

THE PAYMENT CARD BUSINESS IN HUNGARY

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Introduction

Changes in the number of bank issued payment cards in circulation

- Over the past years, the number of bank issued payment cards in circulation has continued to rise, though at an increasingly moderate annual pace. The total number of cards (bank issued payment cards and fuel cards) was 6.6 million at year-end 2003.
- The number of institutions engaged in card business has remained unchanged: a total of 23 credit institutions and one financial corporation continue to issue payment cards.
- Though there has been a reduction of 4%, debit cards (85%) continue to outnumber credit cards. The latter category also includes bank credit-based cards that do not allow for an interest free period, thus it fails to fully fit the definition of the traditional credit card (see the footnotes in I/2). The proportion of charge cards remains below 1%.

ATM and EFTPOS networks

- Over the past 5 years, the number of ATMs has grown consistently. There were 2,975 of them at year-end 2003.
- The number of merchant outlets accepting VISA cards and MasterCard cards has grown by 10% over the past few years, while that of the places accepting Diners, Amex and JCB has increased more moderately. Acceptance points operate a total of 24,395 POS devices. Practically every transaction is subjected to authorisation, which enhances card safety.

Turnover realised with bank issued payment cards

Acquiring turnover

- The value of the 175 million transactions conducted in Hungary in 2003 with cards issued domestically and abroad was HUF 4,347 billion. The number and value of transactions grew by 15% and 22% respectively compared with the previous year.
- Out of every 100 transactions, 64 were cash withdrawals (4 withdrawals less than a year earlier), of which 60 were ATM and 4 POS transactions. As regards card sales, there were 33 instances of payment at POS terminals at retail outlets and 3 of mobile phone recharges through ATMs.

Issuing turnover

- The number of transactions concluded with cards in Hungary and abroad was 164 million last year, its value reaching HUF 4,220 billion. The increase in the number of items was 15%, and that in their value 24%, compared with the previous year.

Cards issued by non-banks

- The number of fuel companies issuing fuel cards fell, owing to changes in ownership. OMV purchased Aral, and Shell has been taking over Total's card business. As a result, the number of cards fell by 6% to 376,000 by end-2003, with turnover conducted with them amounting to HUF 153 billion.

I Overall analysis of the bank issued payment card business

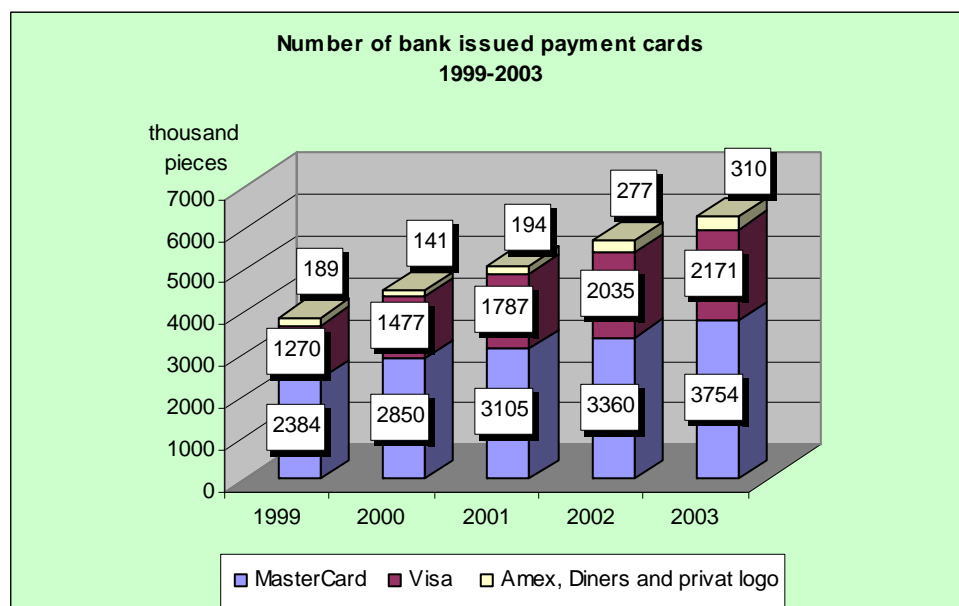
1 Characteristics of cards and changes in their number

Though at an increasingly moderate annual pace, the number of payment cards issued by banks has been on the rise. It amounted to 6.2 million at year-end 2003. Table 1 shows the number of cards and the pace of growth in the past five years.

Table 1 Developments in card issuance

Year	1999	2000	2001	2002	2003
Number of bankcards (thousands)	3,843	4,468	5,086	5,672	6,235
Rate of growth	31%	16%	14%	12%	10%

Brand composition remained unchanged, with two international card brands, VISA and MasterCard, being in the lead in mutual card acceptance.



Although their proportion has fallen somewhat relative to the end of the previous year, the overwhelming majority (85%) of the cards in use (5,290,000) are still debit cards.¹ Except for two, credit institutions in the issuing business (23) all issue such cards.

¹ Debit card: a card issued by a credit institution and enabling the holder to have his purchases directly charged to funds on his account at a deposit-taking institution. A debit card may be linked to an account that offers overdraft facilities as an additional feature

The number of banks issuing credit cards² is 12, with the proportion of the product, relative to the overall number of cards, amounting to 15% (934,000). This figure also includes the cards (682,000) linked to bank credit, but with no interest free period granted, e.g. cards used mainly to withdraw cash, or to get access to hire purchase credit. Three credit institutions and one financial corporation issue charge cards,³ the proportion of which is below 1% (11,000).

The number of co-branded cards, issued in co-operation with retailers, increased by over 1.5 times (598,000) from a year earlier, their proportion reaching 10% by the end of last year. There are nine banks offering this type of cards.

The number of business cards used to cover business-related expenses has grown by 40% (206,000) over the past year, their proportion hardly exceeding 3%. The number of issuers is relatively high (21 credit institutions and one financial corporation).

The use of virtual cards, developed expressly for this purpose, enhances the safety of e-purchases, with their number having grown by 1.5 times over a year (33,000 at end-2003).

2 Cash withdrawal facilities and merchant acceptance points

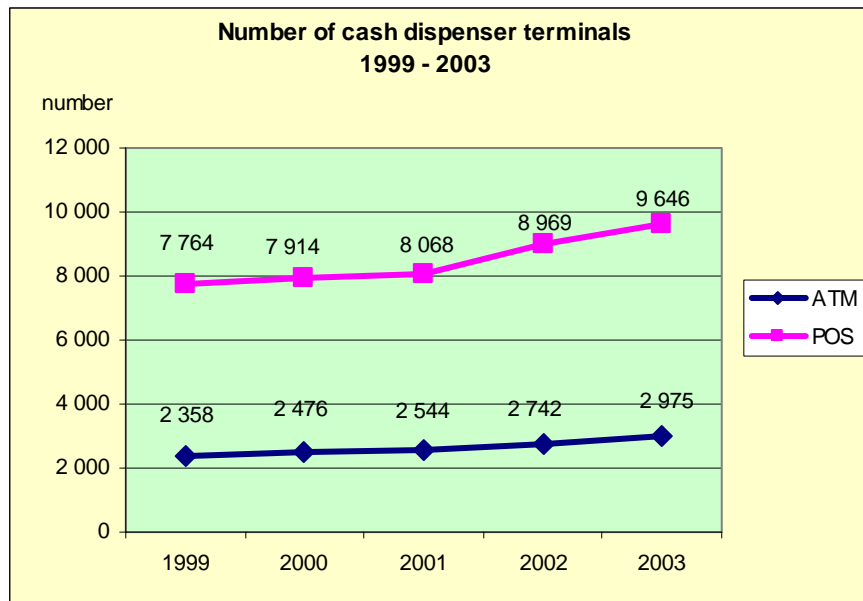
2.1 Cash withdrawal facilities with bank issued cards

POS terminals installed in post offices and bank branches as well as ATMs offer the possibility to withdraw cash electronically. Of the total 2,975 ATMs in Hungary, 30% and 27% are in Budapest and the county seats respectively; the rest are available in other cities. Taking into account this distribution, the role of a total of 9,646 POS devices installed in post offices and bank branches is all the more important, as they offer the possibility to withdraw cash electronically at places where ATMs cannot be operated profitably.

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

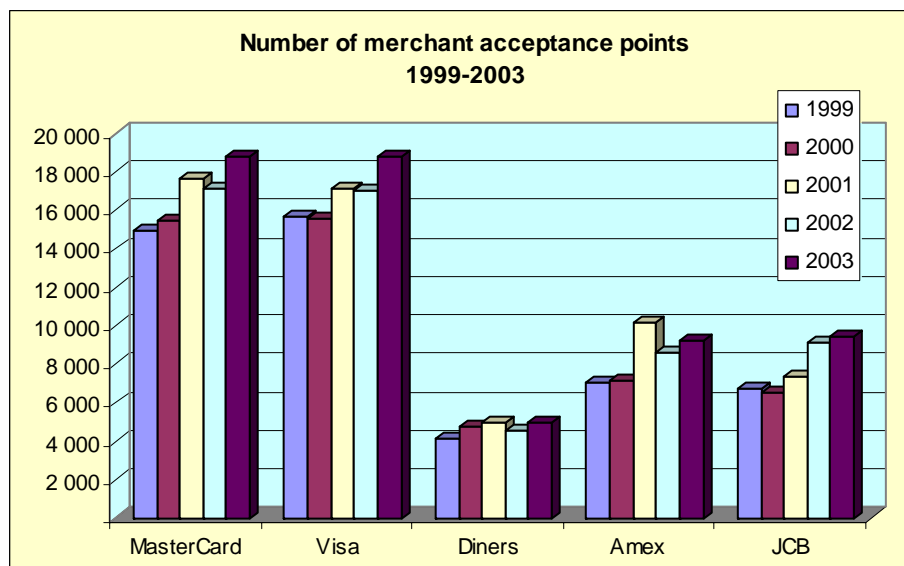
² Credit card: a card issued by a credit institution and indicating that the holder has been granted a line of credit. It enables the holder to make purchases and/or withdraw cash up to a prearranged ceiling; the credit granted can be settled in full by the end of a specified period or can be settled in part, with the balance taken as extended credit. Interest is charged on the amount of any extended credit and the holder is sometimes charged also other fees, such as an annual fee.

³ Charge card = delayed debit card: a card issued by a credit institution and indicating that the holder may charge his account up to an authorised limit. It allows holders to make purchases but does not offer extended credit, the full amount of the debt incurred having to be settled at the end of a specified period. The holder is usually charged an annual fee.



2.2 Payment facilities with bank issued cards

Eight credit institutions and one specialised financial enterprise conclude card acceptance contracts with merchants. The chart below shows the number of the commercial units (outlets) in the past five years that offer the possibility of card payment for goods and/or services.



The number of retail outlets accepting VISA cards and MasterCard cards increased by 10% last year. That of Diners, Amex and JCB card acceptors grew more moderately.

In addition to physical acceptance points, three banks are engaged in establishing so-called virtual points of acceptance through the Internet. However, the number of virtual points of acceptance is below 300. The number of merchants accepting orders

via mail or over the telephone and allowing for the possibility of settling payments for goods ordered via mail or over the telephone with cards is approximately 400.

At the shop counters, there are 24,395 POS devices in operation (6% more than in the previous year). With the exception of 14, these operate with zero floor limit, which means that the transactions are subject to authorisation, regardless of any limit, which greatly contributes to the security of card use. In preparing for smooth business in the event of a technical problem, 4,889 imprinters are installed, in addition to the POS devices (representing a 4% increase). All of these operate with zero floor limit.

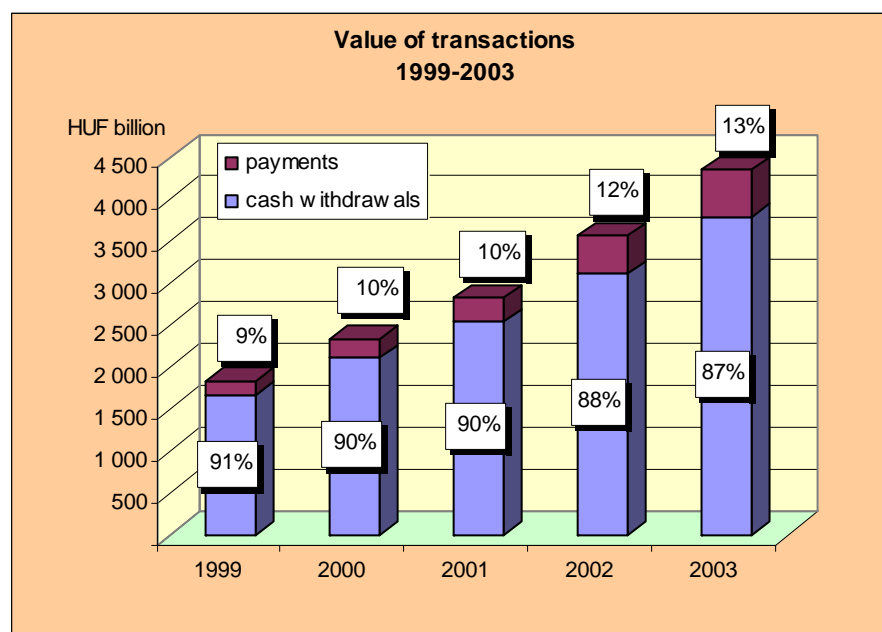
In smaller retail outlets, where the number of payments with cards is relatively low, card acceptance is based exclusively on imprinters for economic reasons. At shop counters, there are 943 such devices in operation. The majority of these (73%) also operate with zero floor limit.

3 Transactions conducted with bank issued cards

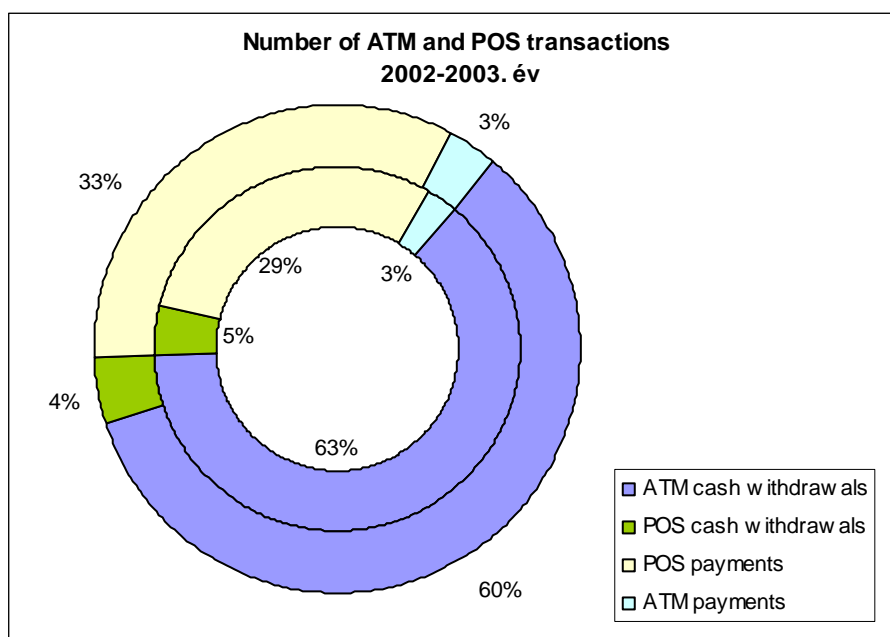
3.1 Domestic card business (acquiring turnover)

Domestic payment transactions conducted with cards is derived by aggregating purchases made with retailers in contractual relationship with Hungarian credit institutions and specialised financial enterprises, plus cash withdrawal transactions carried out on domestic ATMs and POS devices. The number and value of transactions initiated with domestically and foreign-issued cards were 175 million and HUF 4,347 billion respectively in 2003. These represented a 15% growth in terms of the number of transactions and a 22% growth in the value of transactions.

The table below shows developments in Hungarian card-based turnover, and particularly the values of cash withdrawals and purchases in the past five years.



It can be seen that purchases as a proportion of the total, though only slightly, have been rising year after year. The amount of total purchases grew even more spectacularly: for example, in 2003 card holders made 22% more purchases than in the previous year. Looking at the number of transactions, this positive change is even more striking. Practically the entire acquiring turnover was performed with electronic devices (too small to see on the chart, only 0.21% of transactions was conducted on imprinters). The chart below shows the percentage shares of these in the past two years:⁴



Although cash withdrawals continue to account for the majority of transactions, their proportion of the total has been falling gradually: 68 transactions out of 100 were cash withdrawals in 2002 and 64 a year later. Confining our examination to transactions conducted with foreign-issued cards, cash withdrawals account for 42 out of 100 transactions in the same acceptance points. This difference is conspicuous, even if cash needs related to travel, different from everyday needs, are taken into consideration. In part the future extension of retailers' acceptance network and in part the strengthening of Hungarian card holders' confidence in the payment medium and, as a consequence, the changes in payment habits may lead to further improvement in this area.

The overwhelming majority of cash withdrawals were conducted on 2,975 ATMs (102 million transactions) and a fraction, 8 million, on 9,646 POS devices installed in post offices and bank branches. At 4,000 the number of non-electronic cash withdrawals was insignificant. The average utilisation rate of one ATM was 34,441 transactions/year (96 transactions on a daily average); the average utilisation rate of POS devices is 794 transactions/year (2 transactions on a daily average).

Payment transactions conducted on POS devices installed in at shop counters accounted for the vast majority of purchases. The percentage share of recharging mobile telephones through ATMs remained unchanged.

⁴ The inner and outer circles show data for 2002 and 2003 respectively.

3.2 Domestic and foreign transactions conducted with domestically issued cards (Issuing turnover)

The number of transactions concluded with domestically issued cards in Hungary and abroad was 164 million last year, the total value of transactions reaching HUF 4,220 billion.

Table 2 below summarises growth in turnover (relative to the previous year) and the frequency of card use in the issuing business in the past five years:

Table 2 Frequency of use and turnover of cards, 1999–2003

Year	1999	2000	2001	2002	2003
Turnover (HUF billions)	1,690	2,231	2,718	3,395	4,220
Growth rate	61%	32%	22%	25%	24%
Number of transactions (thousands)	87,006	103,552	120,174	141,998	163,571
Growth rate	29%	19%	16%	18%	15%
Frequency of card use (months)	1.89	1.85	1.97	2.09	2.19

The data provide clear evidence that both the number of transactions and their value have been rising every year, although at a slowing pace. The number of transactions has been growing at nearly the same rate as the number of cards (see Section 1.2); however, from 2000 the difference has been increasing by a couple of per cents. As a result, the monthly frequency of card use has also been growing, though slowly.

Looking only at cashless payments within total domestic issuing turnover, i.e. developments in domestic retail purchases, Table 3 below depicts the picture as follows:

Table 3 Card-based purchases and frequency of use, 1999–2003

Year	1999	2000	2001	2002	2003
Turnover (HUF millions)	96,633	158,425	219,979	316,388	428,192
Growth rate	60%	64%	39%	44%	35%
Number of transactions (thousands)	12,573	19,439	27,308	39,357	53,202
Growth rate	45%	55%	40%	44%	35%
Average value of transactions	7,686	8,150	8,055	8,039	8,048
Growth rate	1%	6%	-1%	0%	0%
Frequency of card use (years)	3.27	4.16	5.37	6.94	8.53

The number of purchases has been rising much more rapidly than the rate characterising the card business (see Table 3); however, the ratio of the number of cash withdrawals still continues to be higher than that of purchases (see the pie chart in Section 3.1).

Five years earlier, a card was used on 23 occasions on average and only three occasions were payments for goods purchased. In the past three years, in contrast, a

card has been used on 26 occasions on average and 8–9 have been payments for goods. This also reflects the positive changes that have taken place in recent years.

The average transaction value has remained nearly the same in the past three years. This suggests that holders more and more often use their cards to pay for goods purchased, in order to save cash.

II Cards issued by non-bank institutions

Fuel cards

The number of payment cards, issued by fuel companies and used to purchase motor fuel, fell by 6% to 376,332 by the end of 2003. The major reason for this was the changes in the ownership of two motor fuel companies: OMV acquired Aral and Shell acquired Total. Closely related to this development, the percentage share of chip cards fell dramatically. Aral and Total were the first to issue such cards. Total cards continue to be in use, while Aral cards has been withdrawn completely.

Turnover conducted with domestic cards barely changed relative to the previous year: motor car owners spent HUF 154 billion on 12 million occasions in 2003, both in Hungary and abroad. Turnover saw a 2% increase in one year.

Foreigners fuelled up in Hungary on 183,000 occasions in 2003, in a total value of HUF 2 billion.

There are 1,140 POS devices in use at fuel stations to ensure electronic card acceptance. In addition to POS devices, 55 imprinters are in operation.

Firms and institutions continue to be the major clients of fuel companies; only two companies issue cards to private individuals. Individuals pay in advance for fuel purchased, in contrast with firms, which make their payments subsequently.