

# **THE PAYMENT CARD BUSINESS IN HUNGARY**

**(2005)**

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## **Introduction**

### **Changes in the number of bank issued payment cards in circulation**

- The rate of increase in the number of cards in circulation during the year once again shows a rising trend, approaching the level as it was five years ago (13% in 2005). At the end of 2005 there were 7.4 million bank issued cards in circulation; bringing the total to close to eight million with the cards issued by entities other than banks also included.
- 22 credit institutions and one financial enterprise issue cards. Twenty banks are involved in issuing debit cards and six offer debit cards linked to a credit line. Credit cards are offered by fourteen banks, whereas charge cards are offered by four banks and one financial enterprise.
- The ratio of debit cards among all cards is 86% (down from 92% in the previous year), of which 5% features a debit card linked to a credit line. The number of credit cards has doubled in a year, their share increased from 8% to 14%, whereas the percentage of charge cards remains below one per cent.
- The share of co-branded and affinity cards have increased by 29%, reaching one million by the end of last year. Eleven banks offer these products in co-operation with retailers and non-profit organisations.
- At the end of 2005 18% of the cards were issued with EMV chips (up from 5% of the previous year).

### **ATM and EFTPOS networks**

- The number of ATMs increased at a steady rate in the past five years; there were 3,531 terminals at the end of 2005. The 9,988 POS terminals installed in bank branches and post offices also facilitate the electronic cash withdrawal; 2% of these are enabled to read EMV chips.
- The number of retail outlets accepting Visa and MasterCard shows a growth of only 1% in the past year, there are 19,854 shops accepting Visa, and 19,941 accepting MasterCard. The number of retail outlets accepting Amex cards has dropped by 28%, to 8,092 due to a change of the acquirer. Diners cards are accepted in 4,012 shops and JCB is accepted in 8,893 shops.
- There are 29,538 electronic POS terminals installed at retail acceptance points, where practically all transactions are authorised which contributes to the higher safety of card use. Twenty-two per cent (22%) of the devices are able to read EMV chips.

### **Turnover realised with bank issued payment cards**

#### **Acquiring turnover**

- In the past year, 209 million transactions were conducted with domestic and foreign issued cards, in the value of HUF 5,249 billion. The transaction number rose by 8%, the value increased by 10%, in comparison to the previous year.
- The share of cash withdrawal transactions continued to fall; of every one hundred transactions 55 transactions were cash withdrawals (as oppose to 58 in the previous

year), with 51 ATM and 4 POS transactions. In respect of purchase transactions, of every one hundred transactions, there were 41 payments through POS terminals at retail outlets, with 4 mobile phone loading at ATMs.

### **Issuing turnover**

- In the past year, Hungarian card holders used their cards on 203 million occasions inside and outside of the country, in the value of HUF 5,220 billion. The number rose by 11%, the value grew by 9%.

### **Cards issued by non-banks**

- There are five fuel companies issuing cards for use within their own network: Agip, Esso, Mol, Omv, Shell. The number of cards in circulation increased by 9% by the end of 2005, amounting to 521,000 cards with a total value of purchases of HUF 190 billion in Hungary and HUF 48 billion abroad during the past year.
- Foreigners purchased fuel in Hungary in the value of HUF 6 billion.

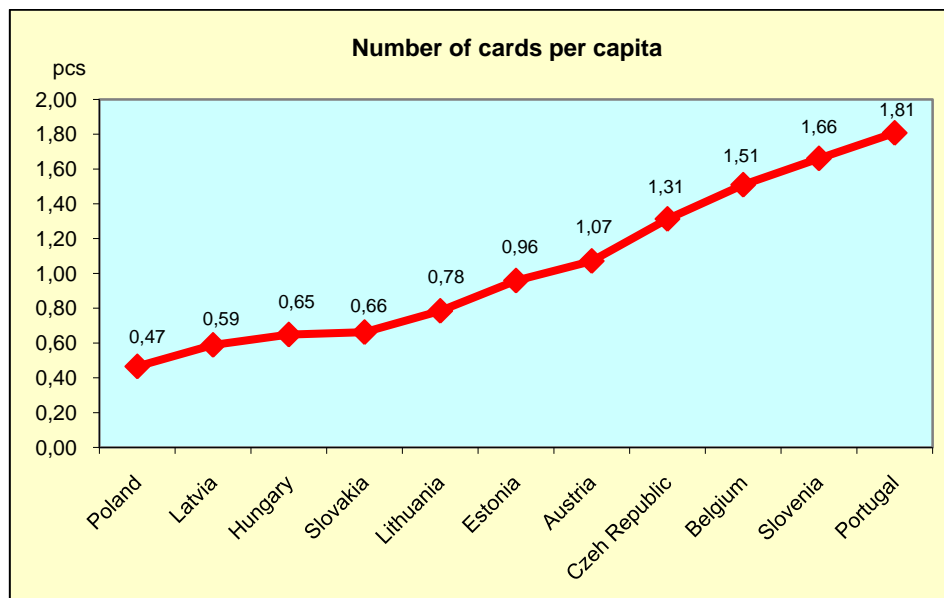
## International overview

In Western Europe the first bankcards were introduced during the 1960, while in Eastern Europe the bankcard business took off towards the end of the eighties and the early nineties.

The charts below contain figures concerning the bankcard sector in some Community Member States from Western Europe which are similar to Hungary in terms of population (Austria, Belgium, Portugal), and also in some Member States from the Central-Eastern-European region who joined the EU at the same time:

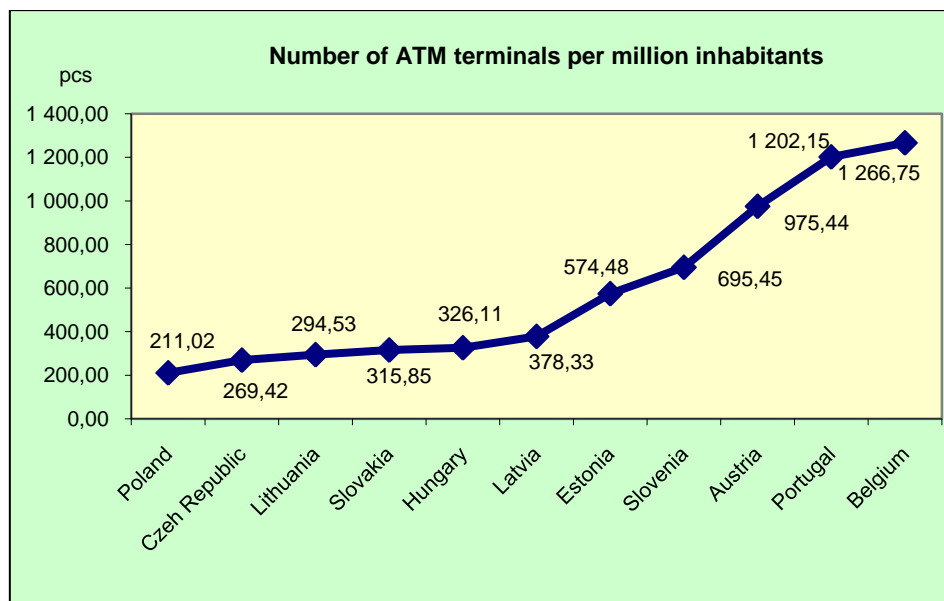
- number of cards per capita,
- number of ATMs per million inhabitants, and
- number of POS terminals per million inhabitants.

Source of the figures is the Blue Book published by the European Central Bank in March 2006, incorporating data for 2004.



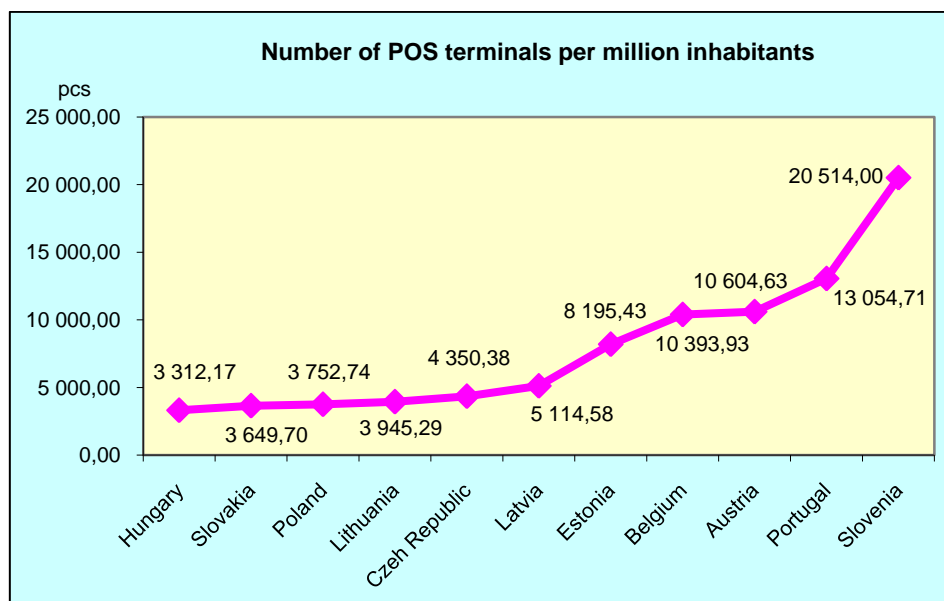
In the Central-Eastern-European region Slovenia and the Czech Republic are the only two countries where the number of cards per capita is over one, closing in and in some cases exceeding the average of the above-mentioned Western European countries.

Hungary is the sixth among the eight countries of the Central-Eastern-European region, ahead of Latvia and Poland. Five years before the analysed period Hungary was ahead of Lithuania, Latvia, Poland and Slovakia.



As for the number of ATMs per one million people the three Western European countries are far ahead of the Central-Eastern-European region, with Slovenia and Estonia rising above the rest. There were no changes to speak of in this ranking during the past five years.

In Hungary one positive occurrence that makes a slight difference in connection with these figures is that cash withdrawal using electronic identification (PIN) is also available in the POS terminals installed in bank branches and post offices during regular business hours.



Regarding the number of POS payment terminals per capita Hungary is the last among the countries referred to above, and this position did not change in the past five years.<sup>1</sup>

<sup>1</sup> For statistical purposes the Blue Book labels the mechanical devices used at retail outlets (also known as imprinters) as POS terminals. In connection Hungary it does not include the POS terminals installed in bank branches and post offices as electronic cash withdrawal facilities.

## I. Overall analysis of the bank issued payment card business

### 1. Characteristics of bank issued payment cards and changes in their number

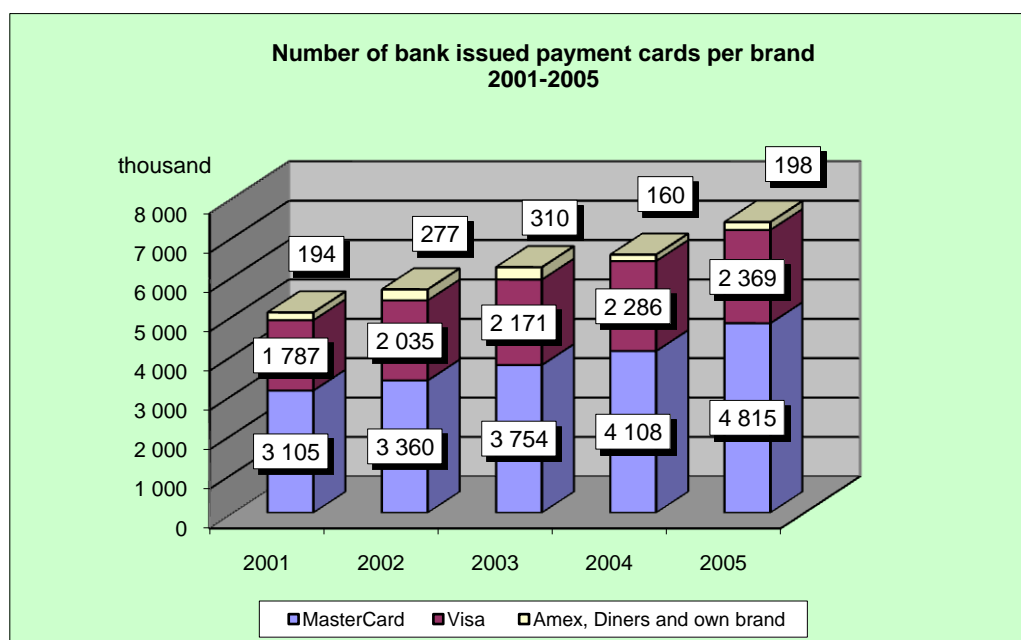
The number of payment cards is on a continuous rise in Hungary; at the end of the year 2005 with a total of 7.4 million cards issued by 22 banks and one financial enterprise. The table below indicates the figures for the past five years:

year	2001	2002	2003	2004	2005
number of cards/thousand	5,086	5,672	6,235	6,554	7,382
rate of growth	14%	12%	10%	4%	13%
number of cards per capita	0.50	0.56	0.61	0.65	0.73

**Table 1: Changes in the number of cards issued between 2001 and 2005**

As illustrated, after a brief setback in 2004, growth regained its momentum showing a two-digit growth rate once again. This, to some extent, is due to the fact that major issuer banks managed to further solidify their positions, and also that several banks with one or two hundred thousand cards in circulation show a growth rate of 40% or higher. The number of cards per capita has increased by 50% during the last five-year period.

Brand composition remained unchanged. Mutual card acceptance is based on the brands of two international card companies – MasterCard and Visa.



Debit cards<sup>2</sup> remain to dominate the Hungarian payment card market with a share of 81% (5,981 thousand cards); with another 5% (356 thousand cards) going to cards which are linked

<sup>2</sup> 'Debit card' means a payment card linked to a bank account, suitable for both cash withdrawals and purchases. The holder of the card may only withdraw cash or spend money for up to the amount of his bank balance, and the bank account is automatically debited with the amount of each transaction.

to a credit account but function as debit cards (no interest-free period). In comparison to last year the two together show a drop of 6%, due on the one hand that the cards formerly functioning with no interest-free period are gradually transformed into credit cards, and also that banks are beginning to turn their attention and place increasingly more emphasis on the credit card business. At this time there are twenty banks involved in issuing debit cards and six banks in issuing debit cards linked to a credit line.

The number of credit cards<sup>3</sup> has doubled since last year, it is now over one million (1,028 thousand), representing a share of 14%. This type of cards are offered by fourteen banks. The share of charge cards<sup>4</sup> remains below the one per cent level (18 thousand); it is offered by four banks and one financial enterprise only.

Certain types of cards are issued in collaboration with merchants (co-branded cards) or non-profit organisations (affinity cards). The number of these cards increased by 29% during the past year, nearing one million cards (980 thousand) toward the end of the year. There are eleven banks involved in issuing co-branded and affinity cards.

Similar to last year, the number of business cards used to cover business related expenses has grown by 17% (283,000), however, their share only amounts to 3.8%. The number of issuers is relatively high; nineteen banks and one financial enterprise.

The essence of traditional business cards lies in that the bank issues cards linked to the employer's account to the employee for covering expenses in connection with official business. Moreover, another practice that is rapidly gaining ground is the following: the employee orders a private bankcard linked to his/her personal account to cover expenses when going about the employer's business, which the employer is to reimburse subsequently based on the slips of the bankcard transactions. For statistical purposes these cards are treated as private cards, however, in reality they function as business cards.

The number of cards used exclusively for internet-purchase transactions, also known as virtual cards, has increased by time and a half, to 69,000 by the end of 2005. Five local banks offer cards, or card numbers that are accepted only by internet merchants for purchases of goods and services.

In reaction to the encouragement of international card companies<sup>5</sup>, and also in line with SEPA<sup>6</sup> objectives, from the domestic credit institutions, by the end of last year two have

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<sup>3</sup> 'Credit card' means a card linked to a credit line fixed earlier in a contract between the cardholder and the bank, which allows the holder to withdraw cash or make purchases up to the amount of the credit line. The credit granted can be settled in full at the end of the month or can be settled in part, with the balance taken as extended credit. The debt is interest free until the specified date, for the remaining amount, however, the cardholder has to pay interest. Cash withdrawal transactions, however, are not interest free, these are interest bearing just from the date of the transaction.

<sup>4</sup> 'Charge card' means a card that is distinguished from a credit card in that the credit line is not necessarily fixed (but may be) and the total debt should be settled by the end of the month.

<sup>5</sup> According to the regulations adopted by international card companies, losses from fraud in connection with transactions made in Europe shall be borne by the country that did not equip its cards with the chip, or that fails to provide for chip-reading in ATM and POS terminals; regardless if there is proof to evidence the negligence of the other party.

<sup>6</sup> SEPA (Single Euro Payments Area) = In connection with bankcards the aim is to enable customers to make payments in the euro area as securely, quickly and efficiently as payments within national borders. To this end, magnetic strips are to be replaced by the safer chips by 2010, or until the date accession for states within the euro zone.

commenced chip migration allowing the safer use of cards. By the end of 2005, 18% of cards were equipped with EMV<sup>7</sup> chips.

## 2. Cash withdrawal facilities and merchant acceptance points

### 2.1. Cash withdrawal facilities with bank issued cards

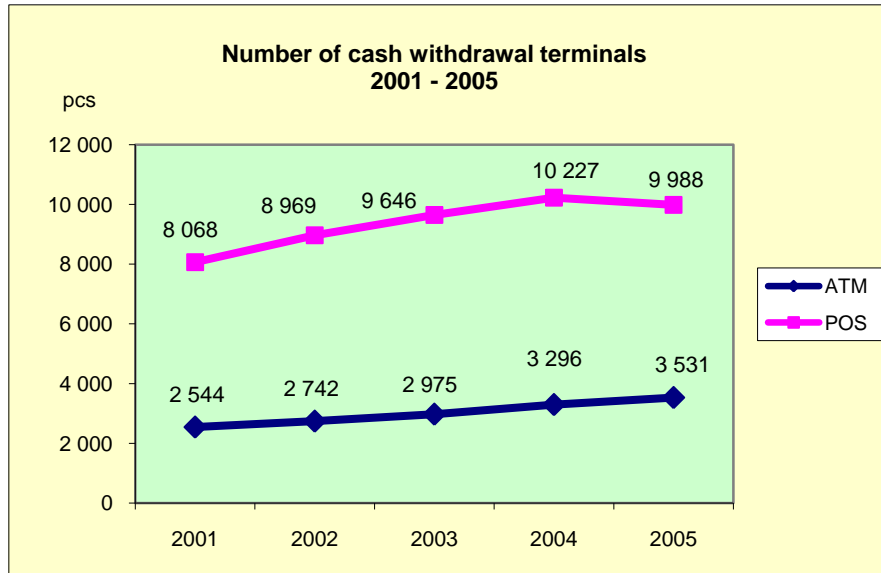
ATMs as well as POS terminals installed in post offices and in branches of the acquiring banks offer the possibility to withdraw cash electronically.

Of the 3,531 ATMs, 27% of the machines are located in Budapest, 24% in county seats and the rest are operated in other cities around the country. The number of terminals per capita is 350.

All of these terminals are suitable for cash withdrawals, and 1,501 of them are suitable to credit transfer too.

In light of the geographical disposition of ATMs, the role of the 9,988 POS terminals installed in post offices and bank branches is considered significant for they provide facility for electronic cash withdrawals at places where the operation of ATMs is not profitable.

The chart below illustrates the change in the number of ATMs and cash withdrawal POS terminals in the past five years:



The number of ATMs is constantly growing at a steady pace. The slight (2.5%) drop in the number of cash withdrawal POS terminals is considered only temporary on the one hand (because of reparation of branches), but on the other hand one bank terminated its cash withdrawal services in its smaller branches.

<sup>7</sup> EMV = Eurocard MasterCard Visa standard



The table below illustrates the number of cash withdrawal facilities available in the past five years:

	2001	2002	2003	2004	2005
number of ATMs per capita	249	269	293	326	350
number of cash withdrawal POS terminals per one million people	791	881	951	1011	989

**Table 2: Changes in the number of cash withdrawal facilities between 2001 and 2005**

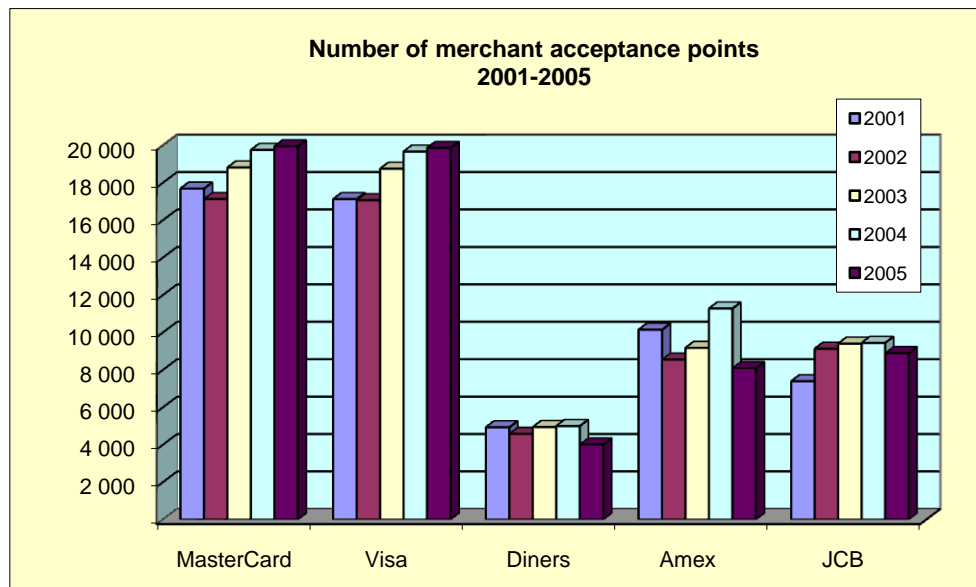
While the number of ATMs featuring 24-hour access to cash withdrawal facilities have increased by 40% in the past five years, the number of POS terminals with access limited to the regular business hours of banks and post offices have grown by 25%.

Regarding the chip migration noted under Clause 1, by the end of last year, 2% of POS terminals installed in bank branches were capable to accept chip cards. The appropriate migration of ATMs is yet to commence.

## **2.2. Payment facilities with bank issued cards**

Six credit institutions and one financial enterprise offer contracts for the acceptance of MasterCard, with five of them also for Visa cards. One bank is the acquirer for JCB and also one bank for Diners cards. The majority of merchants accepting Amex cards were transferred to a new acquiring bank.

The chart below indicates the number of merchant outlets where payments with card has been possible in the past five years:



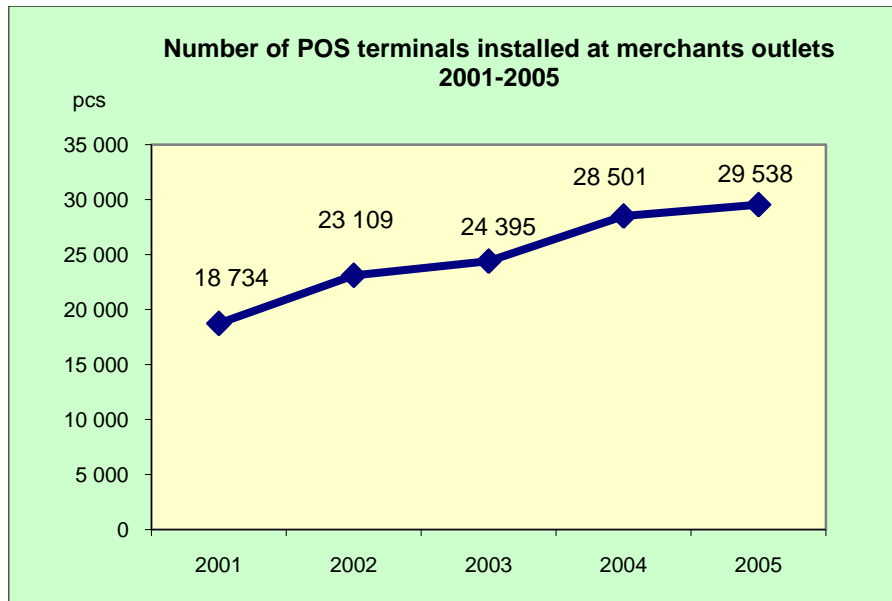
The number of retail outlets accepting Visa and MasterCard has increased only by 1% in the past year (Visa: 19,854; MasterCard: 19,941), partly due to a major acquiring bank's decision to cancel the contracts showing no transactions for an extended period of time. The 28% drop in the number of Amex acceptance points is blamed on the change in the acquiring bank, at this time Amex cards are accepted in 8,092 shops. Payments with Diners card are possible in 4,012 shops and JCB is accepted in 8,893 retail outlets.

In addition to physical acceptance points, there are virtual ones too offered by three credit institutions. The number of such merchants for Visa and MasterCard is 542, and only twenty for JCB. Similarly, three banks are committed to offer arrangements for merchants accepting mail or the telephone orders; payments are accepted at 512 locations if made by Visa or MasterCard, at 226 locations if made by Amex, and by 190 merchants if made by JCB.

There are 29,538 POS terminals operating in shops (4% more than in the previous year). With the exception of 19 devices, these operate with a zero floor limit (transactions have to be authorised without any value limit), which is greatly contributing to the safe use of cards. In case of any technical difficulties 1,129 imprinters make available card payments, however, they are in the process of gradual removal from circulation (73% reduction last year); all of these operate with a zero floor limit.

Regarding chip migration, 22% of POS terminals operating in the merchant outlets have been enabled for the reading of EMV chip cards at the end of the past year.

Changes in the number of POS terminals during the past five years are illustrated in the chart below:



In a few smaller retail outlets, where the number of bankcard payments is relatively low, cards are only accepted with imprinters for economic reasons. There are 489 such devices are still in service, with 5% operating with a zero floor limit.

The table below demonstrates the growth in the number of POS terminals per one million people during the past five years:

	2001	2002	2003	2004	2005
number of POS terminals in retail outlets per one million people	1,837	2,271	2,405	2,817	2,925

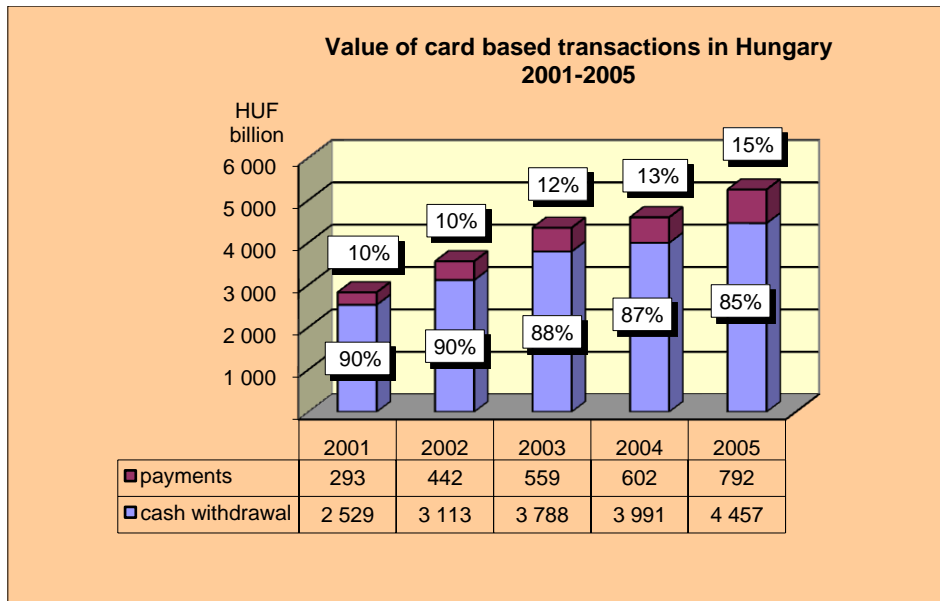
**Table 3: Changes in the number of POS terminals in retail outlets between 2001 and 2005**

### **3. Transactions conducted with bank issued payment cards**

#### **3.1. Hungarian and foreign issued card transactions in Hungary (acquiring turnover)**

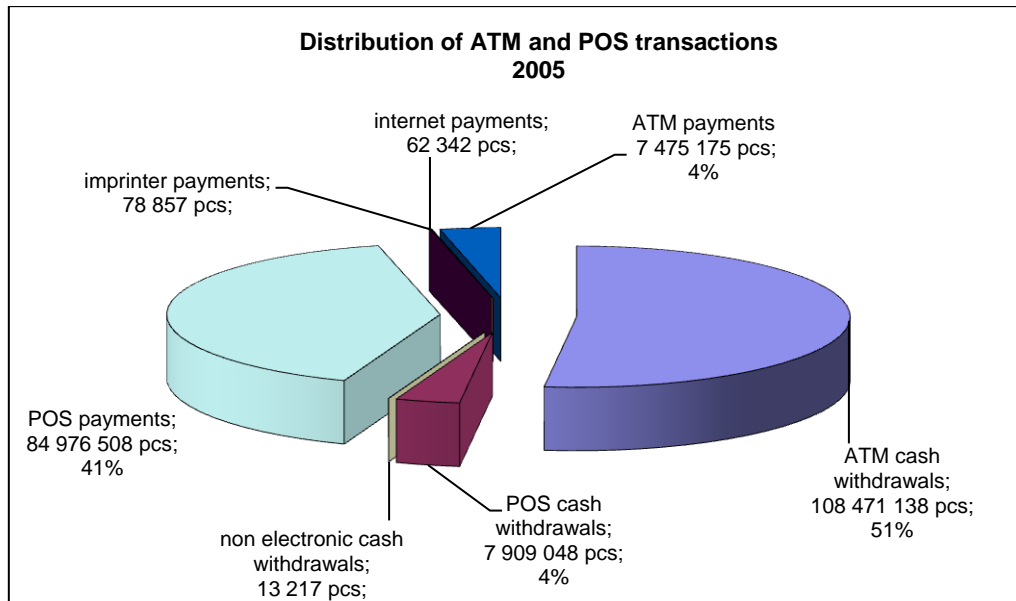
The number of domestic transactions conducted with cards comprises the aggregate of purchases made at merchant outlets located in Hungary, plus cash withdrawal transactions conducted through domestic ATMs and POS terminals. Domestic and foreign issued cards were used for 209 million transactions in 2005, in the value of HUF 5,249 billion. The rate of growth reached 8% in comparison to the previous year, and the value increased by 10%.

The chart below shows the developments in the value of card-based transactions, including cash advances and purchases, in Hungary, in the past five years:



It is clearly indicated that the proportion of purchases is on a steady rise, albeit at a moderate pace. Growth is more distinctive in respect of the amount; the total value of purchases made last year were 32% higher (HUF 792 billion) than in the previous year. The indicators showing the card use habits of foreigners in Hungary indicate that foreigners are more inclined to use their cards for purchases in the same environment than Hungarian cardholders; while the value of transactions (purchases and cash withdrawals) conducted with foreign cards within the entire acquiring turnover in Hungary accounts to only 4%, the same ratio in the value of purchases represents 15%.

The spread of purchases and cash withdrawals according to the number of transactions shows a significantly more favourable picture. The chart below shows how the 209 million purchase and cash withdrawal transaction is divided according to the type of acquiring equipment:



Cash withdrawal transactions continue to dominate, however, at a gradually declining rate; while in 2004, of every one hundred transactions 58 were cash withdrawals, the same figure was only 55 in 2005 (51 ATM and 4 POS transactions).

If the analysis is narrowed down to transactions conducted with foreign issued cards – in the same card acceptance network –, the rate is 36 cash withdrawals out of every one hundred transactions (two less than in the previous year). The difference is highly remarkable even in light of the fact that one's needs are different when travelling as oppose to everyday life. Further improvement may be achieved by the expansion of the network of merchant acceptance points and also by further building up the confidence of Hungarian cardholders in the payment instrument, and consequently, by changes in the payment habits.

The chart clearly indicates that most of cash withdrawals were conducted through 3,531 ATMs, with a fraction of cash withdrawals conducted through 9,988 POS terminals installed at post offices and banks. The number of non-electronic cash withdrawals is insignificant. The average rate of use of an ATM is 31,536 transactions/year (average of 91 transactions a day, up from 88 the previous year); the same figure equals 792 transactions/year in relation to POS terminals (average of 2 transactions a day, the same as last year).

Most of the purchase transactions comprised payments conducted through the 29,538 POS devices installed in retail check-out counters (240 transactions per POS on a monthly average). The percentage of both internet payments made through virtual POS terminals and payments by imprinters remain below one per cent. In terms of quantity the rate of mobile phone loading transactions through ATMs increased by one and a half million, reaching 4% within the entire domestic turnover (six out of every one hundred ATM transactions were mobile phone loadings).

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

In the past year, Hungarian cardholders used their cards on 203 million occasions in Hungary and abroad, in the value of HUF 5,220 billion.

The table below indicates the rise in turnover (by comparison to the preceding year) and the frequency of card use in the issuing business in the past five years:

year	2001	2002	2003	2004	2005
value of transactions / HUF billions	2,718	3,395	4,220	4,769	5,220
growth rate	22%	25%	24%	13%	9%
number of transactions (thousands)	120,174	141,998	163,571	182,214	202,951
growth rate	16%	18%	15%	11%	11%
frequency of card use (months)	1.97	2.09	2.19	2.32	2.29

**Table 4: Card turnover and frequency of card use between 2001 and 2005**

The figures clearly indicate that both the number of transactions and their value rises each year, albeit at a slowing pace. In terms of the rate of developments in the past five years, the figures indicate an increase in the number of cards by a factor of close to one and a half, the value and the number of transactions conducted with them increased, respectively, by 92% and 70%. On the other hand, the average monthly card use – according to last year’s figures – shows a setback after showing signs of slow growth in the previous years. Improvements in this situation may be achieved by the expansion of the network of merchant acceptance points, however, the customers’ payment habits will also have to be changed. The latter may be accomplished by educating Hungarian cardholders and further building up their confidence in bankcards as a reliable payment instrument. There is some progress in this area, such as the adoption of consumer protection regulations in harmony with European Union directives<sup>8</sup>, improvements in bank facilities and practices for enhancing the security of card use (chip migration, regular improvements in monitoring systems, transaction confirmation by follow-up SMS), however, the positive impact of these measures should have to be better conveyed to the customers.

Looking into the transactions conducted in Hungary with cards of domestic issue within the total domestic issuing turnover, and only from the standpoint of cashless payments i.e. trends in domestic retail purchases, the table below reveals the following picture:

year	2001	2002	2003	2004	2005
value of purchases/HUF million	219 979	316 388	428 192	539 439	658 281
growth rate	39%	44%	35%	25%	22%
number of transactions (thousand)	27,308	39,357	53,202	66,760	81,696
growth rate	40%	44%	35%	26%	22%
average transaction value	8,055	8,039	8,048	8,080	8,058
growth rate	-1%	0%	0%	0%	0%
consumer price index (annual average)	9.2%	5.3%	4.7%	6.8%	3.6%
frequency of card use/month	0.45	0.58	0.71	0.85	0.92

**Table 5: Volume of card purchases and frequency of card use between 2001 and 2005**

The number and value of purchases is rising, although at a slowing pace, at a faster rate than the rate of growth in the overall sector (see preceding table). The value and number of purchases have tripled in the past five years.

<sup>8</sup> The provisions of Government Decree 232/2001 (XII. 10.) Korm. on Monetary Circulation, Financial Transaction Services and on Electronic Payment Instruments pertaining to liabilities.

Five years ago, a card was used on the average once in every two months for payment for purchases, whereas last year, in contrast, a card was used once a month, which also reflects the positive changes that have taken place in recent years.

The average transaction value remained roughly similar for the past five years. This leads us to conclude that an increasing number of purchases of small value are conducted with a cashless payment instrument.

## II. Cards issued by non-bank institutions

### Fuel cards

In Hungary five fuel companies (Agip, Esso, Mol, OMV, Shell) issue cards for use within their own network for purchases of fuel and other goods available in their shops.

The table below contains consolidated figures for the past five years:

year	number of cards	transaction conducted with cards of domestic issue				transaction conducted with cards of foreign issue	
		in Hungary		abroad		in Hungary	
		number of transactions	value of transactions (HUF M)	number of transactions	value of transactions (HUF M)	number of transactions	value of transactions (HUF M)
2001	393,450	10,634,853	135,313	637,000	11,000	192,000	2,000
2002	398,893	11,324,270	136,863	750,806	13,682	263,836	8,772
2003	415,925	11,216,265	137,860	748,014	16,403	182,787	2,329
2004	476,836	12,362,179	160,485	1,410,377	31,073	184,718	2,776
2005	520,619	12,531,547	189,669	1,972,030	47,877	306,138	6,264

**Table 6: Changes in the number of fuel cards issued and the volume of transactions between 2001 and 2005**

The number of cards issued rose by a total of 32% in five years, to over half a million by the end of 2005; 19% of them are pre-paid cards, and the rest are pay later cards.

On the average pay later cards are used in Hungary 2.42 times per month, whereas pre-paid cards are used 0.24 times a month. Hungarian cardholders used their fuel cards abroad 0.32 times a month on the average for purchasing fuel.

The average value of transactions for pay later cards is HUF 15,296 and HUF 8,400 for pre-paid cards. The average value of fuel purchases made by Hungarian cardholders abroad is HUF 24,278.

The average value of fuel purchases made in Hungary with foreign cards is HUF 20,461.

The number of cards rose by 9% in one year and the value of turnover transacted with these cards exceeded that of the previous year by 18%. In relation to the 14.5 million fuel purchases, HUF 238 billion was spent by car owners in the past year in Hungary and abroad.

Foreigners fuelled up on 306,000 occasions in Hungary (65% more than in the previous year), in the total value of HUF 6 billion, more than double of the value of transactions in 2004.

Fuel cards are accepted at 977 petrol stations of five different fuel companies, notably at 1,365 POS terminals (an increase of 9% in one year) and 519 imprinters (14% more than the year before).