

PAYMENT SYSTEMS REPORT - EXECUTIVE SUMMARY

The development of the payment infrastructure was characterised by an expansion in the payment card acceptance network and, similarly to previous years, a rapid spread of the contactless technology in 2018. The share of shops offering payment card acceptance is growing in practically all retail size categories, and around 86 per cent of the 145,000 POS terminals supported contactless payment at the end of 2018. Growth of electronic payment methods also continued, with customers conducting a total of 1.250 billion electronic payment transactions in Hungary in 2018. Payment card purchases showed the strongest increase, with an approximately 25 per cent growth in terms of their number and value as compared to 2017. The proportion of contactless card purchases was over 86 per cent.

The efficiency of Hungarian payments also continued to improve, coming even closer to the European Union average. In particular, the value of payment card purchases amounted to more than 27 per cent of household consumption in 2018, which was almost 2.5 times the 2012 figure. The share of electronic payment of utility and other bills came close to 48 per cent, having almost doubled in five years. Due to the dynamic increase in electronic transactions, the share of cash in retail payments has been shrinking steadily.

The range of innovative, mainly card-based, mobile payment solutions offered by Hungarian banks and other payment service providers is widening, although the number of transactions conducted through these means is still low. More and more foreign non-bank participants' payment applications are available in Hungary, although regarding the volume of transactions, the real breakthrough in the spread of mobile payments may come from the emergence of innovative solutions based on instant payment.

Growth in payment card fraud in 2018 seems significant due to the low base; however, the proportion of fraud in terms of the number and the value of losses relative to total payment card turnover remained negligible, as seen in recent years. Therefore, the Hungarian payment card system is still highly secure by international standards. Moreover, as a result of the legislation which focuses on consumers' interests, a mere 8 per cent of the losses that arose on the issuer side related to payment card fraud were borne by cardholders, and the rest was absorbed by card issuing and acquiring banks.

Due to payment regulation infringements, penalties amounting to HUF 106.1 million were imposed during regulatory payments inspections in 2018. Nevertheless, in the case of the 11 institutions examined, the general experience is that the operation of the payment service providers under review is essentially adequate. Regulatory inspections mostly detected infringements related to the provision of information to customer, the amendments to and termination of the framework contract and the immediate crediting of the amount of the payment transaction. The inspections pointed out, inter alia, that the stricter liability and loss allocation rules were interpreted by payment service providers differently and in many cases incorrectly.

In the second half of 2019, several new laws facilitating the more efficient payments and secure banking of customers as well as better customer information will take effect, and the MNB will start checking adherence to them right away. The number of payment incidents has been growing in the banking sector for years, albeit at a decreasing rate; however, considering the number of payment service providers and the complexity of the financial infrastructure, the number of cases is still low.

The overseen financial market infrastructures operated efficiently and safely in 2018, supporting the functioning of money and capital markets with their high availability. As the incident recovery times increased, the operational risk of financial market infrastructures was up slightly in 2018, but there was no major decline in the quality of service perceptible by the participants. Compared to the previous year, the number of transactions executed in the Hungarian systems increased by three per cent, while the value of the transactions grew by 11.7 per cent. The value of transactions corresponding to 40.6 times Hungary's annual GDP, which means that the systems settle more than HUF 6 billion each day. In 2018, there was no significant central bank or financial market event with a major impact on the liquidity of payment systems participants. Payment system participants had ample liquidity to conduct the increased volume of payment transactions.

Cooperating with the international Supervisory College of KELER CCP, the MNB discussed the 2018 activity of KELER CCP, its authorised services as well as its short and long-term plans. The college concluded that the activity of KELER CCP complied with the EMIR regulation. In order to eliminate the negative consequences of the turbulent developments on the international electric energy markets, the extraordinary general meeting of the KELER CCP decided to increase the capital of the Company in October 2018. Even though the value of late payment events had been the highest in 2018 since 2012, the KELER CCP handled the evolving situations appropriately, and thus neither participants nor the central counterparty suffered any losses.

The preparation for the introduction of the instant payment system continued in 2018. As the developments progressed, the groundwork was laid for the system participant tests commencing in 2019. The MNB and GIRO stayed on the predetermined schedule with the developments; therefore, the central infrastructure of the instant payment system launches on 1 July 2019, in line with the original schedule. During the testing phase, the MNB closely monitored the progress of the system participants' internal projects, establishing that a significant number of players made good headway in the preparation; however, major risks and delays were identified at some banks. In view of this and bearing in mind the fully secure operation of the instant payment service offered to customers, the MNB decided to extend the time available for testing the live systems. Accordingly, the instant payment service will become accessible by all domestic bank clients uniformly and with full functionality from 2 March 2020.

Issues related to the liquidity management of the instant payment system were also finalised. Primarily system participants have to prefund the required liquidity for executing transactions on their instant settlement account. Nevertheless, the MNB will also be at the service of banks with a new collateralised credit instrument to enhance liquidity security outside the operating hours of

VIBER. According to preliminary calculations by the MNB, existing liquidity in the banking sector, including required central bank reserves over HUF 200 billion, hundreds of billions of forints of O/N deposits and potentially available securities pledged for the MNB amounting to over HUF 2,000 billion, will be more than enough to ensure continuous financing for instant payments.

The MNB took further steps to promote the development of innovative payment services based on the basic infrastructure of instant payment. Developing innovative payment solutions based on the basic service (e.g. user-friendly mobile payment applications) is essential, because these will allow customers to conveniently initiate instant credit transfers in all payment situations. In addition to the introduction of secondary account identifiers (mobile number, email address or tax identification number instead of the account number) and the request-to-pay message, the MNB supports the development of innovative payment services by elaborating a guide on instant payment processes applicable in the main payment situations as well as by creating a Hungarian QR code standard.

The cost level of retail payment services in Hungary is relatively high by international standards, and there are several structural peculiarities in Hungarian banks' pricing that are unfavourable from the perspective of the continued development of domestic payments. Most importantly, retail customers in Hungary typically pay transaction fees in proportion to the number or value of credit transfers, in contrast to the international best practice of package pricing. To facilitate the further spread of electronic payments, which would be beneficial for society as a whole, the MNB seeks to enable retail customers to initiate instant credit transfers of an unlimited number and value after paying the monthly payment account management fees, without additional costs. Banks can be reasonably expected to waive the transaction fees of instant credit transfers on the account of customers' current high costs, and this would also be in their interest. Hungarian banks must boost their competitiveness, and they would benefit from this much more over the medium term than they would lose in the short run due to the small contraction of their payment revenues. Widely used package pricing combined with the waiving of transaction fees would also foster the financial awareness of Hungarian retail customers, by creating transparency and comparability across bank account products.

The introduction of strong customer authentication and the third-party service provider access to customer accounts, representing the greatest changes from the new Payment Services Directive (PSD2), have reached the finishing line. The emergence of innovation and third-party service providers will require a new type of security risk management, which will be monitored by the MNB. It is important to raise the risk awareness of service users, which is facilitated by the MNB through its analyses of the relevant new, more detailed reporting. The MNB will start to check the compliance of the new technical and security requirements as well as the data reporting from September 2019.