

RESOLUTION OF THE FINANCIAL STABILITY COUNCIL ON THE PAYMENT SYSTEM

The Financial Stability Council (Council) of the Magyar Nemzeti Bank (MNB) discussed and approved the 2022 Payment Systems Report. The Council found that payment service developments in 2021 returned to pre-pandemic trends, bringing about dynamic development in terms of the further spread of electronic payments. The development of the electronic payment infrastructure in Hungary was primarily driven by the transformation of consumer habits due to digitalisation processes and by the modification to the Act on Trade, effective from 1 January 2021, affecting taxpayers required to use online cash registers. As for turnover, the increase in payment card purchase transactions, which had been a driving force of electronic payments, exceeded 20 per cent again, with Instant payment also catching up. The domestic financial infrastructures overseen by the MNB operated in an efficient and safe manner in 2021 as well, adequately addressing the emerging challenges. With high availability, they supported the functioning of the money and capital markets, thereby contributing to the strengthening of financial stability.

Although returning in smaller or bigger waves, coronavirus remained a determining factor in everyday life, its effects in the area of payments were more dampened, than in the previous year. As a result of favourable developments, the domestic payment card acceptance infrastructure expanded significantly, as well as an increasing number of consumers started using innovative electronic payment solutions, primarily mobile wallet services connected to payment cards. Overall, the lack of electronic payment options no longer prevents the development. At the same time, further progress is expected resulting from the spread of end-user services built on Instant payment, such as the QR code-based payment initiation and the request-to-pay service.

Regarding turnover, pre-pandemic trends returned despite the fact that some of the restrictions remained in place in 2021 due to the recurring waves of the pandemic. In addition to payment card purchase transactions, credit transfer turnover also picked up considerably. Moreover, Instant payment reached the level that card turnover has shown for years. The 21 per cent annual growth in the number of payment card purchase transactions can be considered impressive despite the slower rise in 2020 and the resulting unusually low base. In addition, the number of instant payment transactions was nearly 23 per cent up, excluding the effect of the incomplete year (Instant payment became available for customers on 2 March 2020). Nevertheless, major differences between payment situations were also observable in 2021. The most important change was the result of consumers' gradual return to physical space, and the number of cross-border transactions also increased significantly as a result of the lifting of restrictions on travelling.

One of the most crucial objectives of the MNB related to payments is to support the further dynamic growth in electronic transactions. It intends to support the beforementioned goal in the third phase of the development of the instant payment ecosystem through regulatory actions, as well as other enhancements required for a faster spread of end-user solutions, easy to use in any payment situation. Further simplification and acceleration of related payment processes are needed for Instant payment to become a relevant option in any payment situation for customers. In order to achieve this, the MNB is primarily seeking to exploit the opportunities inherent in the domestic QR code standard and the request-to-pay service as efficiently as possible. Within that, the main goal

of the MNB is to eliminate market fragmentation by regulating the mandatory QR code reading and request-to-pay message receiving abilities. In addition, it is elaborating a set of rules for the visual identity elements that can be used in commercial payment situations, allowing – as a result of the single appearance – consumers to easily identify the situations where the service is available. Moreover, in order to increase everyday usability, regulating positive feedback, indicating the success of transactions, and its technical standardisation are also planned.

Despite the fact that account products with package-based pricing started to appear, banks' unfavourable pricing structure affecting credit transfers remains a general obstacle to the further spread of electronic transactions. This is also demonstrated by the fact that the items related to the initiation of credit transfers continued to account for the majority of banks' revenues from payment services. As a result, despite the smaller number of initiated electronic payment transactions, customers typically have to face higher banking costs. In order to significantly reduce these costs for the electronically active customers, i.e. around one third of the population, it is worth switching to an account package with package-based pricing.

In 2021, the overseen financial infrastructures operated efficiently amid a strong growth in turnover and the turbulences arising from the pandemic, while the operation remained highly reliable. The value of the turnover of the RTGS of the MNB (VIBER), the total turnover on the three platforms of the Interbank Clearing System (ICS) and the forint turnover of the CLS increased by 26, 19 and 124 per cent, respectively. In addition, payment systems participants adequately managed their liquidity to perform an increased and more volatile payment turnover due to the pandemic, which entailed no modifications to the toolkit of the MNB. In 2021, the level of liquidity declined steadily in VIBER, and in 2021 Q4 it was 18 per cent lower on average compared to the same period of the previous year. Nevertheless, its level still ensures smooth execution of payments. In 2021, participants provided sufficient funding for nights, weekends and bank holidays as well in the instant clearing of the Interbank Clearing System; instant borrowing was hardly necessary.

The new securities settlement system of the central depository (KELER) went live on 6 December 2021, which was a major step forward in terms of process development. In 2021, the value of transactions settled in KELER rose by 17 per cent, and there was only a minimal decline in the level of availability of business activities compared to earlier periods. Market turnover cleared by the central counterparty (KELER CCP) was up considerably, by 46 per cent compared to the previous year; here, the performance of energy markets was outstanding. The availability of business activities declined to some extent in the case of the services provided by KELER CCP as well, but the number of incidents affecting customers remained very small.

The ratio of frauds to turnover is still insignificant in the case of electronic payment transactions, although cases based on deception and psychological manipulation continue to spread. Therefore, it is necessary to focus increasing attention on prevention in order to avoid further escalation of negative developments, which also requires enhancing customer education on the side of payment service providers. The MNB is providing support with the planned publication of a recommendation regarding the prevention of frauds, as well as the introduction of a central system to monitor money laundering and fraud is also being considered.