

## KEY MESSAGES

**In line with previous trends, the use of electronic payment instruments continued to increase in 2014, and the significant development of the contactless card infrastructure could support further the expansion of card usage.**

The use of electronic payment instruments has continued to gain ground in the past year, with a parallel decline in the number of cash withdrawals. There have not been significant changes in respect of the electronic payment infrastructure. Customers' payment account and card coverage has not changed despite the decline observed in the number of accounts. The card acceptance network increased at a slower rate than previously. The simplification of card payment due to the fast expansion of the contactless card technology may facilitate increased card usage and thus improve the efficiency of payment transactions. In international comparison, retail payment transactions in particular have ample room for improvement. Even though card payments are still extremely safe at the international level, market participants must take an effort, after taking account of international trends, to preserve the existing security level.

**The pricing of payment services stabilised in 2014, but the role of value-proportional charges remains far more significant than reasonable.**

Following the regulatory changes in recent years, the pricing of payment services stabilised in 2014 and, owing to the consumer protection procedures of the MNB, the charges of certain services declined slightly. For customers using the option of free cash withdrawal, withdrawal charges fell below the level prevailing before the introduction of the financial transaction tax, and they now have free access to cash up to the level of average income. Revenues expressed as a proportion of transaction value represent a significant share within the revenues from payment services, which may point to cross-pricing, as well as the fact that banks pass on the transaction tax to customers. The reduction of the ICS fees of credit transfers was reflected in customer fees only to a limited degree as the application of value-proportional pricing by banks – a practice potentially detrimental to customers – exceeds the level warranted by the financial transaction tax in the case of credit transfers.

**Regulatory changes affecting payment services may facilitate, even over the short term, a more intensive use of efficient, electronic payment solutions and improve the transparency of the conditions associated with their use.**

Effective as of 2015, the modification of the financial transaction tax with the lump sum duty on card transactions may motivate card issuers to promote card payments, which may facilitate a more intensive use of payment cards. During the transposition of the payment account directive, Hungary is also expected to introduce a basic payment account which allows unbanked and inactive customers to access electronic payment services at low costs. Thanks to the directive, the pricing of payment services is expected to become far more transparent in the future. In order to ensure the execution of euro credit transfers in accordance with the uniform European standards, by the end of October 2016 payment service providers and their customers are required to switch to the use of the new standards.

**As in previous years, the operation of the overseen systems was highly reliable; however, their risk exposure increased somewhat compared to 2013.**

Payment and securities transactions were executed efficiently and safely in the overseen systems, with a moderately increased turnover in 2014. Due to a slight increase in the duration of individual incidents, service continuity risk rose to some extent in the payment systems, but moderately improved within the KELER Group. In 2014, clearing and settlement execution time in respect of the transactions processed in the payment systems remained favourable. During the year, the average execution time of bank-to-bank and customer transactions was one and a half minutes in VIBER, and the average duration of clearing and settlement in the ICS was approximately 10 minutes per intraday clearing cycle.

**The liquidity available for executing payment transactions decreased compared to the previous year, requiring adjustment in banks' liquidity management.**

Although there was sufficient liquidity in the payment systems in 2014 both at system level and on an individual bank basis, clearing and settlement risks increased somewhat. As a result of the Funding for Growth Scheme (FGS), within the security portfolio pledged by banks in favour of the MNB the share of securities providing the source of liquidity for payment transactions declined further, but thanks to banks' adjustment, this did not increase clearing and settlement risks. The modification of the monetary policy instruments in August 2014 slightly increased such risks, as the MNB's key policy instrument, the two-week MNB bill, was removed from the group of eligible central bank collateral, which reduced the amount of available liquidity even further. In order to replace the liquidity shortage, participants purchased a substantial amount of government securities on the one hand, and improved their liquidity management on the other hand.

**According to the on-site inspections performed in 2014 payment transactions were basically executed in compliance with regulations; however, some violations have been detected that affected a broad range of customers.**

The provisions of the Act on payments services widened the scope of the payment inspections performed in 2014 significantly, while the number of on-site inspections continued to increase. Key violations involved faults arising from the failure to provide required information, and problems affecting a broad range of consumers, such as the charges imposed by banks for account statements that are to be provided free of charge. In general, the inspections found that all inspected credit institutions had committed violations. In consideration of the magnitude of the violations identified, the MNB imposed fines amounting to a total of HUF 62.5 million.

**On 4 July 2014, KELER CCP gained license prescribed by EMIR, bringing its operations in line with the requirements of the European Union. The adoption of new EU regulations (CSDR) requires KELER to apply for license under CSDR in 2016.**

KELER CCP's continuous compliance with the requirements is reviewed once a year by an international authorisation college. Another member of the KELER Group, KELER, is required to meet the criteria of EU regulation on central securities depositories effective from 2014; accordingly, the relicensing of KELER under the CSDR is expected to take place in 2016. The CSDR prescribes tighter rules inter alia in respect of securities reconciliation and continuous monitoring of settlement defaults.

**The upcoming developments affecting credit transfers will accelerate domestic payment transactions and expand the range of electronic payment options.**

From September 2015, domestic payment transactions will accelerate further as the clearing cycles of credit transfers will be doubled. As a result, credit transfers initiated during business hours are expected to reach the beneficiary within an hour. In addition, the extension of the operating hours of the ICS will ensure that domestic credit transfers are executed faster over a broader time interval. The earlier execution of the first clearing cycle benefits households primarily, while corporations may take advantage of the fact that the timing of the last cycle shifted to a later hour. From 2016, paper-based credit transfers and the transactions of the Hungarian State Treasury also will be processed during the intraday clearing system; however, in case of the latter, it will be necessary to manage the problems arising from the large number of transactions on peak days.

**As a result of the developments affecting small-value payment transactions, electronic payment options could become widely available both in retail trade and in the area of regular bill payments.**

The reduction of interchange fees lowered merchant-side card acceptance costs, resulting in substantial savings for merchants with the largest turnover. In their case, the difference between the costs of cash payments and card payments was reduced to the minimum. Consequently, in the future larger merchants should actively contribute to improving the efficiency of domestic payments and participate intensively in the promotion of card usage. Developments affecting bill payment services widen the range of electronic bill payment options with a potential increase in the number of customers opting for quick and simple electronic payment solutions.

**The roll-out of the CLS system commenced in October 2014, and the foreign exchange settlement risk between the forint and other CLS currencies may be eliminated as early as the end of 2015.**

The diligence phase of the CLS accession project was completed at the end of 2014 and accordingly, both the MNB and CLS decided upon the implementation of the system. In this context, the tasks ahead include the clarification of legislation, the harmonisation of IT systems and the modification of the central bank's account management policy and business terms. The foreign participants of the system must find a forint account manager through which they can execute their settlements. In addition, Hungarian credit institutions must also build up their own access to the system. It is a priority objective of the MNB to ensure that Hungarian banks settle their own foreign exchange turnover by using the CLS service. There is a sufficient amount of liquidity in VIBER for the processing of morning settlements; however, the redistribution of the liquidity may appreciate the role of the Hungarian interbank market after the launch of the system.

**In 2014, the risk-based oversight framework was renewed with the implementation of the new international principles of financial market infrastructures in the Hungarian oversight practice.**

Incorporating lessons learned from the recent financial crisis, the BIS and IOSCO renewed, and harmonised existing international oversight principles, and in 2012 they published a publication (PFMI) containing 24 principles to be observed. As the incorporation the PFMI into respective national practice falls within the competence of individual countries, the risk-based Hungarian oversight framework has been revised in view of the specific characteristic of domestic financial market infrastructures. With this, the MNB follows a forward-looking and exemplary practice on international level. The revision of the framework relied on the currently used risk-based approach. The new principles were fully incorporated into the revised regulatory framework. In 2015, the biannual comprehensive oversight assessment of the overseen systems, which is designed to assess the systems' compliance with international principles and recommendations, will already be performed on the basis of the renewed framework.

**The main purpose of the guidelines on the security of internet payments is to prevent fraud and abuse related to internet payments and hence, to maintain confidence in payment methods.**

For the efficient prevention of fraud associated with internet payments, it is necessary to develop international security requirements and regulations for internet payments and incorporate them into the oversight of payment instruments. The MNB assesses compliance with the new requirements released by European Central Bank and European Banking Authority. As a first step it has been started to assess compliance with the guidelines of the domestic payment service providers through a self-assessment questionnaire which is expected to be followed by regulatory steps as well.