



COMMISSION SERVICES WORKING DOCUMENT
CONSULTATION ON BANK ACCOUNTS
ANSWERS GIVEN BY THE MAGYAR NEMZETI BANK (THE CENTRAL BANK OF HUNGARY)

12 June 2012

1. TRANSPARENCY AND COMPARABILITY OF BANK ACCOUNT FEES

Question 1:

Do you consider that the information provided by banks on bank account fees is presented to consumers in a sufficiently clear manner and easy to compare between banks?

What good practices could you identify?

What are the persisting shortcomings?

Do you think that amendments to the transparency obligations in the Payment Services Directive (2007/64/EC) could address those shortcomings?

The Magyar Nemzeti Bank (the central bank of Hungary) recently conducted a study¹ on the pricing of payment services, also focusing on pricing in different customer groups. Data were based on information publicly available on the homepages of various payment service providers as well as on interviews with the main Hungarian payment service providers. Our findings show that *payment service providers often apply package-pricing* which makes price comparison for customers difficult. In our opinion, *pricing in packages can be economically valid and useful for customers, but easy comparison of prices should be facilitated*.

In another survey by the Gazdasági Versenyhivatal (Hungarian Competition Authority, GVH) on switching service,² the following answers were given to the question “How do you find the comparison of different banks’ fees on bank accounts?”:

- completely not comparable: 13%
- partially comparable: 46%
- fully comparable: 13%
- do not know: 28%.

Consequently, the survey results might show that the information and comparison tools provided for customers can be still improved.

¹ Publication of the survey results is forthcoming. First, it will be available in Hungarian, and later in English.

² http://www.gvh.hu/gvh/alpha?do=2&pg=86&st=1&m5_doc=5687, the survey is available only in Hungarian and was completed in 2006-2007.

We think that a glossary, comparison tools (collecting the prices of services or service packages and probably giving calculation examples, providing the fees payable for a *typical* payment service portfolio or providing the possibility of simulating costs based on *individual* payment service usage profiles) and ex post information (possibly with explanatory notes) are all good practices (although there are some redundancies between these tools).

We could support more detailed transparency criteria, but these criteria should be based on a thorough preparation of terminology (see Question 2) and expectations of transparency. Those criteria should outweigh the costs of implementation.

Any proposal on regulation (i.e. amendment of the PSD) must be backed by a thorough impact assessment. In our opinion, amendments of the PSD could be an option. *However, we would support a balanced approach where all the costs and benefits as well as national specificities are taken into account properly.* Based on our experience (i.e. introduction of the intraday clearing and settlement in the Hungarian retail payment system could be enforced only via central bank regulation), self-regulatory initiatives often prove to be insufficient. *On the other hand, the recommendations* (i.e. the EBIC Common Principles for bank account switching, or even the Commission Recommendation on access to a basic payment account) *were not detailed enough and thus left too much discretion for implementation.* Probably as a first step more detailed regulatory recommendations would be desirable as well as a fixed roadmap and a clear mandate of the competent authorities (i.e. those responsible for consumer protection) to monitor and enforce the much more detailed expectations. If this does not work out, amendments of the PSD are required.

We would like to highlight that - in addition to the transparency and comparability issues - probably costs and pricing themselves require more attention (possibly not regulatory attention). In certain parts of the PSD, the cost-relating pricing principles are mentioned, however the PSD does not speak generally. Recently, many central banks conducted surveys³ on the social costs of payment instruments. Of course, it is still an open question as to how the actual prices of payment services relate to the private and social costs and what kind of policy actions could be taken to ensure the more efficient use of payment services and instruments.

Question 2:

Do you think that standardising bank account fee terminology could help to provide more transparent and comparable information on fees?

If terminology were to be standardised, should that standardisation cover all fees or only some of them?

If only some of them, on the basis of which criteria should they be chosen?

Should terminology be standardised at national or EU level?

We agree that standardising bank account fee terminology could help transparency in this field. In addition to a common terminology, a glossary of terms would have added value as well as some vocabularies.

The terminology could cover all fees relating to payment account services, but first of all we propose to determine the content of the payment account services (somewhere a line should be drawn between account services and other service lines of payment service providers, i.e. whether overdraft facilities are understood as account business or not).

³ The Magyar Nemzeti Bank conducted a survey as well (available in English): http://english.mnb.hu/Root/Dokumentumtar/ENMNB/Kiadvanyok/mnben_muhelytanulmanyok/mnben-op93/op93_FMTK.pdf .

We are of the opinion that *standardisation should be done at the EU level* in order to enjoy the benefits of a single market. However, relating to payment account services there can be *national specificities, which should be taken into account properly* when preparing the common terminology (national options should be allowed).

Question 3:

Do you think that glossaries of terms and standardised lists of bank fees would facilitate comparability?

If so, what format and content should this information have?

What body/forum would you consider appropriate to develop such a glossary/standardised list of fees?

We agree that *glossaries could facilitate the comparability of bank accounts. Content* depends on the terminology (list of definitions, see Question 2). *Format could be standardised as well.* However, standardisation of formats should not lead to the undesirable situation when a technology provider gains a dominant position.

In our opinion, the following work streams may be useful (of course there is a logical order between these work streams):

1. *standardising terminology and preparing a glossary of the terms used* (options could be provided, as there can be national specificities relating to the different type of payment services, vocabulary would be useful as well);
2. *detailed and clear transparency expectations* (framework) on pricing could be prepared (with a special focus on pricing in packages), actual prices in the expected framework and in the standardised format should be available for consumers (via websites of the payment service providers);
3. there could be *an optimising tool at the websites of the payment service providers*, those optimising tools could support the cost simulation for any individual usage profile (please note that if a tool is capable of supporting cost simulation, it can calculate the costs of a typical behaviour as well);
4. there could be *a search engine in every Member State at the competent authorities' websites which is built onto the actual database of the optimising tools* (under point 3), this search engine would make comparison between payment service providers possible.

We think that points 3 and 4 could be more costly, and consequently there shall be a detailed impact assessment of implementation (incl. benefits and costs) before deciding.

In our opinion, the competent authorities (i.e. responsible for consumer protection) should be given a clear mandate to lead and enforce the work streams above. We could support a balanced approach (see our answers to Question 1).

Question 4:

In order to further increase bank account fee transparency and comparability, which of the following tools should be considered:

- i) comparison websites managed by public authorities
- ii) standardised cost simulations to be provided by banks
- iii) standardised representative examples to be provided by banks

iv) surveys by consumer organisations/financial ombudsman

v) any other tools you consider relevant?

Should any of them be made compulsory?

What would be the likely costs?

See our answers above (Question 3). These tools are mostly ex ante tools (we understand that ex post information is covered by Question 5).

Surveys could be useful, however we think that monitoring should be left to the competent authorities (i.e. responsible for consumer protection). Those authorities have appropriate tools and measures (i.e. can do mystery shopping).

Compulsory tools would bring the most benefits, but costs should be assessed first. For the time being (esp. not knowing the detailed expectations), we cannot make any cost estimations.

Question 5:

What level of detail should the information on actual fees paid have and how frequently should it be provided to the account holder?

Would having comparable information on the fees actually paid encourage consumer mobility, including on a cross border basis?

We understand that this question is about the provision of ex post information. *The information must be detailed enough to compare expected (based on ex ante information) and actual (paid) fees.* The provision of ex post information could utilise the outcome of the methodological work (terminology, glossary, etc.) mentioned above. Ex post information could contain explanatory notes and could be comparable with the ex ante information (i.e. if the ex ante information contains calculation examples, those shall be comparable with the annual statement).

We think that other factors can also have an influence on the customer mobility. According to our experience in Hungary the distance to the nearest branch is an important criterion when choosing a payment service provider. According to the above cited survey conducted by GVH,⁴ the following answers were given to the question “What were the criteria on the basis of which you chose the bank?”:

- distance to the nearest branch: 26%
- suggestion of employer/family: 25%
- reliability: 11%
- favourable conditions: 8%
- family traditions: 7%
- advertisement: 5%
- it is an old bank: 5%
- employer’s obligation: 3%.

In sum, customer mobility is affected by the availability of payment services infrastructure (i.e. branches of payment service providers, POS terminals) as well. The availability of the payment services infrastructure is closely related to other important issues (i.e. interchange fee influencing the POS coverage).

⁴ See footnote 2.

Question 6:

What other measures/instruments should be considered in order to improve the transparency and comparability of bank fees?

Please describe and indicate at which level (national or EU) you consider they should be taken.

Any initiatives should be taken at EU level, leaving room for national specificities however.

2. SWITCHING BETWEEN PAYMENTS ACCOUNT PROVIDERS

Question 7:

Do banks in the Member State where you have a bank account offer a switching service?

If yes, is it in line with the Common Principles on bank account switching described above?

Is information on the conditions of switching presented in a consumer friendly manner?

The switching service exists in Hungary, but it is not widely prevalent. Payment service providers could promote this service in a more tangible manner.

The Hungarian Banking Association (Magyar Bankszövetség) issued a recommendation based on the EBIC Common Principles for bank account switching.⁵ Sixteen Hungarian credit institutions signed the recommendation. *It would be desirable to increase the number of signing institutions.* In our opinion, more detailed expectations would be valuable (taking into account the national specificities in payment services).

The benefit of the switching service could be exploited by strengthening the financial literacy and by a more intense use of financial services. We are convinced that an easy comparison of fee structures applied by financial institutions would significantly help the switching service (see Question 1).

According to the above cited survey conducted by GVH,⁶ the following answers were given to the question “How do you find the procedure of switching between banks?”:

- very simple: 10%
- rather simple: 30%
- moderate: 15%
- rather difficult: 14%
- very difficult: 3%
- do not know: 28%.

Moreover, the responses to the question “Why do you think switching between banks is difficult?” were as follows:

- do not have enough time, many documents are needed: 25%
- it costs extra fee: 10%
- transcription is difficult: 9%
- it is problematic: 5%
- do not like administration: 4%
- declaration of the new bank account is difficult: 4%
- do not know: 10%.

⁵ <http://www.bankszovetseg.hu/bankszovetseg.cgi?p=onszabalyozas&l=&print=0&r=&v=7517521801> (in Hungarian)

⁶ See footnote 2.

Question 8:

If a switching service in line with the Common Principles is offered by banks in the Member State where you have a bank account, does it remove all obstacles to bank account switching?

If not, what obstacles remain?

Provide examples of good practices and persisting obstacles encountered.

In our opinion, it would be valuable to have timing guidelines (i.e. setting deadlines for the different tasks of the payment service providers relating to account switching).

Question 9:

Should the Common Principles remain voluntary?

What do you consider are the advantages or disadvantages of making them compulsory at EU level?

What would be the likely costs?

We think *all payment service providers should sign* the recommendations based on the Common Principles. The expectations in both the Common Principles and in the recommendations should be more detailed.

In addition, see our proposal on a balanced approach under Question 1.

Costs can be estimated when the detailed expectations have been prepared. However, we agree that cost estimations are important to have a proper impact assessment.

Question 10:

Should switching principles/measures also cover cross-border switching of bank accounts?

Question 11:

According to you, how important is the risk of having receipts, bills and payments misdirected when switching bank accounts?

What measures could be considered to make the switching process safer?

Smooth functioning is of great importance in case of switching bank accounts. Payment service providers should take responsibility for the re-direction of regular credit transfers and direct debits as well. Hungarian payment service providers usually provide these re-direction services. However, sometimes transferring the pre-authorisations of direct debits does not function smoothly. Procedures could be improved and quickened (see for example timing guidelines at Question 8).

Question 12:

What obstacles, if any, are still faced by account providers that are smaller or established in another Member State to expand their client base or to enter new markets?

Are these connected to problems with switching facilities?

Question 13:

What other measures should be considered to improve bank account switching?

Please describe.

Re-direction of bank account numbers would be desirable and would significantly help bank account switching. In order to bring re-direction of bank account numbers into effect, a central data base would be needed which would manage the redirected data (see the Dutch example where this period lasts for 13 months) and would facilitate the smooth functioning of the system.

Re-direction in comparison with the portability of bank account numbers has significantly lower costs. In addition re-direction gives more flexibility to the system. In Hungary, the bank account numbers are created in a regulated way, based on the domestic bank code and the branch code as well. This numbering system has worked well so far and gave certainty in the system. Modifying this system could entail operational risks.

3. ACCESS TO A BASIC PAYMENT ACCOUNT

Question 14:

Do you dispose of information on consumers encountering difficulties in access to a basic bank account?

What types of obstacles are signalled by the consumers preventing them from having access to a basic bank account?

Basic payment accounts are of great importance as using more electronic financial solutions (instead of cash) could lead to significant savings for society. The Magyar Nemzeti Bank conducted a survey relating to payment habits in Hungary and government payments.⁷ One of the main conclusions sent to the government (Ministry of National Economy) was that *measures are needed to ensure basic access to payment accounts and financial inclusion*.

According to our survey,⁸ 89% of Hungarian households have bank accounts, but many of them do not use them in the most efficient way. For example, in Hungary people tend to withdraw the whole amount in cash every month. Hence, it would be important that payment service providers encourage the usage of socially more efficient payment instruments by relative pricing reflecting the social costs of those instruments.

Question 15:

Are you aware of any measures taken by banks or other institutions in the Member State where you have your residence to facilitate access to a basic payment account?

Have these initiatives been successfully enforced?

⁷ http://www.mnb.hu/Penzforgalom/pe_konferenciak/pe_2011 (only in Hungarian)

⁸ http://www.mnb.hu/Root/Dokumentumtar/MNB/Kiadvanyok/mnbhu_mnbtanulmanyok/MT98.pdf (only in Hungarian)

We are aware of the self-regulatory recommendation issued by the Hungarian Banking Association.⁹ So far, 18 Hungarian credit institutions¹⁰ have joined this initiative. The recommendation came into effect on 1 April 2012.

In our opinion the Hungarian implementation did not deliver the desired solution. The payment service providers did not go further than what was required from them according to Commission principles. According to the Hungarian recommendation the basic services do not include electronic credit transfers. In addition, the pricing of the 'basic services' (basic account and relating basic payment services) does not seem to be reasonable (there can be found similar services in the market at lower prices). The Hungarian recommendation is not consumer friendly and not effective. At the same time we think that the Commission principles were too general on certain topics, and consequently did not provide detailed guidance (i.e. "on reasonable prices").

Question 16:

Do these measures also facilitate access to a basic payment account for non-residents?

Question 17:

If consumers still have difficulties in opening a bank account, what are the reasons for that?

In Hungary there are no legal or technical difficulties in opening a bank account.

As far as non technical obstacles are concerned, according to a survey of Magyar Nemzeti Bank¹¹ in one third of the settlements (mainly smaller villages) no bank branch is available. POS terminals are mainly concentrated in touristic regions and in Budapest. Consequently the lack of infrastructure can be a major problem (even if there are basic payment services available).

Furthermore, according to recently conducted a study¹² by Magyar Nemzeti Bank the average monthly costs of bank fees for low and average income customers is 600-739 HUF (2-2.5 €), which seems to be high for many people (1 € would be more reasonable). Pricing is an issue as well and customers are price sensitive. At the same time cash seems to be cheap (or costless) for them.

In addition, Hungary is a cash intensive economy (cash / GDP ratio is around 9%), this fact increases the costs of cashless payment instruments indirectly. The significant level of the black/gray economy is a major problem.

According to a recent survey¹³ conducted by Magyar Nemzeti Bank, the main reasons for not having a bank account (multiple choice question for those who do not have a bank account):

- I do not need it as I cannot save up: 39%
- I get my salary in cash: 24%

⁹ <http://www.bankszovetseg.hu/bankszovetseg.cgi?p=onszabalyozas&l=&print=0&r=&v=265489181> (available only in Hungarian)

¹⁰ Last information was downloaded as of 6 June 2012: <http://www.bankszovetseg.hu/bankszovetseg.cgi?p=alapszamla&r=&l=&v=> .

¹¹ http://www.mnb.hu/Root/Dokumentumtar/MNB/Kiadvanyok/mnbhu_mnbtanulmanyok/mnbhu_mt_84/mt_84.pdf (available only in Hungarian)

¹² See footnote 1.

¹³ A survey was conducted by the central bank of Hungary on the security of payments. The results will be published in the second half of 2012.

- I do not like banks: 17%
- someone other than me has nothing to do with my money: 16%
- cash is king: 13%.

We are convinced that strengthening financial literacy could help people who may have difficulties in opening a bank account.

Question 18:

If more needs to be done what additional measures should be envisaged?

Should the problem be tackled at national or EU level?

The issue could be further tackled at the EU level.

In our opinion, the COM recommendation (on access to a basic payment account) was a good start. However, after assessing implementation of the recommendation, we would propose to prepare more detailed expectations (by modifying the Recommendation) on the following aspects:

1. what constitutes a basic payment account/basic payment services at minimum (a client's basic payment service portfolio, probably criteria based on the payment amounts or other factors could be set at the national level);
2. when the charges can be considered reasonable.

It would be important to have a stock-taking on how these two aspects (Section III/6. and Section IV) have been implemented in the Member States.

We propose to deepen the content of the Recommendation (see Question 15).