management authorities (2); central (national) banks (3); other deposit taking organizations (4); other financial organizations (5); government non-financial organizations (6), non-government non-financial organizations (7; non-profit organizations, which provide services to households (8). [↑](#footnote-ref-9)
10. Except for cross-border payments and money transfers through the systems of money transfers and correspondent accounts opened between the banks. [↑](#footnote-ref-10)
11. Sector of economy of the money remitter “Households” – (9) means the institutional units comprising individuals and small groups of individuals (families) who live together, pool (in full or in part) their income and property and consume together certain types of goods and services (dwelling, food products, etc.). [↑](#footnote-ref-11)
12. Except for cross-border payments and money transfers through the systems of money transfers and correspondent accounts opened between the banks. [↑](#footnote-ref-12)
13. The Decree of the Government of the Republic of Kazakhstan No.604 dated 21 October 2016 “On approval of the list of certain types of activities and use of equipment (devices) intended to accept payments using the payment cards and on declaring invalid the Decree of the Government of the Republic of Kazakhstan No.1147 dated 29 October 2014 “On approval of the list of certain types of activities and use of equipment (devices) intended to accept payments using the payment cards.” [↑](#footnote-ref-13)
14. A compact device, which comprises a POS-terminal connected to smartphone or tablet PC that allows making cashless settlements using a payment card. [↑](#footnote-ref-14)
15. The transactions, carried out within the network of one bank with using the payment cards of other issuers. [↑](#footnote-ref-15)
16. This channel means that two banks (or their processing centers) have the information and process connection on the basis of the contract they have signed. [↑](#footnote-ref-16)
17. Money transfer systems. [↑](#footnote-ref-17)