

# **THE PAYMENT CARD BUSINESS IN HUNGARY**

**2002**

## **Introduction**

### **Trends in the Number of Payment Cards Issued by Financial Institutions**

- In the past three years, the number of cards issued by financial institutions has continued to rise, although at a moderating pace, amounting to 5.7 million at the end of 2002 (12% more than at the end of 2001). Together with fuel cards issued by petrol companies, the number of payment cards exceeded 6 million.
- In addition to the 23 credit institutions, last year a financial undertaking, the American Express Magyarországi Pénzügyi Szolgáltató Rt., commenced card issuing activity in the Hungarian market. Its presence fills up a gap in the domestic market, as both the availability of Amex cards issued in London and the interest of K&H Bank in issuing and acquiring Amex cards were terminated last year.
- The overwhelming majority (89%) of payment cards are debit cards, decreasing by 2% in number in the last year. More and more financial institutions issue credit and charge cards (American Express, CIB, Citibank, Credigen, Cetelem, HVB, Inter-Europa, K&H, MKB, Postabank, Volksbank, and OTP, although this last one issues not a traditional credit card).

### **Cash Withdrawal Facilities and Merchant Acceptance Points**

- The number of ATMs rose by 8% in one year (2,742 ATMs). The number of POS terminals for cash withdrawal only, operating in bank branches and post offices increased at a higher rate (by 11%); their number reached 8,968 by the end of the year.
- The number of merchant outlets accepting plastic cards is stagnating. The 23,109 POS terminals – excluding 14 units – operate with zero floor limit, i.e. each transaction is subjected to authorisation.

### **The Number and Value of Transactions Effected by Payment Cards**

#### **Acquiring Turnover**

- The value of the 152 million transactions effected in Hungary in 2002 with domestic and foreign issued payment cards was HUF 3,555 billion. The number of transactions rose by 22%, and their value by 27%, compared to the previous year.
- Cash withdrawal turnover was HUF 3,113 billion, the value of purchases being HUF 442 billion during the last year.
- Out of every 100 transactions, 63 items were cash withdrawals through ATMs, 5 cash withdrawals from POS terminals installed at bank branches and post offices, and 29 were payments for goods or services. The remaining 3 items were mobile phone loadings through ATMs.

**Issuing Turnover**

- The number of transactions effected with domestically issued payment cards in Hungary and abroad was 142 million during the last year, its value reaching HUF 3,395 billion. The increase in the number of items was 18%, and that in their value 25%, compared to the previous year.

**Cards Issued by Non-banks**

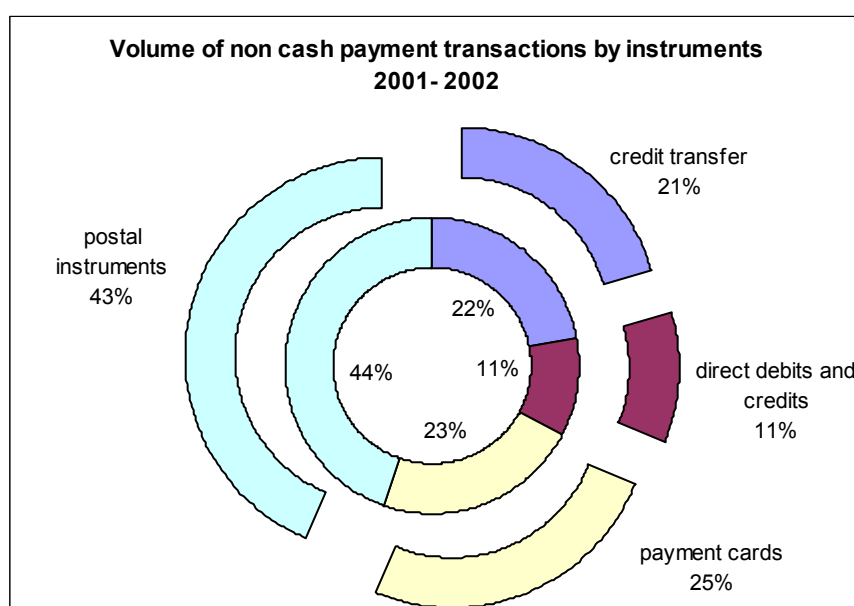
- In 2002, seven fuel companies issued fuel cards – the same number as in the previous year. The 399,000 petrol cards were used to purchase fuel at a total value of HUF 151 billion domestically and abroad. Practically, there is no change either in the number of cards or the turnover conducted with them compared to the preceding year.

## I. Overall Analysis of the Payment Card Business

### 1. The Role of Payment Cards in Cashless Payment Turnover

Although cash continues to play a very important role in retail payment transactions in Hungary, in addition to postal cash transfer orders (postal checks) traditionally popular in Hungary, cashless payment methods, such as direct debits, direct credits and payment cards, are becoming more and more important. Payment orders via mobile phones and Internet have also picked up, although at a negligible rate yet.

The total number of cashless transactions was 562 million in 2002, 24% higher than in the previous year. The chart below demonstrates the breakdown of different payment methods in the total number of transactions in the last two years.<sup>1</sup>



As the chart clearly demonstrated it, the share of postal instruments and credit transfers declined at a slight rate only, that of direct debits and credits was unchanged. The use of payment cards, however, rose by 2% compared to 2001 and now accounts for one-quarter of the number of payments. Seventy-one per cent of payment card transactions are still cash withdrawal, thus the payment card is the instrument to get access to the money on the bank account.

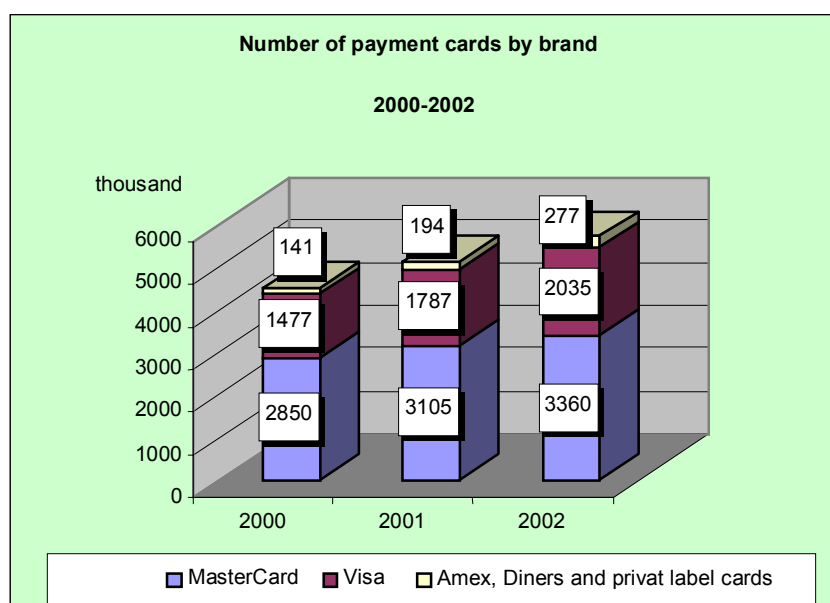
Payment cards, direct debits and credits, postal instruments are used to settle small amount, bulk payments (i.e. current expenses of households, daily expenditures), whereas higher amount expenditures are settled through credit transfers.

<sup>1</sup> The circle diagrams in this paper compare data for 2001 and 2002. The inner circle shows the data for 2001 and the outer circle those for 2002.

## 2. Trends in the Number of Payment Cards

At the end of the last year, 5.7 million payment cards issued by financial institutions were in use in Hungary, 12% more than in the previous year. This means that even if the number is increasing year by year, the rate of increase is declining by 2% each year. A more detailed analysis shows that in the age group between 15 and 64 years typically using the payment card (according to the data of CSO their number is 6.9 million) 82 out of every 100 persons hold a card. This suggests that every holder owns only one card.

The chart below illustrates the development of the number of payment cards in the last three years, in a breakdown by types of cards.



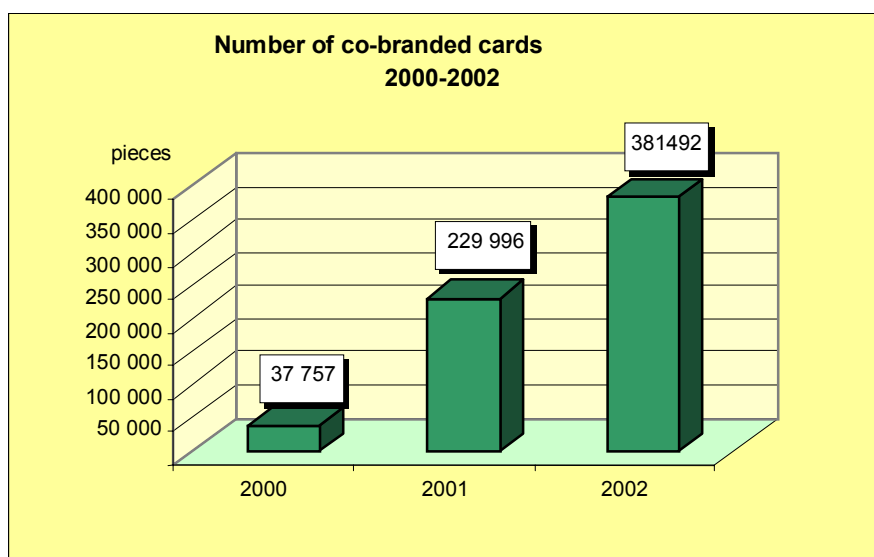
The overwhelming majority (89%) of the cards in use (5,025,000) are still debit cards.<sup>2</sup> This proportion, however, is 2% lower than the number at the end of the previous year, indicating that the volume of credit<sup>3</sup> and charge<sup>4</sup> cards, making up for the remaining part (647,000), rose not only in absolute terms (by 43%) but their share in the total number of cards increased as well. One-half of the number of the 624,000 credit cards, however, is only an instrument to get access to bank account credit. In case of purchases, there is no interest free credit period linked to its use, thus, it is not a credit card in the traditional sense.

<sup>2</sup> Debit card: payment card linked to a bank account, usually suitable for cash withdrawal and purchasing. The holder of the card is allowed to withdraw cash or make purchases only up to the amount of the bank account and his bank account is debited automatically with each transaction.

<sup>3</sup> Credit card: payment card linked to the amount of a credit line fixed earlier in a contract between the cardholder and the bank, which allows the holder to withdraw cash up to the amount of the credit line or make purchases. At the end of the month the holder of the card might decide if he settles all of his debt up to the closing date fixed in the statement specifying all transactions, or only up to the amount specified in the contract. The debt is interest free until the closing date, for the remaining amount, however, he has to pay interest for the period following the closing date. Cash withdrawal transactions, however, are not interest free, these are interest bearing just from the date of the transaction concluded.

<sup>4</sup> Charge card: it is distinguished from a credit card in that there is no credit line fixed necessarily (but may be) and the total debt should be settled by the date fixed in the statement.

The share of co-branded cards, issued in cooperation with retailers, increased to 7% by the end of last year. This is 2% higher than in 2001. Data for the past three years are shown in the following chart:



The number of business cards primarily issued to cover expenses incurred in the course of business is still insignificant – it reached 148,000 by the end of last year, less than 3% of the total number of cards. The reason for this may be that other cards, such as gold and silver cards, are also used for business purposes.

Although in an insignificant number (22,000), so-called virtual bank cards have appeared as well. These are used exclusively to conduct Internet payments.

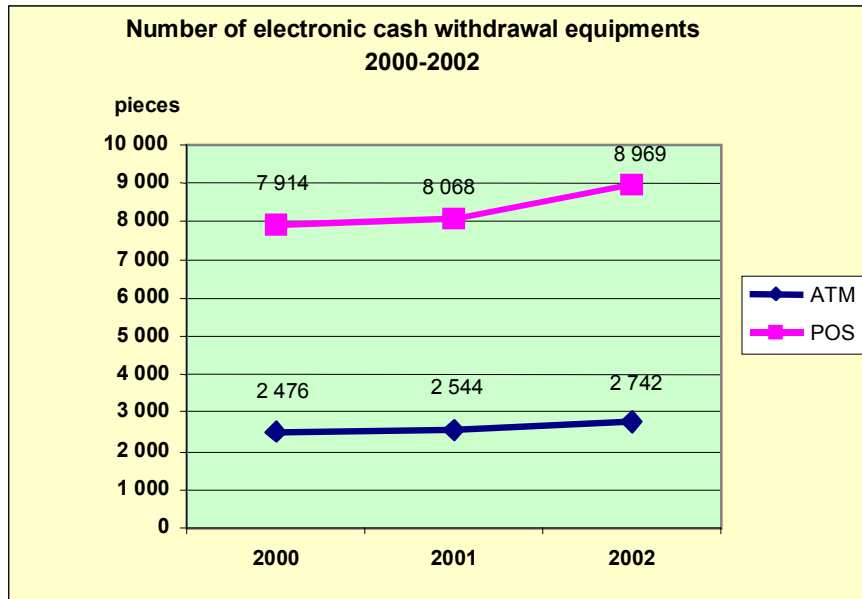
### 3. Cash Withdrawal Facilities and Merchant Acceptance Points

#### 3.1. Cash Withdrawal Facilities

Cash is available using payment cards partly at ATMs working 24 hours a day and in bank branches and post offices at POS terminals in working hours. The number of ATMs rose only by a few per cent last year, indicating that there are no more locations where these devices are to be operated profitably. In locations with inefficient turnover, POS terminals installed in post offices and bank branches offer the possibility to withdraw cash electronically. The number of these terminals increased considerably last year, mainly due to the development and extension<sup>5</sup> of the information technology of the Hungarian Post Office.

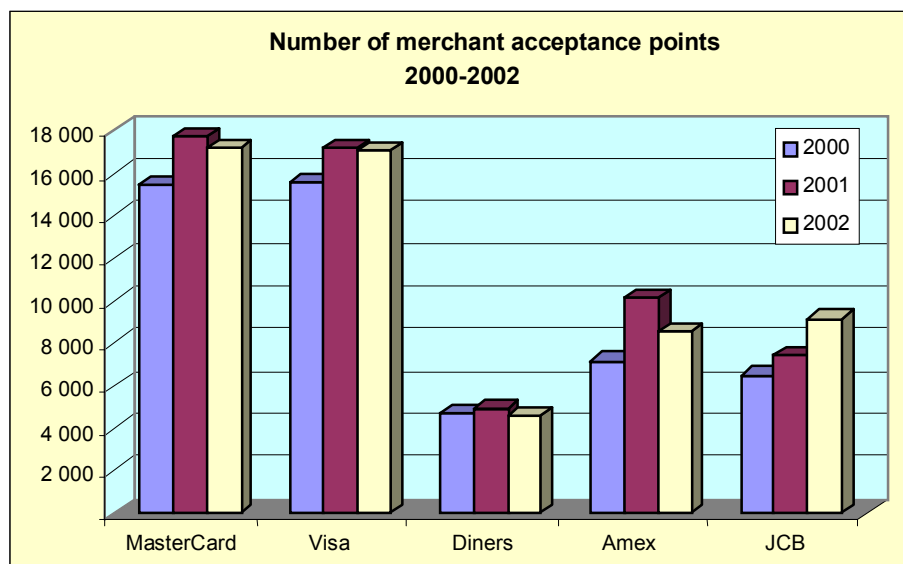
The chart below illustrates the development in the number of ATMs and POS terminals with cash withdrawal facility in the past three years:

<sup>6</sup> In the framework of the integrated postal network, electronic cash withdrawal via plastic card is possible at every cash desk of the large post offices.



### 3.2. Merchant Acceptance Points

Domestic mutual card acceptance is based on the international Visa and MasterCard brand names. The acceptance networks of these two cards are more or less overlapping. In addition to these two, cards with the brand names Amex, Diners and JCB can be used for payments. Cards without international brand names are accepted exclusively in the merchant network of the issuer institution. The breakdown of the merchant acceptance network by types of cards in the past three years is illustrated in the chart below:



As it is obvious from the chart, there are only two, although quite insignificant changes. The acquiring activity for Amex cards is now being taken over by the American Express Magyarország Pénzügyi Szolgáltató Rt. from the earlier acquirer; this temporary situation is the reason for the slight decline. The number of merchant outlets accepting JCB cards is increasing slowly year by year, in line with the business expansion of the acquirer bank.

In addition to physical merchant acceptance points, in 2002 the Bank collected data for the first time on the so-called virtual merchant outlets, namely on the number of merchants accepting orders via post or telephone and through the Internet. There are three banks which conclude contracts with merchants to settle payments for goods ordered via post or by telephone with payment cards, and there are three other banks, which own Internet merchant acceptance points. Their breakdown by brand name is shown in the table below:

Brand name	Merchants accepting orders by phone or via post	Merchants accepting orders through Internet
MasterCard	386	254
Visa	386	254
Amex	217	8
JCB	217	8

In the merchant's cashier's desks, altogether 23,109 POS terminals facilitate electronic card acceptance. Of these, only 14 operate with zero floor limit. This means that each transaction is subjected to authorisation at nearly all terminals, which improves the safety of the use of cards.

In the event that a POS terminal does not operate due to technical reasons, 4,599 imprinters can be used as a background facility to pay with payment cards. At merchant outlets with low turnover, where the installation and operation of an electronic equipment is inefficient, imprinters are used to accept payment cards. The number of these was 1,006 at the end of last year, 72% of them operate with zero floor limits.

## **4. Turnover Effected by Payment Cards**

### **4.1. The Number and Value of Transactions Effected by Cards within Hungary (Acquiring Turnover)**

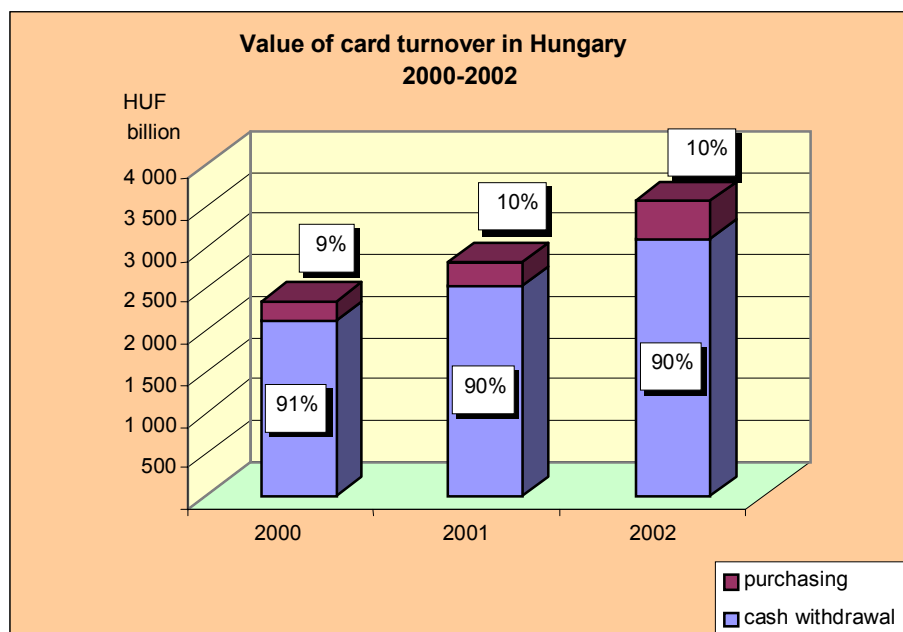
Domestic acquiring turnover consists of cash withdrawal and purchasing transactions in Hungary, effected by cards issued domestically and abroad. The total number of these transactions amounted to 152 billion during 2002, with a total value of HUF 3,555 billion. The growth rate of the number of transactions was 22%, and that of the value of the turnover 27%, compared to the previous year. Within this, purchasing transactions rose by 52%, cash withdrawals much less, by 11%. As a positive development, the share of the number of cash withdrawals continued to decline – whereas in 2001 clients used their cards 74 times out of every 100 occasions to withdraw cash, in 2002 this number was only 68.<sup>6</sup> This gradual shift in the use of cards toward real cashless payment methods is due to legal changes in consumer protection<sup>7</sup> which improve confidence of cardholders for this payment instrument. The other reasons are the information work of banks, their services increasing the safety of the use of cards (SMS messages following transactions), and their regular bonuses and price winning actions linked to card payments.

<sup>6</sup> As regards only domestic turnover performed with cards issued domestically, this proportion is 69 and it is 68 taking into consideration the use of cards of foreigners in Hungary.

<sup>7</sup> As of 1 December 1999, losses incurred after reporting on having lost or being stolen of the card is borne by the issuer bank unless the deliberate or serious carelessness of the holder is proven. As of 1 December 2002, the holder of the card bears losses incurred prior to reporting to the bank up to a maximum of HUF 45,000, unless the loss incurred due to the deliberate or seriously careless behavior of the holder.

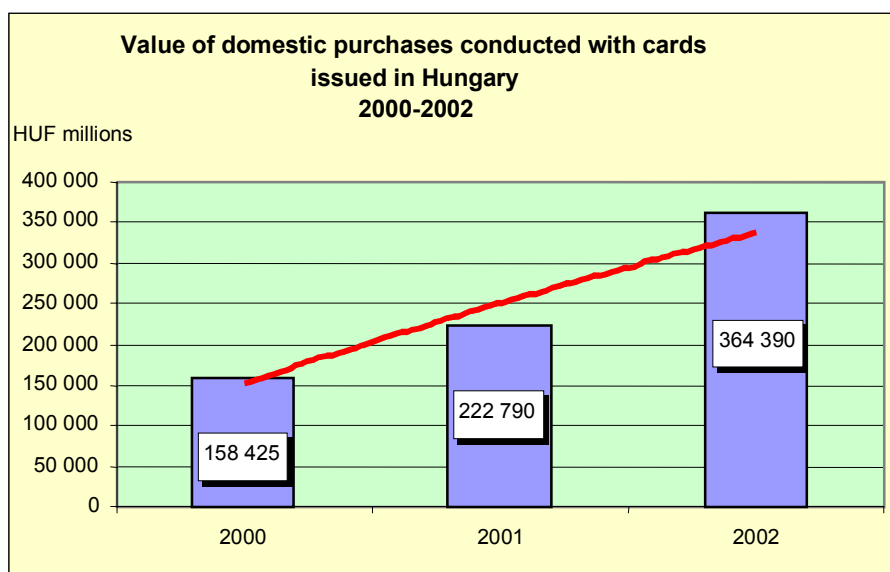


The chart below presents the development of turnover value in domestic card payments in the past three years. It indicates that the measure of the change in the proportion of the value of purchases does not reflect the changes in the volume of payments. This comes from the fact that the average value of one transaction has declined from HUF 9,210 to HUF 9,032, i.e. plastic cards are used not only to settle some high amount expenditures, but to meet everyday needs as well.

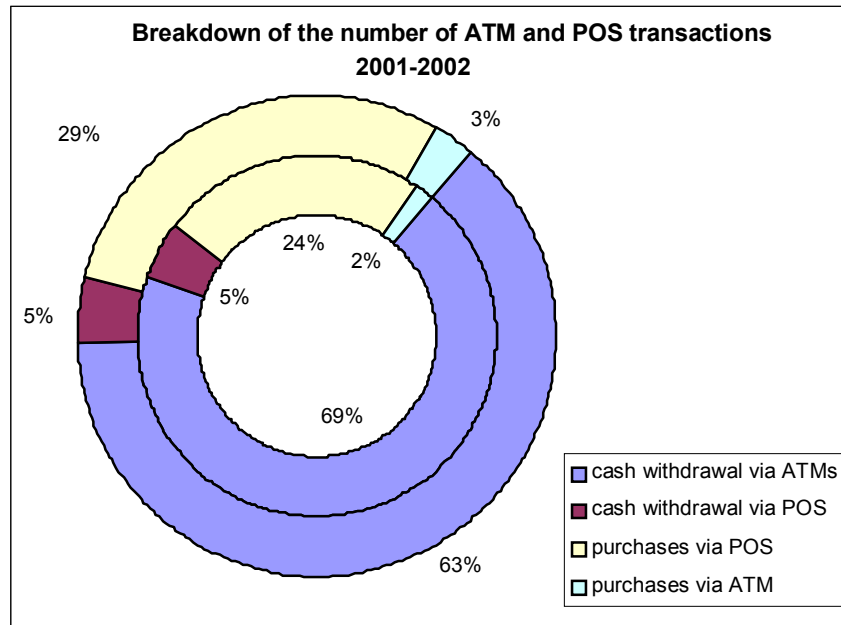


Although not reflected in proportions, growth in the value of purchases increased dramatically in the past three years (reaching HUF 442 billion last year), arising from changes in the card using habits of domestic cardholders – 95% of the value of acquiring turnover is accounted for by transactions performed with cards issued in Hungary.

The chart below illustrates this growth.



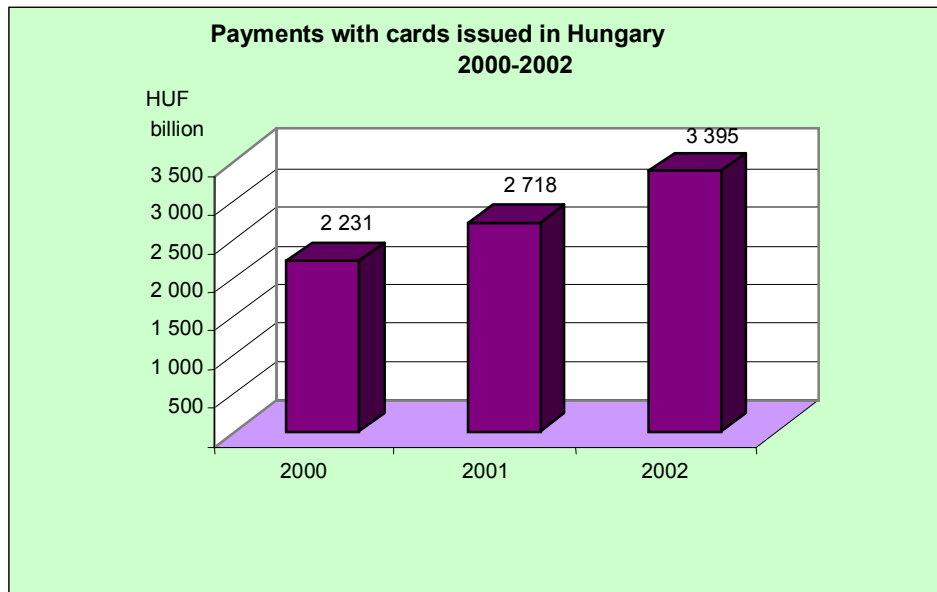
Nearly 100% of the total domestic acquiring turnover, i.e. of transactions conducted in Hungary with cards issued domestically and abroad, was performed in an electronic environment. The breakdown and changes in this development in comparison with the previous year are shown in the chart below.



Cash withdrawal performed via POS terminals include transactions carried out in the post offices and bank branches and securities 'purchases' at the counters of the Hungarian State Treasury (these transactions are cash withdrawals from the point of view of the client and are subject to fees). Purchases via ATMs are loading of mobile phones.

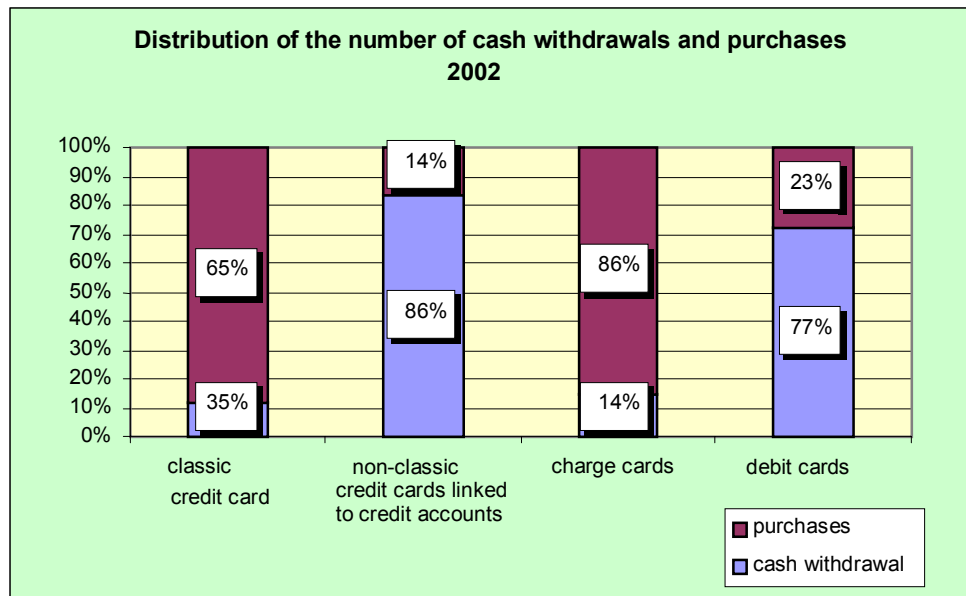
### **3.2. Payments with Hungarian Issued Cards Inside and Outside of the Country (Issuing Turnover)**

Hungarian cardholders used their cards in a total number of 142 million (a 18% growth) domestically and abroad to withdraw cash and to make purchases in a total value of HUF 3,395 billion (an increase of 25%). The chart below shows the development of data in the past three years:



The frequency of card uses is stagnating for years: it is two transactions per months.

The proportion of cash withdrawal and purchasing transactions relative to each other, realised by different types of cards, have not changed compared to the previous year. The distribution is shown in the chart below:



As it is obvious from the chart, clients prefer purchases in the constructions when the cash withdrawal is subject to high interest payment or extraordinary high transaction fee, and the cost-free purchases are debited to an interest free credit line (up to the end of the accounting period). In the case of debit cards, where the purchases are also free of charge, but cash withdrawals are subject to fee-payments (its extent is much lower than the interest or fee paid in the case of credit and charge cards), the dominance of the latter is still quite significant. In addition to the structure of interest and fee payments, the composition of the clientele using the cards influences the distribution of transactions as well. Of debit card holders, there are presumably still a lot of so-called 'enforced' card holders, who are only forced to use cards in

order to get access to their salaries, which they withdraw in cash on one or two occasions a month.

Investigating the above mentioned proportions for co-branded cards (these might be linked to commercial credits or debit constructions), the use of which is prized with extra benefits in case of purchases, the proportion of cash withdrawal transactions is surprisingly high, 46%. This is 2% less than in the previous year. The reason for this may be that the majority of students use their cards linked to the student loan to get access to the loan – despite the benefits offered by some retailers and service providers in case of purchases – and they withdraw the whole amount in cash.

In the case of business cards, the proportion of cash withdrawals is higher than that of purchasing transactions – it was 56% both in 2002 and 2001. The reason for this is in the composition of the clientele using this type of cards. Part of these cards is an internationally used gold or silver card issued explicitly for businessmen to cover their expenditures incurred in the course of business. These cards are typically used to settle purchases of goods and services. There are, however, business cards with limited functions (i.e. they can be used only in the domestic market), where the purpose of the issuer was primarily to ‘divert’ cash withdrawal transactions from bank branches. These cards are used mainly by small enterprises typically for cash withdrawals necessary to manage their daily business.

It was in 2002 that the Bank first requested data on the extent of card transactions linked to orders made via post, telephone or Internet. Currently, this proportion is negligible – there were only 107,000 transactions in a total value of HUF 1.2 billion, when clients paid goods and services ordered by post, phone or Internet with cards issued in Hungary. The average transaction value of domestic and foreign uses is highly different. The average value of a domestic payment transaction is HUF 5,946, and that of the foreign order is the multiple of the previous, being HUF 32,666.

## **II. Cards Issued by Non-financial Institutions**

The availability of American Express cards issued in London was discontinued on 31 December 2001 for Hungarian citizens, due to foreign exchange legal limitations. The agreement between Kereskedelmi és Hitelbank Rt. and American Express to issue and accept cards with the Amex brand name in Hungary has also been terminated. As of mid-2002, the newly established American Express Magyarországi Pénzügyi Szolgáltató Rt. commenced issuing Amex cards in Hungary. Being a financial institution, its results are included in Chapter I. of this paper. Thus the only card issued by non-financial institutions in Hungary is the fuel card.

### **Fuel Cards**

There are seven fuel companies, Agip, Aral, Esso, MOL, OMV, Shell and Total in Hungary which issue petrol cards suitable exclusively to buy motor fuel. At the end of last year, the total number of these cards was 399,000. The total number of purchases performed by cardholders at fuel stations was 12 million in a total value of HUF 151 billion in Hungary and abroad. Practically, either the number of cards (+1%), or the value of turnover (+3%), or the frequency of the use of the cards (2.5 transactions per month) have not increased compared to the previous year. Foreigners bought motor fuels in a total value of HUF 2 billion in Hungary at the Esso, OMV, Shell and Total fuel stations.

At the fuel stations in Hungary, 1,405 POS terminals and 579 imprinters support the acceptance of cards. The Esso, OMV and Shell cards are suitable to buy motor fuel abroad as well.

Only two fuel companies issue private cards. Their clientele consists mainly of companies and institutions.