



REPORT ON INSURANCE, FUNDS, CAPITAL MARKET RISKS AND CONSUMER PROTECTION



2025



**REPORT ON INSURANCE, FUNDS,
CAPITAL MARKET RISKS
AND CONSUMER PROTECTION**

2025

Published by the Magyar Nemzeti Bank

Publisher in charge: Milán Farkas

H-1054 Budapest, Szabadság tér 8–9.

www.mnb.hu

ISSN 2939-7898 (on-line)

Pursuant to Act CXXXIX of 2013 on the Magyar Nemzeti Bank, the MNB supervises the financial intermediary system in order to ensure, amongst other things, the smooth, transparent and efficient functioning of the financial intermediary system, to foster prudent operations, to identify undesirable business and economic risks, to protect the interests of users of financial services and to strengthen public confidence in the financial intermediary system. In alignment with these tasks and in accordance with Article 135 (2) of the MNB Act, the MNB has prepared this risk and consumer protection report, which presents the key characteristics and risks of insurance companies, funds, intermediaries, non-banking group entities and the markets of capital market participants. The purpose of the 'Report on Insurance, Funds, Capital Market Risks and Consumer Protection' is to inform the public and the institutions in the financial system in relation to current prudential and consumer protection issues, thereby raising risk awareness and maintaining and strengthening confidence in the financial system. With its regulatory activities aimed at identifying and mitigating risks, as well as its awareness-raising and educational activities and its work to promote the development of Hungarian financial literacy, the Magyar Nemzeti Bank intends to ensure that appropriate information is available to stakeholders for decisions affecting financial institutions and products, thus strengthening the stability of the financial system as a whole.

Contents

Executive summary	7
1 Macroeconomic Environment and Developments In Household Savings	9
1.1 International and Domestic Macroeconomic Trends	9
1.2 Evolution of Household Savings	13
2 Insurance Market and Associated Risks	16
2.1 Overall Market Situation	16
2.2 Life Segment	27
2.3 Non-Life Segment	34
2.4 Profitability and Capital Position	40
2.5 Insurance Market Risks	45
3 Funds Market and Associated Risks	47
3.1 Overall Market Situation	47
3.2 Voluntary Pension Funds	49
3.3 Health and Mutual Aid Funds	62
3.4 Risks in the Funds Market	69
4 Consumer Protection Risks in The Insurance and Pension Funds Markets	71
4.1 Robust Consumer Protection	71
4.2 Life Insurance Products	72
4.3 Non-Life Insurance Product	81
4.4 Presentation of Phenomena Affecting the Insurance and Fund Market in 2024	88
4.5 International Current Events	92
5 Intermediaries and Associated Risks	95
5.1 Insurance Intermediaries	95
5.2 Money Market Intermediaries	101
6 Non-Bank Financial Enterprises and Associated Risks	104
6.1 Market Presence	104
6.2 Growth in Equity and External Financing	105
6.3 Moderately Increasing Receivables	106
6.4 Stagnant Profitability	107
6.5 Rapidly Expanding Corporate Loan Portfolio	108

6.6 Continued Growth in the Leasing Market	109
6.7 Continued Decline in Factoring Portfolios Acquired for Receivables Management	111
6.8 Consumer Protection: Continuous Supervisory Activities Remain a Key Focus	111
7 Capital Market and Associated Risks	113
7.1 Investment Services Market: Turnover and Assets Under Management	114
7.2 Regulated Market	120
7.3 Risks Affecting Investment Firms	123
7.4 Fund Management Market and Risks in Relation to Investment Fund Managers	129
7.5 Supervision of Issuers and Market Oversight	138

Executive Summary

In terms of the **macro environment**, real wages continued to rise in 2024, accompanied by growth in household consumption. The decline in the Hungarian forint risk free rate of return (Risk Free Rate – RFR) came to a halt in 2024, but the previously inverted yield curve returned to normal by the end of 2024. By end-2024, the gross wealth of households, including financial assets and housing, exceeded HUF 193,000 billion, an increase of 14.6 percent compared to the previous year. Life insurance and pension fund reserves, and government bond and equity investments grew at double-digit rates in 2024, while investment fund shares grew at an outstanding rate of 30 percent. Overall, Hungarian households still appear to prefer cash and government bonds compared to other European Union member states.

Premium income in the **insurance sector** was significant again in 2024, reaching HUF 1,695 billion, with an increase of 12.4 percent, and together with the earned premiums of branches, it reached HUF 1,843 billion. Non-life insurance premium income grew at a rate of 13.2 percent. The value of domestic insurers' total fixed assets also rose substantially in 2024, expanding by 12 percent. Although profit after tax almost doubled compared to 2023, advancing to HUF 48 billion, it still fell far short of the levels of more than HUF 80 billion seen prior to the surtax. On an accounting basis, this yields an ROE of 11.1 percent, but on a Solvency 2 basis, which is more relevant for economic risk capital, the figure is only 5.4 percent. At the end of 2024, the sectoral capital adequacy ratio was 196 percent, almost twice the level required by the relevant legislation.

The **voluntary pension fund sector** achieved an average net return of 13.8 percent in 2024, with the coverage reserve thus rising to a record level of HUF 2,238 billion, thanks to the positive investment result and positive cash flow. The total amount of membership fees and tax credits grew by 12.6 percent to HUF 165.1 billion, while payments declined by 6.6 percent to HUF 130.2 billion. The sector remained profitable in 2024, with adequate operating coverage. The number of members, at 1.075 million, increased by 1,400 in 2024. Despite the positive developments, however, risks remain. Pension fund payments may increase significantly, due to the possibility of using supplementary services for real estate purposes.

The revenues of **health and mutual aid funds** increased by 20.4 percent to HUF 102.5 billion in 2024, while benefit payments rose by 20 percent to HUF 98.1 billion compared to 2023. Of the payments, 91 percent continue to be for the purchase of health services, medicine and medical equipment. The number of members in the sector increased by 63,000 to 1,187,000 in 2024. The number of members grew by 165,000 between 2020 and 2024. Operating income was positive again, with an adequate level of reserves. The expansion of the range of available PIT allowances may represent a risk with regard to supplementary pension and health savings that are supported by tax allowances, possibly weakening the motivation of the savers concerned.

In the field of **insurance consumer protection**, the first home insurance campaign was a noteworthy development in 2024: the primary goal was to stimulate competition and thus improve value for money. Looking at 2024 as a whole, about 900,000 clients renewed their contracts, marking an increase of roughly 250,000–300,000 compared to the average seen in prior years. In September and December 2024, the elements of the so-called Ethical Insurance 2.0 regulatory package were issued. Among other things, the aim of the four recommendations and one amendment to an MNB Decree was to improve low customer value. As a result of the MNB's thematic review of credit protection insurance, it was found that incomplete compliance with product oversight and governance (POG) rules meant that customer protection functions were not being adequately enforced, which, among other things, resulted in products with low value for money.

Intermediaries closed 2024 with positive results. In the case of insurance intermediaries, in contrast to the decline seen in previous years, the number of intermediaries showed a positive turnaround and stagnated, accompanied by an increase of more than 10 percent in the number and value of contracts per capita. This was somewhat overshadowed by the deterioration in the ratio of life and non-life insurance products, with 90 percent of insurance premiums exceeding HUF 300 billion now originating from non-life insurance. The year under review featured outstanding results for money market

intermediaries, with commission income increasing by more than 50 percent and approximately 200,000 intermediated loan agreements.

The total assets of **non-bank financial enterprises** continued to rise in 2024. The raising of external (non-equity) funding increased significantly compared to the previous year (from 4 percent to 11 percent). The share of funding from credit institutions (domestic and foreign) remained high at 40 percent. The equity – even if the scales are different – has been showing a continuous increase nominally since 2021, the capitalisation rate amounts to 17 percent. Receivables from customers expanded by 10 percent, driven by an increase in credit and loan operations (+16 percent) and in the volume of financial leasing (+9 percent), while factoring (current and work-out) and other receivables contracted. In terms of after-tax profit, there was only minimal growth nominally in 2024 compared to 2023, while profitability based on the return on equity declined to a moderate extent.

In the **capital markets, investment service providers** recorded total capital market turnover of HUF 1,316.1 trillion: the increase of 14.3 percent was mainly due to the growth in credit institutions' spot turnover. Strong turnover growth of around 24.5 percent was registered for the Budapest Stock Exchange, supported by the performance of both markets in spot and derivative trading. The composition and ranking of the top three most-traded stocks remained unchanged. The high concentration of the equity market continued to decline, reflecting an increase in small cap turnover. In 2024, the stock of client securities continued to grow dynamically, expanding by approximately 17.1 percent. Investment firms, which exhibit excellent capital adequacy, posted profit after tax of HUF 30.1 billion, down nearly 47 percent compared to last year's record-setting figure.

Investment fund managers recorded assets under management amounting to HUF 23,621 billion, up 21.8 percent versus the previous year. This robust growth can be essentially attributed the sharp rise in the net asset value of investment funds, which reached HUF 18,432 billion, mainly due to capital inflows into bond absolute return funds, mixed funds and money market funds. The stock of public real estate funds and the ratio of liquid assets and real estate to total net asset value at public real estate funds remained largely unchanged. The profit after tax of investment fund managers increased by nearly 51 percent, in line with the growth in assets under management.

As part of the supervision of capital market consumer protection, investigations initiated on request focused on how service providers handled complaints raised by specific consumers and information provided regarding the terms and conditions of the service used. These target investigations identified individual consumer protection deficiencies at the investment service providers concerned, in relation to the consumers who initiated the investigation; nevertheless, no issues were found regarding the service providers' practices concerning the provision of information in general or the handling of complaints, or sector-level consumer protection risks.

1 Macroeconomic Environment and Developments in Household Savings

1.1 INTERNATIONAL AND DOMESTIC MACROECONOMIC TRENDS

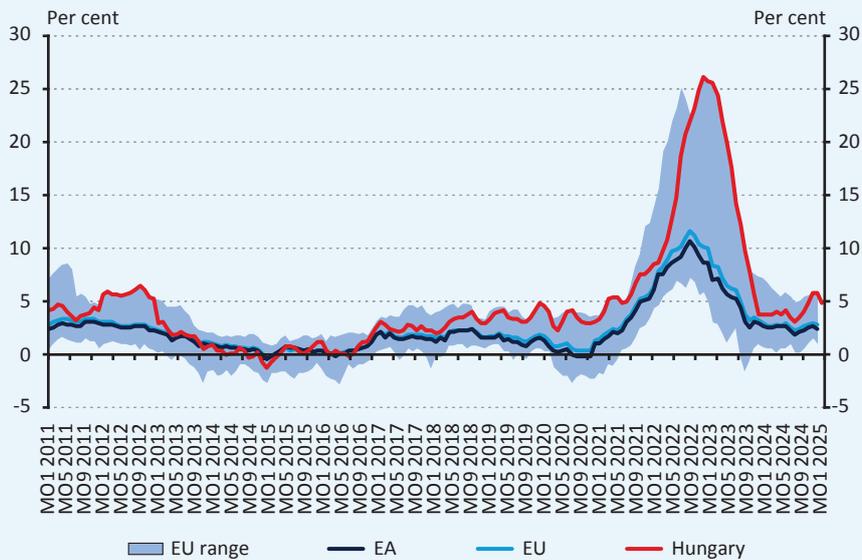
1.1.1 Global and domestic disinflation came to a halt

The decline in global inflation came to a halt in autumn 2024. In two-thirds of the 38 OECD member countries – i.e. in 25 countries – disinflation came to an end or reversed between September 2024 and March. In 21 of the 27 member states of the European Union, the pace of price increases accelerated compared to September. Inflation in the euro area dropped to 1.7 percent by September 2024 and then began to rise again in the following months, reaching 2.2 percent in March 2025. Disinflation ended in a wide range of product categories last year. Inflation in market services ranged between 3.7 percent and 4.1 percent in the euro area throughout 2024, before falling to 3.5 percent in March 2025. More than two-thirds of euro area inflation in March was attributable to market services. With the exception of Czechia, the pace of price increases accelerated in all of the regional countries after autumn 2024. In March, the harmonised consumer price index stood at 4.8 percent in Hungary, 4.4 percent in Poland, 4.2 percent in Slovakia and 2.7 percent in Czechia.

The generally tense geopolitical situation and uncertainties related to the tariff war are significantly impacting global commodity prices. The price of Brent crude oil fell to around USD 63–67 in April from USD 70–75 between February and March. In 2025 Q1, European gas prices were more volatile than last year, due to cold winter weather, uncertainties in supply chains, declining reserves in European gas storage facilities and the generally tense geopolitical situation. The global market price of gas was around EUR 35/MWh in mid-April, following a decline from a nearly two-year high of EUR 58 in mid-February.

Disinflation in Hungary came to a halt in September 2024, followed by a renewed rise in inflation until February (Chart 1.1). Since December 2024, the consumer price index has been outside the central bank's tolerance band, with consumer prices rising at a year-on-year rate of 4.7 percent in March 2025. The rate of repricing at the beginning of the year was above the historical average for industrial goods, market services and food. Disinflation in market services came to an end in early 2025, with inflation in this segment accelerating from 8.2 percent in December to 9.9 percent in February, before retreating to 8.6 percent in March. The acceleration in the rate of price increases for market services in January and February was mainly due to high repricing at the beginning of the year. The increase in food inflation was caused by the gradual pass-through of global food commodity prices, which have been rising since March 2024, to consumer prices, which was partially offset in March by the price-reducing effect of profit margin caps on certain foods.

Chart 1.1
Annual change in the Harmonised Index of Consumer Prices



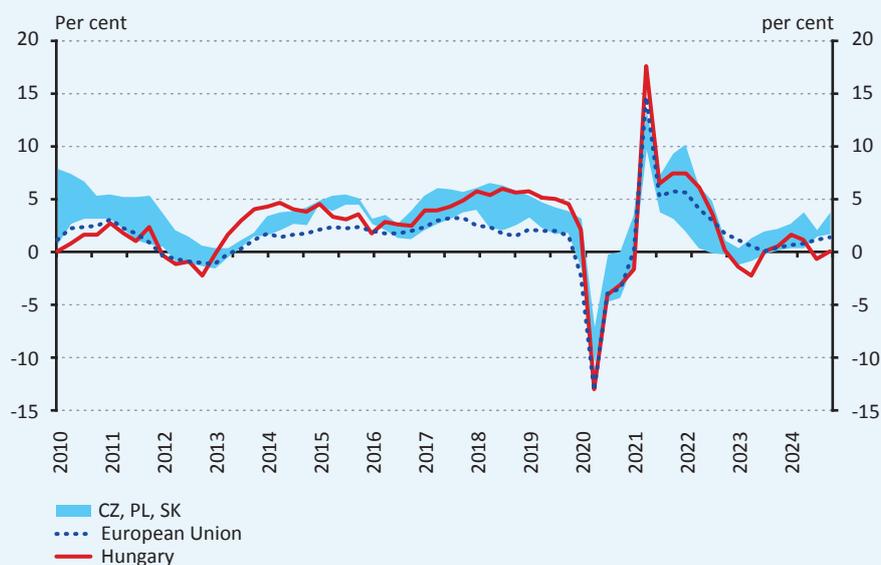
Source: Eurostat.

1.1.2 Continued growth in Hungarian household consumption, in line with favourable income trends

In the European Union, the announced increases in spending programmes may lead to a rebound in economic growth, which has been subdued for years, but intensifying trade policy tensions are causing uncertainty in the global economic environment and having a significant negative impact on the real economic outlook. In 2024 Q4, economic growth of 2.5 percent was recorded in the United States and 5.4 percent in China. European Union GDP rose at year-on-year rate of 1.4 percent in 2024 Q4, showing acceleration compared to the previous quarter. The GDP of Germany, Hungary's main trading partner, declined by 0.2 percent versus 2023 Q3. In early March, Germany and several other EU Member States announced significant increases in their budgetary expenditure, which may support recovery in the European economy. Among the countries in the region, GDP grew in Poland (+3.7 percent), Czechia (+1.8 percent) and Slovakia (+1.7 percent) on a year-on-year basis.

Based on raw data, Hungary's gross domestic product expanded at a year-on-year rate of 0.4 percent in 2024 Q4. Compared to the previous quarter, domestic GDP grew by 0.6 percent based on seasonally and calendar-adjusted and balanced data, thus restarting the expansion of the domestic economy after two quarters of contraction. In 2024, household consumption expenditure grew dynamically by 5.1 percent in line with rising real wages, as consumption increased in all product groups compared to the previous year. In 2024 H1, consumer confidence improved, but this came to a halt in the second half of the year. A significant decline of 11.1 percent was observed in investments in 2024. The year-on-year decline continued in sectors producing for both the domestic and export markets. The investment activity of companies producing for foreign markets, primarily in the manufacturing sector, was constrained by the subdued European economy. Low business confidence had a negative impact on corporate investment. Exports declined to a lesser extent than imports in the previous year, resulting in a positive contribution to growth from net exports. The major capacity expansion investment projects underway in industry in recent years are expected to start production at the end of 2025 and in 2026.

Chart 1.2
Annual change in quarterly GDP



Note: Based on seasonally and calendar-adjusted data.

Source: Eurostat.

Following a significant correction in 2023, the current account surplus continued to rise in 2024, reaching 2.2 percent of GDP. The improvement in the current account balance was driven by a more favourable energy balance, due to lower energy prices at the beginning of the year, declining investment and a smaller income balance deficit. Another factor in the trade balance, namely the surplus on the services balance as a percentage of GDP, remained roughly unchanged, while the upturn in household consumption contributed to a decline in the balance of goods. The surplus on the transfer balance remained modest, with EU transfer inflows continuing to shrink in the previous year. In line with the significant surplus on the current account, the external financing capacity calculated from the real economy side amounted to 2.6 percent of GDP. In 2024, the accrual deficit-to-GDP ratio of the general government fell to 4.9 percent, with the primary balance close to equilibrium for the first time since 2019. As a result of the previous high inflation environment, government interest expenditure continued to grow, approaching 5 percent of GDP in 2024, thus placing a heavy burden on the budget last year as well.

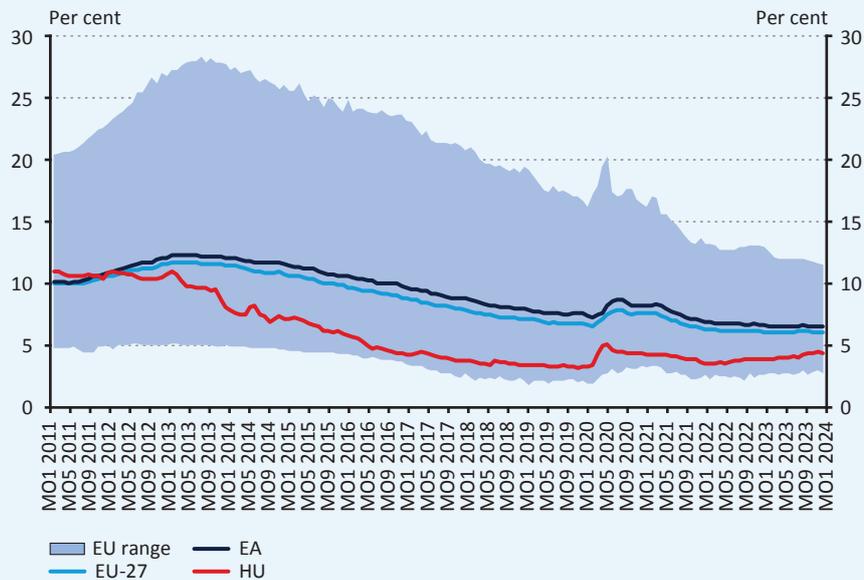
1.1.3 Easing tightness on the domestic labour market, despite high employment

The Hungarian labour market remains stable, but there were signs of adjustment to economic slowdown in 2023 and 2024. The number of persons employed in the national economy declined moderately in 2024 H2, but rose again at the beginning of 2025 based on seasonally and calendar-adjusted data, and is still historically high. The unemployment rate stood at 4.4 percent between December 2024 and February 2025, which remains favourable by international standards.

Labour market tightness, however, is easing. The adjustment to weaker economic conditions in the previous two years has been reflected in a decline in job vacancies, an easing of labour market tightness and lower hours worked.

The labour market in the European Union is characterised by heterogeneity. In Spain, the unemployment rate remains in double digits, while in Czechia the proportion of unemployed persons within the active population was only 2.7 percent in February 2025, and 2.6 percent in Poland. In the same month, the unemployment rate in the euro area stood at 6.1 percent.

Chart 1.3
Unemployment rates in the European Union



Note: Seasonally adjusted data.

Source: Eurostat, HCSO, MNB calculations.

Real wages continued to rise in 2024. Starting from September 2023, real earnings began to increase again. In 2024, gross average wages grew by 12.1 percent in the private sector, representing an 8.1-percent increase in real wages. Average wages (excluding bonuses) rose by 10.2 percent in the private sector in January 2025, indicating that wage developments remain strong.

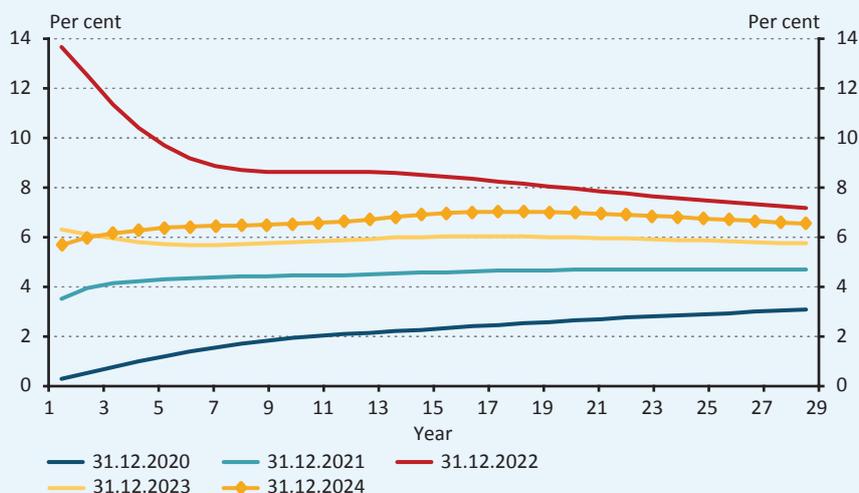
1.1.4 Moderately rising yield environment

The increased yield environment due to macroeconomic developments poses a significant risk to the Hungarian insurance sector. On the one hand, it causes a devaluation of insurers' assets, and on the other hand, the impact of yield changes is also reflected on the liabilities side. A rise in the risk-free yield curve (Risk Free Rate – RFR), which is a key determinant for reserve calculation, may reduce the S2 provisions of the institutions through the discount effect, and thus also their liabilities. This may increase the available own funds of insurers, which in itself may have a positive effect on capital adequacy. At the sector level, a significant portion of insurers' non-unit-linked assets is invested directly in government bonds.

The risk-free rate (RFR) of the Hungarian forint has undergone significant changes in recent years: 2020 was still characterised by a low yield environment, but in 2021 the rate moved upwards, reaching its peak at the end of 2022 Q3. In 2023, it shifted downwards over the entire time horizon, while the inversion of the curve decreased significantly, i.e. it became flat. The downward trend continued over the short term in 2024, in line with the MNB's interest rate policy, but due to long-term inflation expectations and international factors, over the long term we can observe an increase again (which will not reach the 2022 level), and the shape of the yield curve will return to normal in 2024.

The RFR is calculated on the basis of government bond yields with maturities of 1–15 years, as these meet the criteria for depth, liquidity and transparency. From this last observation point, the curve is calculated by extrapolation to the Ultimate Forward Rate (UFR). The value of the UFR is influenced by two factors: the inflation targets of central banks and real interest rates. As a result, the value of the UFR for the forint fell to 4.35 percent in 2024. The decline continued in 2025, with the normative UFR falling to 4.2 percent, and it is expected to remain at this level in 2026.

Chart 1.4
Shift in the risk-free yield curve of the forint



Source: EIOPA.

1.1.5 Changes in the sovereign debt market

Thanks to falling global inflation and favourable economic developments, investor sentiment remained positive for most of the year. However, particularly in the second half of the year, increased geopolitical tensions and uncertainty surrounding the monetary policies of developed central banks elevated the risks and, as a result, long-term financing costs rose as well. The cycle of interest rate cuts by major central banks in the latter half of the year pushed short-term interest rates down, while long-term yields rose, especially as the aforementioned risks intensified. The yield on German 1-year government bonds fell by 100 basis points over the span of one year, while the 10-year yield rose by nearly 50 basis points. Among US government bond yields, the 1-year yield fell by 90 basis points, while the 10-year yield remained largely unchanged after expectations for the US economy deteriorated in the second half of the year. Yields on short-term government bonds in the region were mixed, with Hungarian and Czech yields falling by around 125 basis points, while Romanian and Polish short-term yields rose overall. Long-term yields moved higher across the region, with the Hungarian 10-year yield increase of 50 basis points in line with the regional average. Secondary market government bond turnover slowed somewhat in 2024 versus the previous year, but market liquidity remained above the historical average for most of the period. Average daily turnover was around HUF 354 billion, compared to HUF 438 billion in the previous year. Most of the trading took place at maturities longer than five years, but turnover declined somewhat at all maturities relative to the previous year. In terms of government securities holdings held by major sectors, credit institutions increased their HUF-denominated government securities holdings by HUF 2,107 billion in 2024, while the non-resident sector reduced its holdings by HUF 1,142 billion.

1.2 EVOLUTION OF HOUSEHOLD SAVINGS

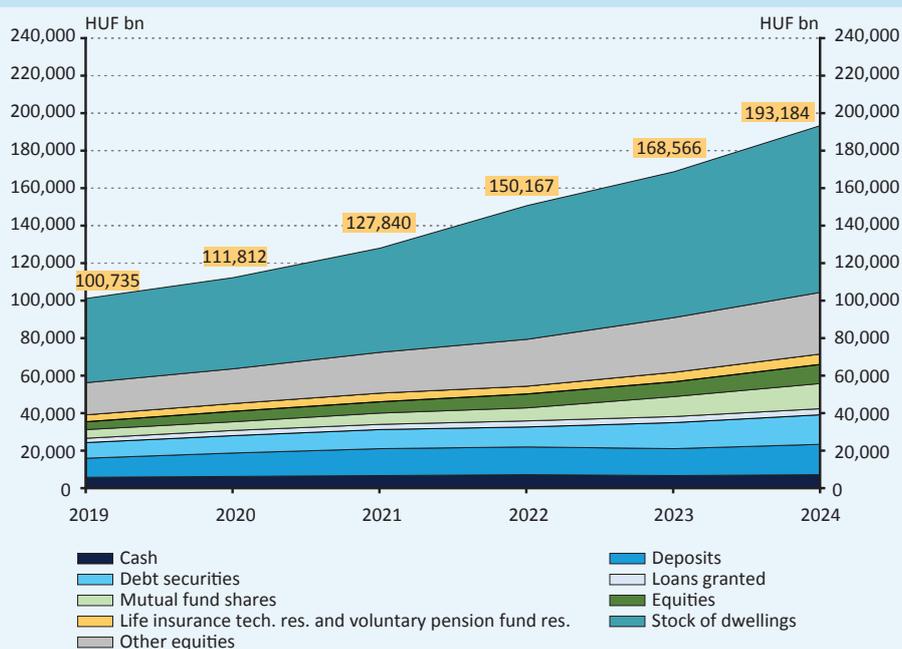
1.2.1 Life insurance and pension fund reserves grew faster than inflation in 2024

By the end of 2024, the gross wealth of households, including financial assets and housing, exceeded HUF 193,000 billion, showing an increase of 14.6 percent compared to the previous year (Chart 1.5). This growth in assets significantly exceeded the 4.6-percent inflation rate at the end of 2024. Over the past year, the increase in the value of stock of dwellings, equities and equity holdings, investment fund shares, deposits and debt securities made the largest contribution to the asset growth (a total of HUF 23,081 billion, accounting for 94 percent of the total increase).

The most dynamic growth was observed in investment fund shares (30 percent), but equities (19 percent) and technical reserves and fund reserves (15 percent) also grew above average. In addition to purchase transactions, price increases resulting from lower yields and higher equity prices played a significant role in the expansion of these asset groups. At the same time, the growth rate of the stock of dwellings was average, while that of other financial assets was below average.

In the case of life insurance and voluntary pension fund reserves, which play a role in long-term wealth accumulation, premium income grew at a rate exceeding inflation, relative to the previous year. The level of premium and commission reserves increased significantly, due to income from investment activities and revaluation gains. This asset category accounted for 2.8 percent of total household assets and 5.3 percent of financial assets.

Chart 1.5
Changes in gross household wealth



	2024 (HUF bn)	2024 (distribution %)	2024/2023 (change %)
Wealth	193,184	100.0%	14.6%
Stock of dwellings	89,287	46.2%	14.5%
Other equities	32,870	17.0%	12.5%
Life insurance technical reserves and voluntary pension fund reserves	5,505	2.8%	15.1%
Equities	9,899	5.1%	19.1%
Investment fund shares	13,551	7.0%	29.9%
Loans granted	3,575	1.9%	9.9%
Debt securities	15,548	8.0%	12.1%
Deposits	15,991	8.3%	12.4%
Cash	6,958	3.6%	7.6%

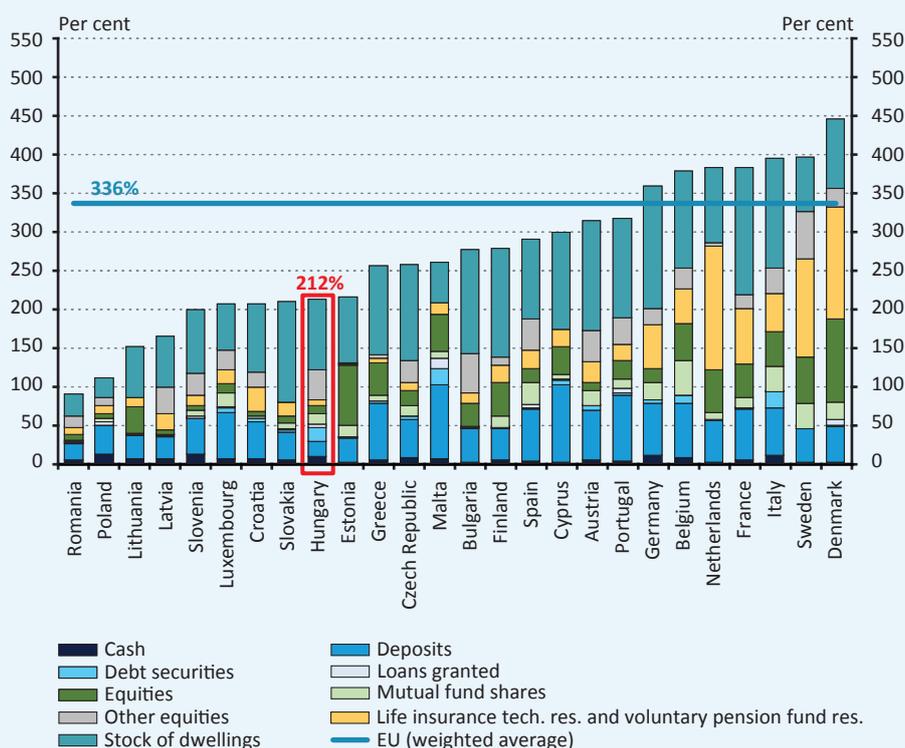
Note: Housing stock data for 2023 and 2024, MNB estimates.

Source: HCSO, MNB.

1.2.2 Compared to other EU Member States, Hungarian households still prefer cash and government bonds

The gross wealth of Hungarian households, including financial assets and stock of dwellings, amounted to 212 percent of GDP at the end of 2023 (Chart 1.6), placing it at the boundary between the lower and middle thirds of European Union countries according to Eurostat data. Average gross household wealth in the EU, calculated as the GDP-weighted average of the Member States, was 336 percent, up slightly compared to the figure of 328 percent recorded for 2022. The average gross household wealth of the other regional countries (Czechia, Poland and Slovakia) amounted to 160 percent of GDP. Thus, as a share of GDP, household wealth in Hungary is higher than in countries with similar levels of development, according to statistical data. At the same time, compared to the Visegrád countries, Western European countries (e.g. Denmark, Sweden, Italy, France) continued to exhibit significant surpluses (these four countries had the highest values in the EU at the end of 2023, averaging 392 percent). In terms of GDP shares by asset category, Hungary ranked third after Malta and Italy for debt securities (mainly sovereign debt instruments). Hungary was also among the leaders in holdings of cash and other equity. Domestic households ranked in the middle in terms of investment fund shares (ranked 12th) and housing (14th). By contrast, Hungary was ranked at the bottom of the field in terms of deposits, insurance technical provisions, voluntary pension fund reserves and equities (ranking 26th, 25th and 19th in 2023, respectively, out of the 26 countries reviewed). At the stock level, overall, Hungarian households appear to prefer government bonds, cash, and, more recently, investment fund shares, compared to other EU Member States, while investing less in equities, deposits, life insurance and pension funds.

Chart 1.6
Gross wealth of EU households as a percentage of GDP at the end of 2023



Note: Stock of dwellings data for 2022.

Source: Eurostat.

2 Insurance market and associated risks

2.1 OVERALL MARKET SITUATION

2.1.1 Growing market size

Institutional structure virtually unchanged: in 2024, following the dissolution of a small association and the establishment of a joint-stock company, the number of supervised institutions in the Hungarian insurance sector remained unchanged at 27 (Table 2.1 does not include one supervised joint-stock company that is not subject to Solvency II (S2)). Of these, 22 operate as joint-stock companies, two as large associations and three as small associations. In addition to the above, insurance branch offices also operate on the Hungarian market, in which case the MNB has jurisdiction exclusively from a consumer protection perspective. Due to their size and activities, one joint-stock company and three small insurance associations are not covered by S2. Of the 23 institutions covered by S2, there are four life insurance companies, ten non-life insurance companies and nine composite insurance companies.

Significant premium growth: In 2024, sectoral premium income reached HUF 1,695 billion, an increase of 12 percent relative to the previous year, with the non-life segment accounting for 63 percent and the life segment for 37 percent. Taking into account the Hungarian branch offices of insurance companies based abroad, the insurance sector's premium income amounted to HUF 1,843 billion. The share of branch offices in total premium income (8.0 percent in 2024) decreased by 0.4 percentage point compared to the previous year.

Moderate increase in the number of contracts: the number of contracts managed exceeded 15 million, although the increase in the number of contracts (+1.5 percent) once again lagged significantly behind the increase in premium income. The number of life insurance policies was 2.3 million (+1.1 percent), while the number of non-life insurance policies was 12.9 million (+1.9 percent).

Significant increase in S2 reserves: S2 technical reserves at the sector level amounted to HUF 2,807 billion, reflecting an annual increase of 13 percent. A significant portion (85 percent) of these reserves (HUF 2,385 billion) were life segment reserves, which exceeded the value for the same prior-year period by HUF 259 billion (+12.7 percent). The value of non-life segment reserves increased to HUF 422 billion (+14.8 percent).

Stable capital: the sector's capital adequacy ratio was 196 percent, which is 1 percentage point higher than the capital level at the end of 2023.

ROE at the sector level was above 10 percent again: The profitability of insurance companies increased again in 2024 after a significant decline in the previous year, but it is still far below pre-surtax levels, with insurers' Solvency 2 return on equity (S2 ROE) at 5.4 percent and ROE according to national accounting standards at 11.1 percent.

Table 2.1
Key figures for the insurance sector

	2023	2024		
	Total	By institutions type		Total
Number of institutions *	26	Total S2 insurers	23	26
		Life	4	
		Non-life	10	
		Composite	9	
		Small insurance union	3	
	Total	Life segment	Non-life segment	Total
Gross written premium (HUF billions) (including branch offices)	1,508.5 (1,646.9)	632.8 (682.0)	1,062.2 (1,161.3)	1,695.0 (1,843.3)
Number of contracts (thousand pcs) (number of contracts per capita) **	14,977 (1.56)	2,300	12,939	15,200 (1.59)
Technical provision S2 (HUF billions)	2,483.4	2,385	422	2,806.6
Balance sheet total (HUF billions)	3,729.0			4,189.4
Eligible own funds (HUF billions)	769.0			880.2
Capitalisation level (per cent)	195			196
Profit after tax (HUF billions)	22.0			47.8
Return on equity (ROE)	5.4%			11.1%
Return on solvency capital (S2-ROE) ***	2.9%			5.4%

Notes:

* Does not include one supervised joint-stock company outside the scope of S2.

** For per capita insurance policies, we used the total population indicated on the HCSO's website.

*** The S2-ROE index compares profit after tax to the available capital under Solvency II.

Source: MNB.

Table 2.2
Key data for small insurance associations

	Small insurance unions		
	2022	2023	2024 *
Number of institutions	10	4	3
Gross written premium (HUF millions)	763	25	-
Number of contracts - also shorter than 1 year (pcs)	1,798	29	-

Note: * The 2024 annual data for small insurance associations are not yet available.

Source: MNB.

Box 2.1

Solvency II review, proportionality

The Solvency II Directive, which has been in force since 1 January 2016, was revised by the European Commission, with the preparation of EIOPA, and the draft was submitted to the legislators (European Parliament, Council). The revised Solvency II Directive was published on 8 January 2025; Member States must transpose the rules by 29 January 2027 and apply them from 30 January 2027.

As a result of the amendments, a number of detailed rules and supervisory recommendations also need to be amended, and new detailed rules need to be developed for new elements (e.g. proportionality measures). The European Commission has been authorised to develop these detailed rules, which it may do by amending its Delegated Regulation (EU) 2015/35 containing the detailed rules currently in force or by issuing new legislation.

One important change is the increase in the materiality threshold, with gross premium income raised to EUR 15 million and gross technical provisions to EUR 50 million (the increased level for gross technical provisions also applies to groups). The amendment also had an unexpected effect, as the Regulation on the digital operational resilience of the financial sector (DORA Regulation), adopted in 2022 (and applicable from 17 January 2025), is applicable on the basis of the size rules currently in force, and therefore also applies to insurance companies that will not be required to apply the Solvency II rules from 2027, and thus will also not be required to apply the DORA Regulation. The calculation of the risk margin has changed and the cost of capital has also been reduced. In the case of the standard formula, the calculation of the interest rate risk sub-module has been modified to take into account the effects of an extremely low or negative yield environment (the new rules will be introduced gradually over a period of five years). For equity risk shocks, the symmetric adjustment corridor has been widened from 10 percent to 13 percent, and the rules for long-term equity investments have also been revised to make it easier for insurers to apply the preferential risk shock. For long-term guarantees (LTG), it introduces a new methodology for calculating the extrapolated part of the risk free rate of return, as well as a number of changes to the volatility adjustment (e.g. increasing its usability).

For small and non-complex insurers, a number of proportionality measures will be introduced to reduce the administrative burden. Some insurers will be able to apply the measures automatically, while others will be subject to supervisory approval.

It strengthens supervisory cooperation in the case of significant cross-border activities, where the annual gross premiums written in the host Member State exceed EUR 15 million. At the request of the host Member State's supervisory authority, the home Member State's supervisory authority would provide information on, among other things, the amount of own funds that can be taken into account to cover the own funds requirement of the insurance company concerned. The draft would require insurance undertakings to inform the supervisory authority of their head office without delay of any change in their business which has a material impact on their risk profile or which significantly affects their insurance activities in one or more host Member States, and the supervisory authority of the host Member State would also be informed of this.

In addition, a number of amendments and new rules have been introduced, such as the use of macroprudential tools, climate change risks, cyber risk management, but management diversity needs to be strengthened, and annual data reporting and reporting deadlines have also been relaxed.

Another new development is that EIOPA is preparing a report on the prohibition on the establishment of composite insurance undertakings, in which it assesses whether the institutional separation of the life and non-life segments is still justified and what the effects of maintaining or lifting the prohibition might be. In this context, EIOPA will assess the effects of maintaining and lifting the prohibition, with particular attention to the protection of policyholders, possible cross-subsidisation between life and non-life activities, market efficiency and competitiveness. In its assessment, EIOPA will take into account supervisory experience with composite insurers. The report will be submitted to the Commission by 31 January 2028.

2.1.2 Market not yet on a convergence path

In February 2018, the MNB published a publication entitled '10-Year Future of the Insurance Sector in 7 Points' (hereinafter referred to as 'FIS'). The points in the publication set out trends and targets for converging to mature markets, which can also serve as a sector-wide strategic plan and guidance for market players. As in previous years, this report also shows the evolution of the FIS target figures, assessing them in relation to the 10-year targets and the projected paths (summarised in the table below).¹

¹ Backtesting has been carried out, taking into account the development of macroeconomic data.

Table 2.3				
Target values and actual data for the insurance sector				
Objective to be achieved	Target variable	2016 actual data	2024 target / optimal value	2024 actual data
1. Wide-ranging self-provision More savings, greater security	Life insurance and voluntary pension fund contracts/ economically active persons	54% 2.46 million pieces	74% 3.4 million pieces	48% 2.34 million pieces
	Ratio of reserves as a percentage of GDP (life technical reserve + voluntary pension fund individual accounts)	8.7% 3,054 HUF Bn	9.6% 5,542 HUF Bn	6.2% 5,026 HUF Bn
2. Market size convergence Back to the forefront of the region	Penetration (gross written premium/GDP)	2.5% 889 HUF Bn	2.9% 1 647 HUF Bn	2.1% 1,695 HUF Bn
3. Competitive market Increasing competition	Share of TOP5	60% HHI 8.9%	55% HHI 8.6%	63% HHI 9.9%
4. Efficient sales Half of sales over an innovative channel	Ratio of innovative channels	37%	50% and above	43.6% (2023)
5. Economies of scale Institutions operating more cost efficiently with dropping margins	ACR values of UL contracts	0.53 - 9.97%	0.5-5.75% steadily	1.78% - 5.69%
	Non-life combined ratio (net of tax)	81%	85-90% steadily	87.5%
	Cost ratio	30%	20-30% steadily	33.3%
6. Fair and competitive profitability Long-term confidence and stability	ROE	ROE 20% S2 ROE 11%	ROE: 10-15% steadily	ROE 11.1%
				S2 ROE 5.4%
7. Well-capitalised insurers Safe and prudent operation	Capitalisation level	215%	>150% steadily	196%

Note: The values with an asterisk were evaluated relative to trends projected in the publication.
Source: MNB.

Instead of converging, the coverage of life insurance and voluntary pension fund contracts has been stagnating for years, increasing by just 0.9 percentage point (to 46.7 percent) in 2024, as the number of contracts rose by 0.8 percent, while the number of economically active persons fell by 0.5 percent during the year. This indicator has moved further away from the convergence path projected in the FIS, as efforts to reach potential self-providers continue to be unsuccessful, and short-term yields, which remain high compared to the years before 2022, still do not support an increase in long-term savings coverage.

After years of decline, the ratio of self-provision reserves to GDP rose significantly (from 5.8 percent to 6.2 percent). With nominal GDP growth consistently higher than in the previous forecasts, the increase in the nominal value of reserves exceeded GDP growth in 2024, rising by 15.0 percent (HUF 654 billion). Although the trend was again determined by the increase in the price of underlying assets, cash flow has also been positive for years in respect of both funds and life insurance. Of the three paths presented in the FIS, the inflation-adjusted and empirical paths exceeded their original values, but did not reach the international trend.

Insurance premium income penetration rose moderately to 2.1 percent after declining in previous years. The trend was similar to the evolution of reserves: in previous years, the penetration trend was driven by high GDP growth at current prices, whereas in 2024 premium growth exceeded nominal GDP. The premium income of HUF 1,695 billion exceeded the nominal value of all three originally projected growth paths.

After a decrease of 0.3 percentage point, **the share of the five largest market players (TOP5) exceeded the projected path by 8 percentage points in 2024.** The Herfindahl-Hirschman Index (HHI) also rose by 0.1 percentage point, moving away from the target path of steady decline.

Innovative channels accounted for a 44-percent share in the composition of insurers' sales channels² in 2023. Compared to the 41-percent figure for 2022, the growth of direct and online sales is striking. However, the sector is still far from the target of over 50 percent projected in the FIS. Despite the positive change, the incentives to promote more active use of these channels still appear to be insufficient.

² Innovative channels: bank insurance, direct sales, online mediation.

The **annual cost ratio (ACR) values of the unit-linked contracts³** covered by the MNB Recommendation **complied with the limits**. The lowest ACR remained at the 2023 level.

The sectoral combined ratio for non-life insurance was 88 percent, which is within the optimal range.

The insurer cost ratio was 33.3 percent in 2024, meaning that the sector remains above the target range of 20–30 percent. This indicator was above 33 percent for the second year in a row, reflecting the decline in life insurance premium income in 2023, while costs rose at a similar rate as premiums in 2024. Nevertheless, the cost ratio remains unevenly distributed between the insurance segments. While the life segment was characterised by a cost ratio of 24.7 percent, the cost ratio for the non-life segment was 38.7 percent.

The ROE of the insurance sector according to national accounting standards increased again, but remains significantly below pre-surtax levels: the ROE figure was **11.1 percent**, which is 5.6 percentage points higher than in the same period of the previous year. The Solvency 2 return on equity (S2 ROE) was 5.4 percent.

The sector’s capital adequacy is well above the target value, at 196 percent, which is 1 percentage point higher than the capital level at the end of 2023. A sustained high level of capital adequacy of institutions provides the basis for safe, prudent operation of the sector.

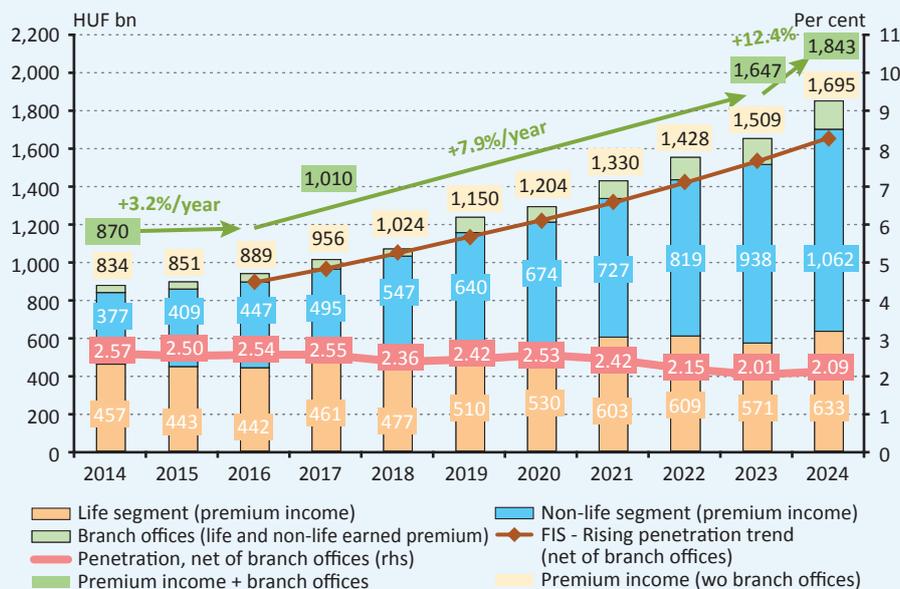
2.1.3 Market value of HUF 1,840 billion, with low penetration

Total premium income of insurance companies amounted to HUF 1,695 billion in 2024, representing an increase of 12.4 percent versus the previous year. Premium income in the life insurance segment was HUF 633 billion, while in the non-life insurance segment it was HUF 1,062 billion. The life insurance segment grew by 10.9 percent overall, as a result of an 11.0-percent increase in regular premium life insurance and a 10.6-percent increase in single and top-up premiums.

The non-life segment grew at a rate of 13.2 percent, with premium income from household property insurance contributing 14.5 percent and MTPL contributing 13.1 percent. Premium income from travel insurance rose by 14.3 percent.

Premium income including branch offices also increased dynamically, advancing to HUF 1,843 billion.

Chart 2.1
Gross premium written and penetration in the insurance sector



Note: Gross premium income in the life and non-life segments, and gross premium earned for branch offices. The sectoral total of gross premium income, shown in the yellow rectangle in the chart, does not include the value of the gross premium income of branch offices.

Source: HCSO, MNB.

³ Of term policies, this includes those with a 10-, 15- and 20-year duration of permanent policies, those with a duration of 15 and 20 years.

Table 2.4
Increase in premium income in insurance market segments in 2024

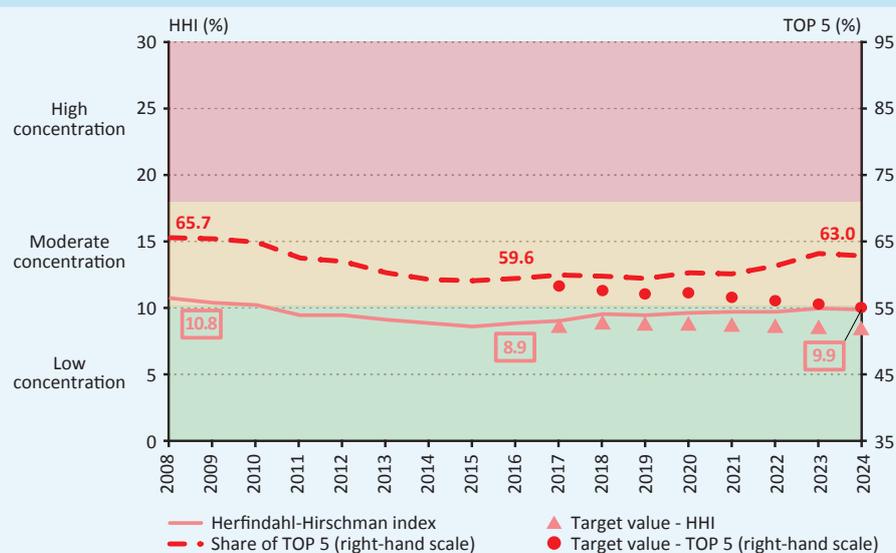
Insurance market (including branch offices)	11,9%
Non-life	13,2%
Life	10,9%
regular premiums	11,0%
single and top-up premiums	10,6%
Branches	7,2%

Source: MNB.

2.1.4 Insurer concentration rising moderately, but still in a low range

The share of the five largest market players (TOP5) was 63.0 percent, down 0.3 percentage point in 2024, while the HHI value fell from 10.0 percent in 2023 to 9.9 percent. The TOP5 still consists of the same insurers, but two insurers have switched places. Both concentration indicators continued to substantially outperform the (declining) concentration paths projected in the FIS and, as a result of the moderate declines in 2024, the indicators moved further away from the target values.

Chart 2.2
Share of the five largest insurers (TOP5) and the Herfindahl-Hirschman Index (HHI) of the entire sector based on gross premium written



Note: The colour of the background illustrates the strength of concentration according to the HHI.

Source: MNB.

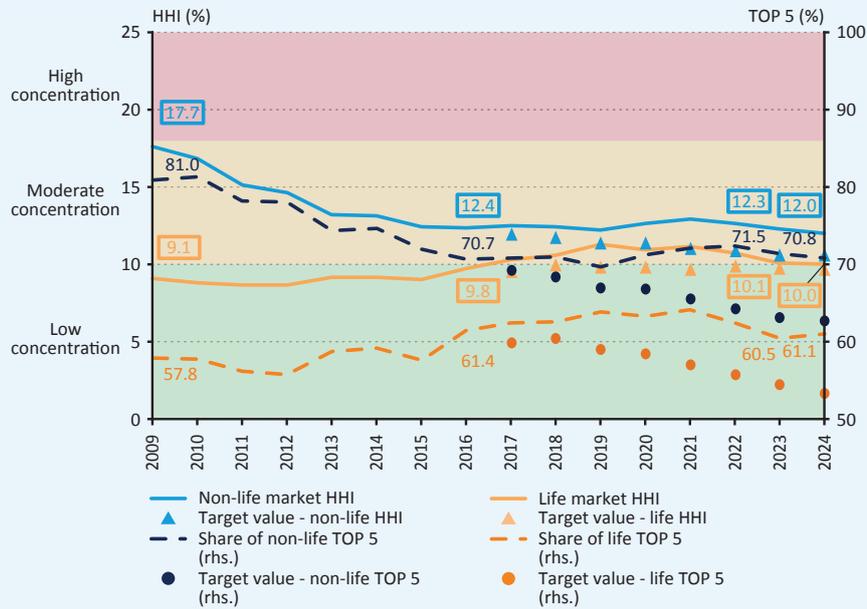
2.1.5 Concentration ratios for the non-life segment fell in 2024, while the TOP5 in the life segment increased, but favourably

Compared to the previous year, the market weight of the five largest non-life insurers decreased by 0.6 percentage point in 2024, while the HHI fell by 0.3 percentage point. The scope of the TOP5 institutions has not changed, and the change was due to the market penetration of smaller institutions.

In the life insurance sector, the market share of the five largest institutions increased by 0.6 percentage point, but the HHI value fell by 0.1 percentage point. The TOP5 insurers and their ranking remained unchanged, but the market share of the TOP5 decreased in the relatively concentrated single/top-up-premium market, while it rose slightly in the regular market.

The concentration ratios of individual segments exceeded the figures for the (declining) life and non-life paths projected in the FIS. The FIS expected a continued increase in competition, but this has not materialised.

Chart 2.3
Share of the five largest insurers (TOP5) and the Herfindahl-Hirschman Index (HHI) of the entire sector based on gross premium written, by segment



Note: The colour of the background illustrates the strength of concentration according to the HHI.
 Source: MNB.

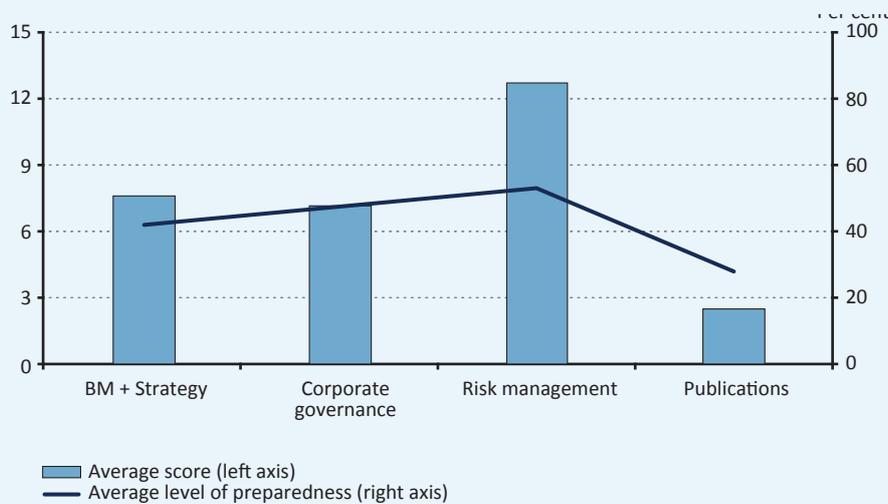
Box 2.2
Review of the Green Recommendation for insurers

Prior to the entry into force of the green insurance recommendation (Recommendation) issued in December 2023, the MNB conducted a gap analysis with the involvement of the institutions concerned, in order to assess the preparedness and resilience of the domestic insurance sector to climate change and environmental risks.

Experience shows that sustainability can be incorporated into business strategy after the relevant risks have been effectively identified. The identification of climate change-related risks is typically ongoing or has already been completed by domestic insurers. In the case of institutions belonging to international groups, compliance with the approaches set out in the group-level strategy plays a key role, and this also applies to strategic issues relating to sustainability. Large international groups typically define a sustainability strategy at the group level, which subsidiaries must adapt.

The survey showed that insurers which have effectively ‘greened’ their corporate governance systems are able to clearly define sustainability-related tasks and responsibilities and to regularly and adequately inform their management bodies about sustainability and environmental risks. Most domestic insurance companies have established a department responsible for coordinating sustainability-related tasks or, in the case of smaller institutions, have appointed a responsible manager.

Chart 2.4
Average scores for gap analysis of climate change and environmental risks, grouped by topic



Source: MNB.

Similar to the strategy, the use of methodologies developed by parent companies dominates the assessment and quantification of risks. As a result, most insurers have already started to apply these methodologies. It is common practice for insurers to devote a separate section of their ORSA report to the presentation of sustainability risks from both quantitative and qualitative perspectives. Most institutions seek to assess and quantify the potential transition risks by reviewing their investments.

With regard to the expectations set out in the Recommendation, the sector's largest deficits are found in the area of disclosures. Several questions raised the issue of subsidiary status and the resulting lack of reporting obligations, which applies to a significant portion of the domestic insurance sector. In these cases, institutions rely on the group's consolidated report. However, it is not typical for these reports to also publish data separately for each country in which the group has interests. These shortcomings can be remedied by sharing sustainability information (even in a less formal manner) about the local subsidiary, for example on a dedicated website or in a publication.

One positive finding of the analysis is that sustainability is not typically an unfamiliar topic for domestic insurers and/or that preparations are already underway in response to the Recommendation or the expectations of the parent company. However, the results also highlight that further steps are needed to achieve an adequate level of preparedness. From 2025 onwards, the MNB will monitor compliance with the Recommendation as part of its comprehensive inspections, and the central bank is expected to conduct another sector-wide survey in autumn 2025.

2.1.6 Significant asset growth, 76 percent of investments are domestic

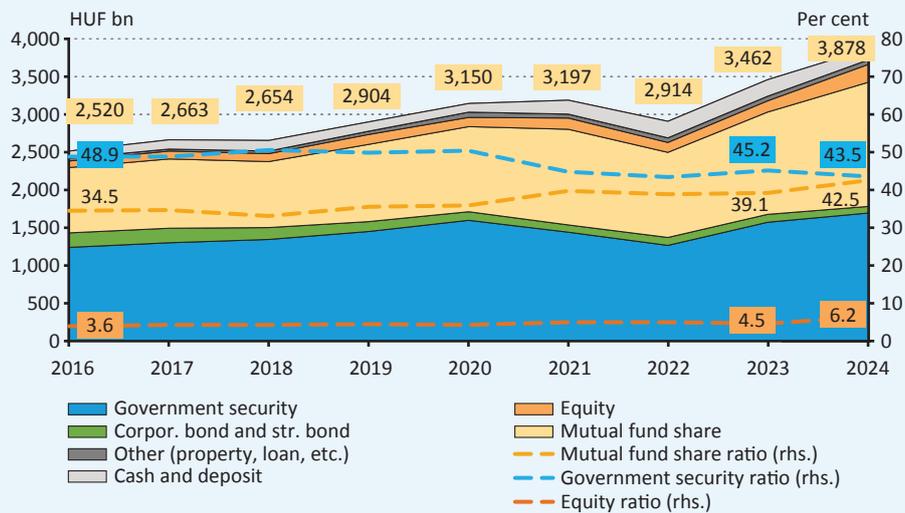
After an 18.9-percent increase in the value of domestic insurers' total fixed assets in 2023, there was also significant growth of 12 percent in 2024.

Total assets amounted to HUF 3,878 billion, of which 53.7 percent covered unit-linked life insurance reserves, while the remainder was made up of instruments underlying traditional life insurance and non-life insurance, as well as the institutions' own assets. Lower-risk, conservative assets (government securities, bank accounts) accounted for 47.4 percent of insurers' total assets. This proportion is 4 percentage points lower than in 2023. The remaining assets were mostly

made up of investment fund shares, equities and corporate bonds (including structured bonds), of which investment fund shares comprised the largest share, accounting for 42.5 percent of total assets at end-2024.

The breakdown of indirect investments shows that 76 percent of the investments are in domestic assets. The pie chart shows the data for the entire portfolio after the screening of investment funds.

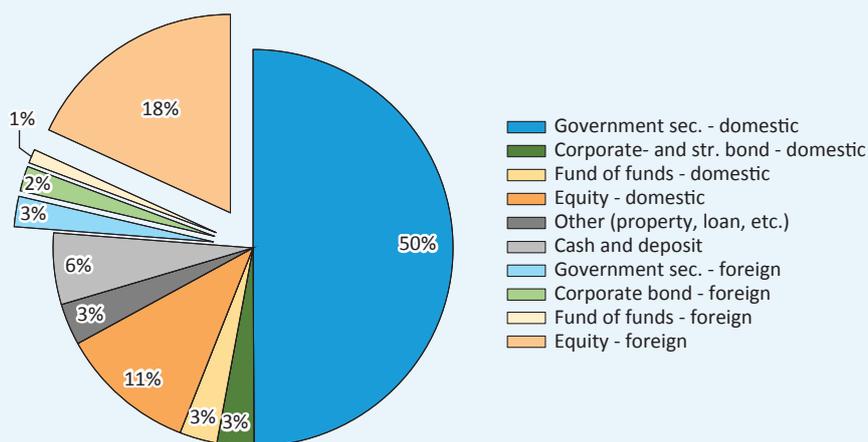
Chart 2.5
Asset composition of domestic insurance companies



Note: Based on S2 data available from 2016.

Source: MNB.

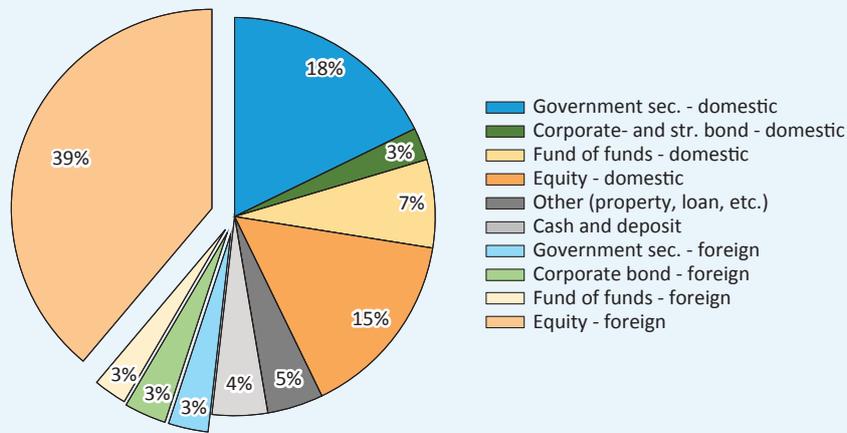
Chart 2.6
Distribution of domestic insurance companies' investments by asset groups with the decomposition of investment fund shares at the end of 2024



Source: MNB.

Almost one-half of the assets underlying investment fund shares are foreign assets, with foreign equities being the most significant.

Chart 2.7
Composition of insurance investment funds

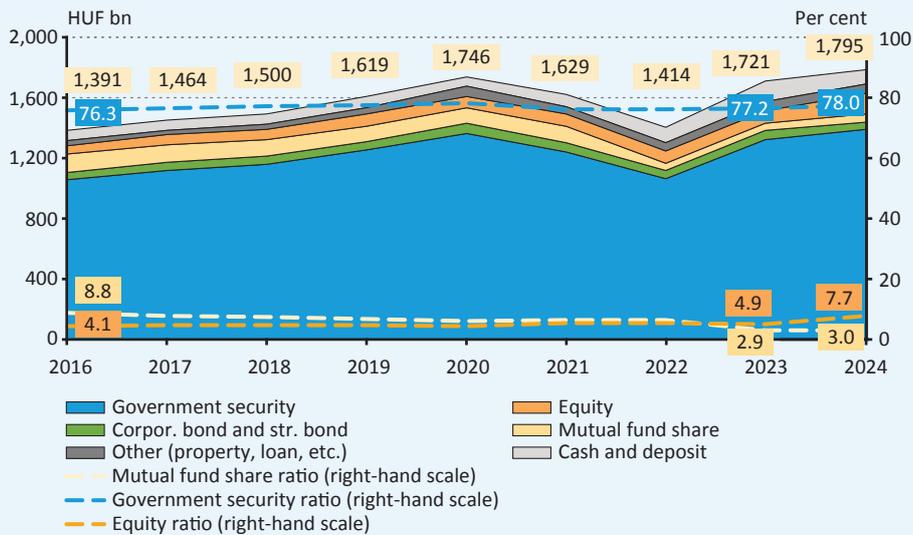


Source: MNB.

2.1.7 Government securities continued to account for a substantial part of non-UL reserves

For investments underlying non-unit-linked reserves, there was a shift towards equities. The share of these assets rose to 7.7 percent, from 4.9 percent in the previous year. The reallocation was made from bank accounts, the share of which fell to 5.3 percent from 8 percent at the previous year-end. The share of government securities remained high at 78 percent, which is also a very high figure by European standards.

Chart 2.8
Changes in the composition of assets underlying non-unit-linked reserves



Note: Based on S2 data available from 2016.

Source: MNB.

Box 2.3**Insurance protection gap**

The economic damage caused by the Los Angeles fire in January of this year cost billions of dollars. The occurrence of fires in the region is not surprising in itself, but due to the mounting risks caused by climate change, insurers have been gradually withdrawing from the region since 2020. The economic damage is estimated at over USD 50 billion, of which only 40 percent, or USD 20 billion, was insured.⁴

The Los Angeles fire disaster in January 2025 highlighted the potential for an insurance protection gap in the insurance market, which is the difference between the amount of economic losses incurred and the amount of insured losses. A significant part of the insurance protection gap is linked to natural disasters and shows how resilient societies and economies are to disasters. A high insurance protection gap (due to lack of insurance) reduces the financial capacity of economies to recover from natural disasters. As extremes and risks due to climate change increase, the insurance protection gap is expected to widen.

The reasons for insurance protection gaps may include the following: the gap cannot be covered by insurance, it can be covered by insurance, but the insurer does not wish to cover the risk or offers coverage but at too high a premium, or clients do not recognise the risk due to a lack of product knowledge. Not all insurance protection gaps can be addressed through insurance or reinsurance. S2 requires insurers to cover extreme events with a 0.5 percent probability of occurrence with capital (SCR).

Working together, the ECB and EIOPA propose a possible EU-wide solution⁵ to address the growing insurance protection gap against natural disasters in Europe, consisting of two pillars. The first pillar would be the establishment of an EU-wide reinsurance framework based on voluntary participation by Member States, while the second pillar would be the creation of an EU fund that would be mandatory for all EU Member States and financed on a risk basis.

In 2022, EIOPA published a dashboard analysing data from 30 European countries. The main purpose of the dashboard is to measure and monitor the risks associated with insurance protection gaps. According to the assessment published in November 2024, Hungary's current exposure to natural disasters (storms, floods, forest fires and earthquakes) is low,⁶ but as the frequency and magnitude of these disasters are increasing, it is important to continuously monitor risks.

EIOPA's related tasks include regularly reviewing the calculation of the own funds requirement for non-life catastrophe risk, recalibrating the parameters in the Standard Formula, considering the addition of additional risks (e.g. forest fire, drought) to the current five natural catastrophe risks (windstorm, earthquake, flood, hail, landslide and subsidence) in future reviews.⁷ In addition, a reliable database on climate change and natural disasters is being developed to facilitate this.

The most common climate change-related disaster risks in Hungary are flood, drought and storm, which are covered by property and agricultural insurance offered by some insurance market players. Apart from the drought damage in 2022, which caused significant losses, domestic natural disasters have been manageable in recent years.

⁴ <https://www.economist.com/finance-and-economics/2025/01/10/the-los-angeles-fire-will-be-extraordinarily-expensive>.

⁵ https://www.ecb.europa.eu/pub/pdf/other/ecb.climateinsuranceprotectiongap_EIOPA202412~6403e0de2b.en.pdf.

⁶ [Dashboard on insurance protection gap for natural catastrophes – EIOPA](#).

⁷ [Opinion on the 2023/2024 Reassessment of the Nat Cat Standard Formula – EIOPA](#).

2.2 LIFE SEGMENT

2.2.1 Increase in the reserves of unit-linked portfolios

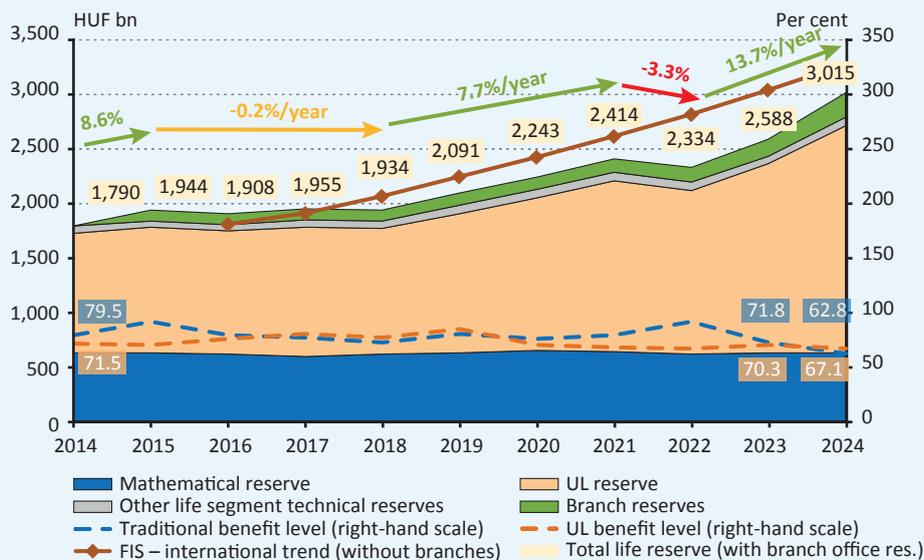
Stable, steady reserve growth was observed for life insurance. By the end of 2024, the amount of technical provisions in the life segment amounted to HUF 2,788 billion (HUF 3,015 billion including branch offices), with an increase of 14.6 percent (16.5 percent including branch offices) compared to the previous year. In terms of growth, reserves for unit-linked products, which comprise a significant portion of life segment reserves, increased by HUF 340 billion, or 19.6 percent. Mathematical reserves for traditional life insurance increased less than unit-linked reserves, but rose by a larger amount (HUF 8.5 billion or 1.4 percent) in relation to mathematical reserves, compared to previous years.

Insurance companies offer two main types of savings (investment) products: unit-linked and traditional products. The ratio of inflows to outflows continues to move in the direction of asset accumulation, with inflows exceeding payouts for both product segments, contributing to the stability of reserve growth. The benefit level of life insurance, i.e. the ratio of payouts to gross premiums, decreased for both groups. For UL products, this figure is 67.1 percent (70.3 percent in the previous year), while the benefit level for the traditional portfolio fell significantly to 62.8 percent (71.8 percent in the previous year).

Capital market effects are mainly positive for the value of savings of clients with unit-linked products. Since insurance companies cover a wide range of options in the spectrum of their investment asset funds, they can also make available asset funds with very dynamic (volatile) price movements for their clients seeking higher risk but strong investment performance. A positive return situation may dampen the rate of surrenders, but in an unfavourable, low-return (possibly loss-making) situation, it may strengthen the dynamics of surrenders. Accurate information and a continuous flow of information can lead to positive retention for a clientele with unit-linked insurance, if they take into account the expected market correction when making their decision, rather than immediate loss realisation. The MNB monitors surrenders on a monthly basis.

In 2024, surrenders were stagnant compared to the previous year, decreasing in the traditional portfolio and increasing slightly in the unit-linked portfolio.

Chart 2.9
Developments in life insurance reserves and the related insurance benefit levels

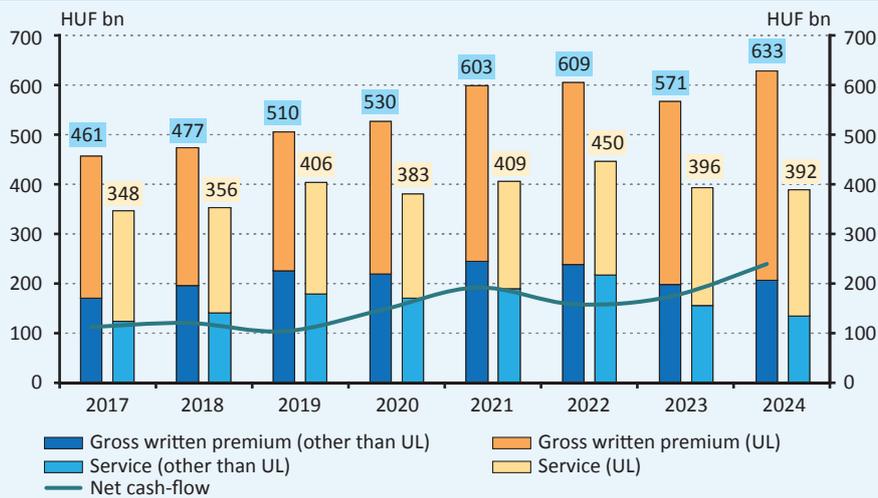


Note: From 2016, the benefit level (claim payment until 2015) is the ratio of the claim charges compared to gross premiums. When calculating the benefit level, the gross premium of branch offices was not taken into consideration. The total value of the life insurance reserve, which is shown in the yellow rectangle above the bands, includes the value of the reserves of branch offices. Other life insurance reserves include the following reserve components: unearned premium reserves, outstanding claim reserves, reserve for premium refund depending on and independent of the profit, claim fluctuation reserves, extreme loss reserves, cancellation reserves and other insurance technical reserves.

Source: MNB.

In recent years, life insurance premiums exceeded benefit payments each year, resulting in a consistently positive net cash flow balance for life insurers. Net cash flow remained stable at HUF 100 billion until 2019, then fluctuated in the period 2020–2022, before rising again to HUF 175 billion in 2023 and then further increasing to HUF 241 billion in 2024. The combination of stagnating outflows and rising premiums generated a favourable balance in 2024, while the benefit level was 65 percent. Overall, premiums exceeded the value of benefit payments, and thus the net cash flow balance remains stable.

Chart 2.10
Cash flows in the life segment



Source: MNB.

2.2.2 Regular premiums continue to rise, with top-up payments also growing

In 2024, premium income in the life insurance segment amounted to HUF 632 billion, with 75 percent of this stemming from regular premiums and the rest from single and top-up payments. Gross premiums in life insurance moved on an upward trend after 2016, but after a decline in 2023, premium growth returned to the level of previous years by 2024. Premium income is affected by the insurance surtax, which adversely impact sales of single-premium life insurance policies that feature a cost structure that is less suited to incorporating the additional tax burden into the product. Overall, there was a large increase (10.9 percent on an annual basis) over the past year.

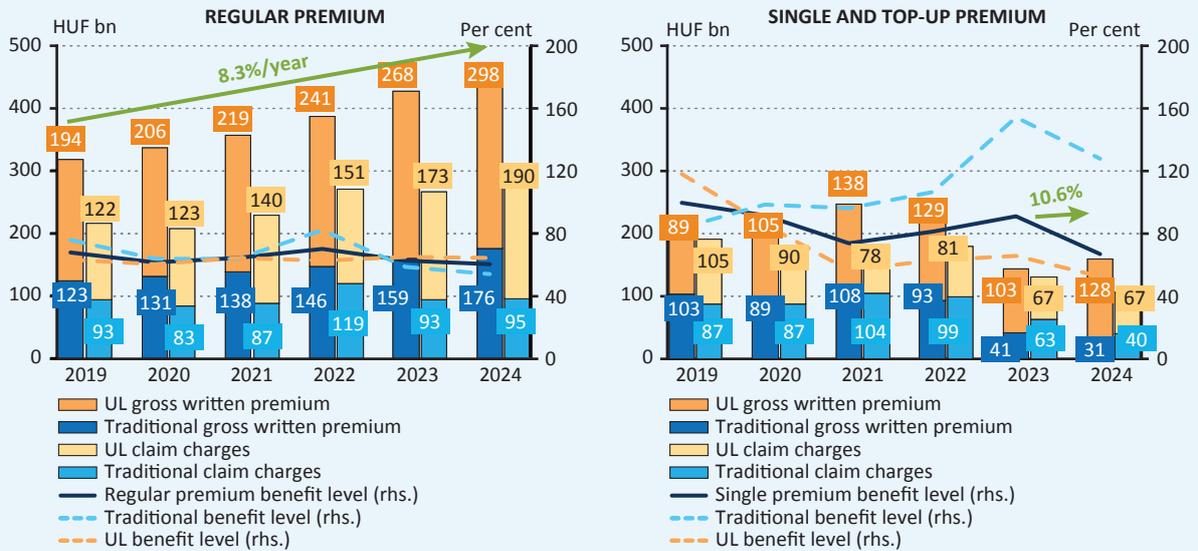
Income from regular and single premiums changed to varying degrees relative to the previous year, in particular due to declining sales of single-premium contracts. Premium income from regular premiums continues to grow dynamically (up 11 percent on the previous year). Single and top-up premiums fell in 2022 and 2023 compared to 2021, but rose in 2024. Premium income has not yet reached the pre-2021 level, but the 10.6-percent annualised increase is a significant achievement.

For regular-premium contracts, premium income increased in both main product lines (unit-linked and traditional).

In the regular-premium unit-linked segment, benefit payments increased in line with premiums, leaving the benefit level essentially unchanged (64 percent). For traditional products, on the other hand, benefit payments declined, resulting in a more favourable benefit level in a year-on-year comparison, at 54 percent in 2024.

For single-premium and top-up-premium contracts, the increase in premium income (10 percent) improved the evolution of the benefit level, which fell from 91 percent to 67 percent. The benefit level for unit-linked contracts was 52 percent, compared to 128 percent for traditional products (155 percent in the previous year). In the case of traditional products, single-premium products are not primarily in demand, and accordingly the decline in premium income from traditional single-premium products cannot keep pace with traditional outflows, which is why the benefit level is above 100 percent.

Chart 2.11
Developments in premiums, claims and benefit levels* for life products, by frequency of premium payment

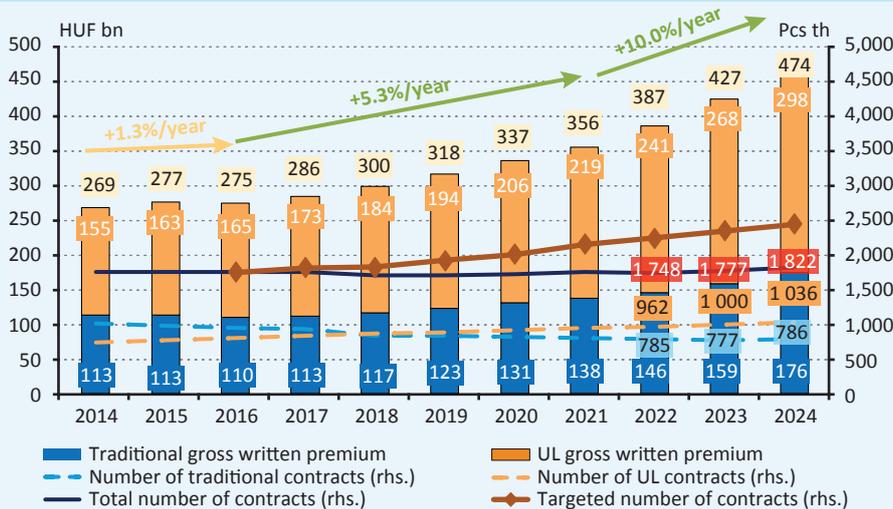


Note: *Benefit level is the ratio of claims payments to gross premiums.
Source: MNB.

2.2.3 Steady growth for the regular premiums portfolio

Regular-premium life insurance continued to dominate in 2024, both in terms of number of contracts and premium income. There is a clear upward trend, above the linear increment since 2017. In the year under review, the income amounted to HUF 474 billion, an increase of 11 percent in one year.

Chart 2.12
Developments in regular premiums and number of contracts in the life segment



Note: "Total number of contracts" excludes premium-free contracts and group life, accident and health insurance contracts.
Source: MNB.

Of the premium income of regular-premium life insurance, 63 percent is attributable to unit-linked life insurance, in which pension insurance also represents a relevant share. Untied unit-linked products remain significant, with stagnation of the portfolio and slightly increasing premium income. There is also a significant role for unit-linked pension insurance products, where the portfolio continued to grow dynamically, as in recent years.

Regarding traditional life products with regular premiums, premium income for life insurance products with a savings element in the case of mixed (profit participants) life insurance decreased in the untied portfolio, which was slightly offset by the premium growth for pension savings in a traditional structure.

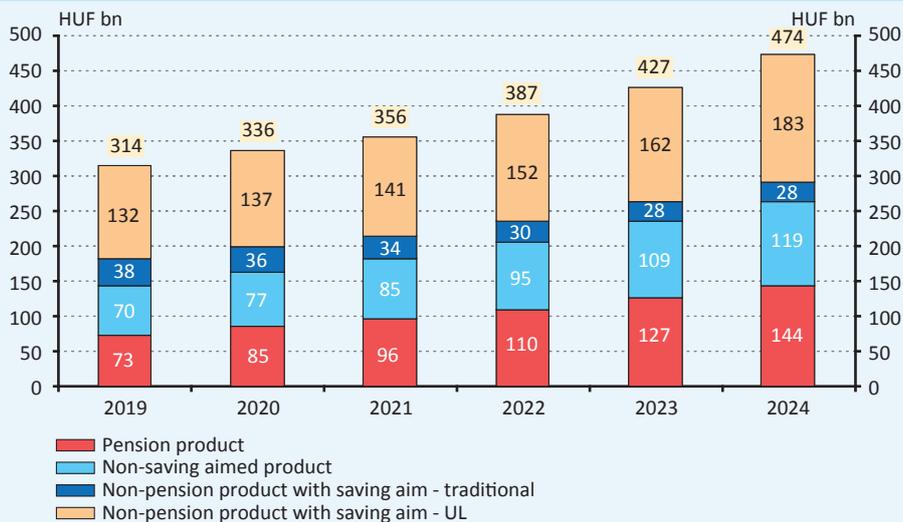
In terms of contract numbers, there was an increase in the year under review after stagnation in the previous five years, with 1,822,000 regular-premium life insurance policies in 2024, excluding premium-free, suspended contracts. Unit-linked policies were the most dominant followed by death benefit and savings products in the range of traditional products.

2.2.4 Strengthening pension and risk life insurance

Premium income from regular-premium life insurance grew at a steady pace (6 to 9 percent) after 2019, reaching HUF 474 billion in 2024. The growth in premium income continued to be driven primarily by unit-linked pension insurance, while the premiums due on term life insurance also increased.

Premium income from non-pension type savings grew slowly and steadily for years, with the declining premium income from the maturing traditional savings portfolio being firmly compensated – and significantly exceeded – by the rising premium income of unit-linked policies.

Chart 2.13
Distribution of regular life insurance premiums by the nature of savings



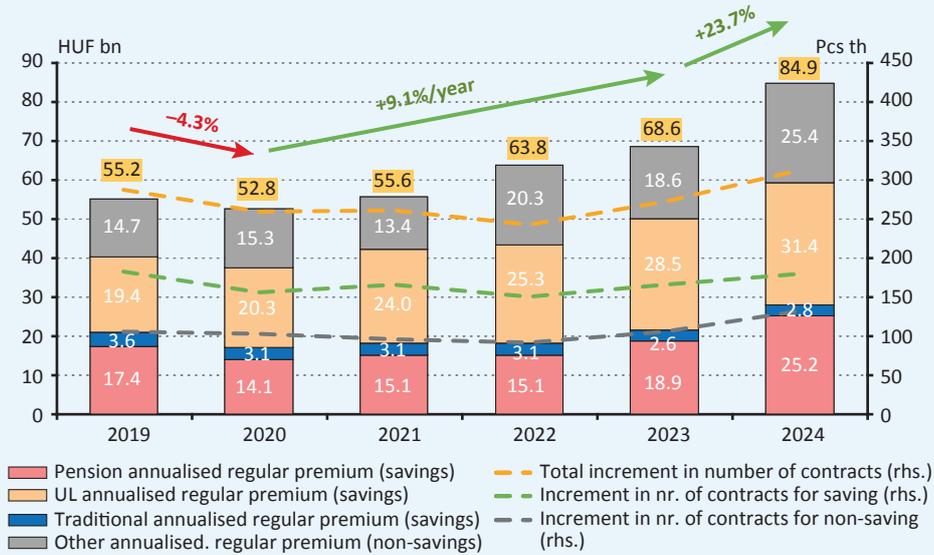
Source: MNB.

2.2.5 Increasing increment in regular-premium life insurance

In the life segment, acquisition-related premiums for regular-premium contracts increased by 23.7 percent versus the previous year. The increase was primarily related to other life insurance contracts without savings element which account for 30 percent of acquisition-related premiums (this category includes, among others, death, health and group life insurance), and secondarily to pension insurance, which accounts for 30 percent. The acquisition-related contract number also increased by 15 percent in 2024 compared to the previous year.

Regarding UL products with savings element, the premium on the increment also rose relative to the previous year (by HUF 2.9 billion), and the increment in this product group is also high considering the volatile increment observed in previous years. Premium earned on the increment in traditional products also showed a similarly fluctuating pattern and increased in 2024.

Chart 2.14
Increment in regular-premium life insurance products by regular premium and number of contracts



Note: "Other" comprises the following insurance products: death, annuity, group, health, payment protection insurance products with death cover.

Source: MNB.

2.2.6 Decrease in the number of single-premium contracts

The combined premium income of HUF 159 billion for single and top-up premiums in 2024 was 10.6 percent higher than in 2023. It has not yet reached the premium levels before the introduction of the insurance surtax. The number of single-premium contracts has been falling for years for both UL and traditional products. By 2024, the number of contracts per sector for both product groups had fallen below 100,000.

Chart 2.15
Developments in single and top-up premiums and number of contracts in the life segment



Source: MNB.

The single-premium portfolio represented nearly 190,000 contracts in 2024, 9.0 percent lower than in 2023.

The MNB is committed to strengthening the insurance sector’s ability to deliver customer value and has therefore prepared a comprehensive regulatory package at the product level and covering business procedures, which can be seen as the next step in the ‘ethical life insurance concept’, translating supervisory experience into practice.

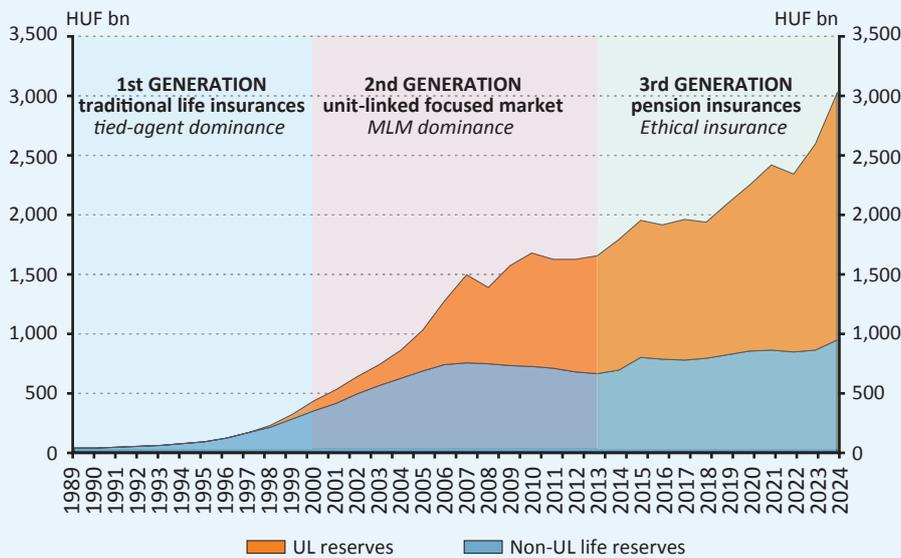
Box 2.4

Ethical insurance 2.0: the fourth generation of life insurance products

The Hungarian life insurance market has developed significantly over the past three decades. The first generation of life insurance products in the 1990s was traditional, typically mixed life insurance, distributed primarily by the network of insurance tied agents. From the early 2000s onwards, unit-linked life insurance, representing the second generation of life insurance products, became widespread in the insurance market. This period was dominated by MLM companies in terms of sales. The third generation of products is linked to the introduction of the Ethical 1.0 concept. Ethical 1.0 was a regulatory package, which was ground-breaking even at the European level: it focused on consumers and consumer expectations, and achieved significant success in improving value for money for customers. Ethical 1.0 encouraged the uptake of supplementary pension plans and set expectations for insurance intermediaries on online sales, while its regulation of the annual cost ratio (ACR) increased the comparability of costs. It formulated stricter investment rules, introduced rules to avoid mis-selling, and increased the value provided to clients through the use of surrender limits, ACR limits and commission limits.

Chart 2.16

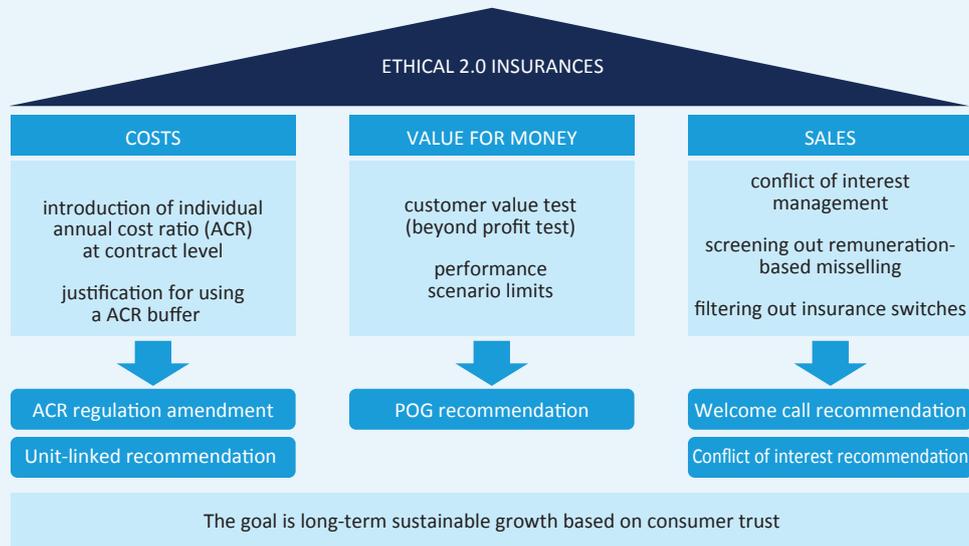
Evolution of the life insurance market and developments in accounting reserves



Source: MNB.

The market has adapted well to the expectations of Ethical 1.0. As a result of the regulation, the number of unit-linked products has fallen significantly since 2015, but it is primarily expensive products with an ACR of between 6–14 percent that have disappeared from the market. As a result of the Ethical 1.0 measures, contract retention times have increased, while the number of intermediaries has decreased by less than 10 percent. Thus, thanks to the targeted measures, market growth has not been interrupted, the sector has been able to adapt, and better products and asset funds are available to clients. At the same time, changes in regulation at the EU level, as well as the continued existence of non-consumer-friendly practices in the market, have made it necessary to further develop the ethical framework and overhaul its content.

Chart 2.17
The pillars of the Ethical Insurance 2.0 regulatory package



Source: MNB.

The Ethical Insurance 2.0 package was launched at the end of 2024 and introduces the fourth generation of life insurance products to the insurance market. This regulatory package aims to promote long-term sustainable growth based on consumer confidence. The Ethical Insurance 2.0 package includes the amendment of two existing regulators and the issuance of three new recommendations.

As part of the Ethical Insurance 2.0 package, the transparency and comparability of deducted costs is facilitated by the introduction of a contract-level specific ACR through the amendment of MNB Decree 55/2015 (XII.22.) (ACR Decree). MNB Recommendation 13/2024 (XII.10.) on the application of prudential and consumer protection principles related to unit-linked life insurance (Unit-linked Recommendation) requires justification of costs above the ACR limits by substantiating the expected achievement of a higher return potential.

MNB Recommendation 12/2024 (XII.10.) on the application of product oversight and governance measures for insurers and insurance distributors (POG Recommendation) ensures that the value for money provided by products is increased through the strict, customer-focused regulation of insurance product development and customer-focused testing of value for money.

Overall, earlier expectations related to the Ethical 1.0 concept included a decline and a drop in profits, but time has shown that profitability in the sector has remained adequate and sales efficiency has improved. As a result, Ethical Insurance 2.0 is expected to further increase retention rates and customer value, reduce mis-selling and increase customer confidence over the long term.

2.3 NON-LIFE SEGMENT

2.3.1 Significant premium growth in corporate property and travel insurance

Non-life premium growth amounted to 13.2 percent in 2024, in line with the dynamics of the previous two years and continuing the unbroken growth trend since 2012. The current growth exceeded HUF 124 billion in absolute terms, with the largest contribution from compulsory motor third party liability insurance (MTPL) (HUF 40 billion), along with significant contributions from casco (HUF 29 billion) and household property (HUF 27 billion) products. The overall growth contribution of the other product categories was close to that of household property insurance (HUF 27 billion).

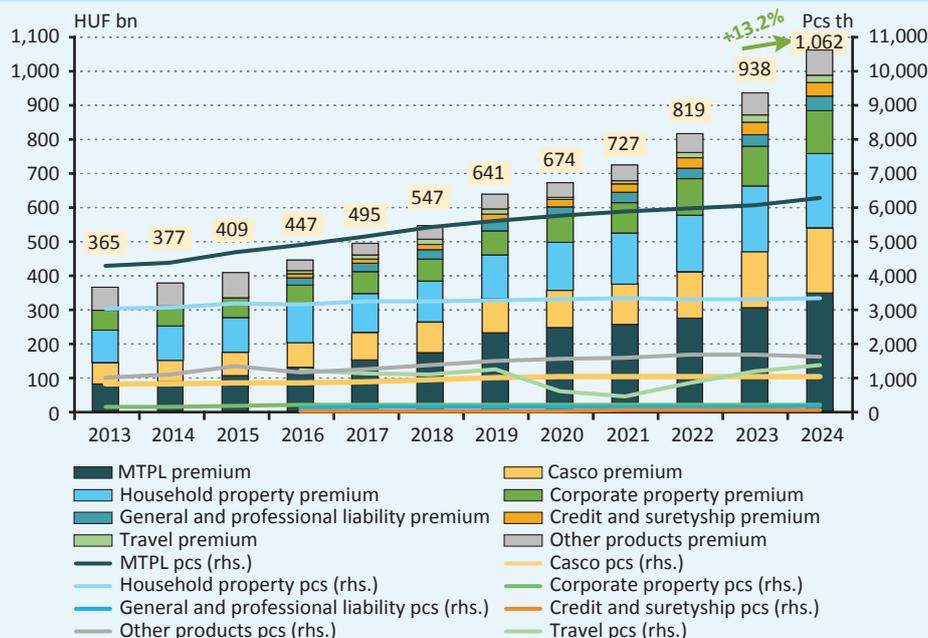
Growth in MTPL premiums was close to the non-life average (13.1 percent), reaching HUF 347 billion in 2024. As a result, the product category maintained its 32.7-percent share of the non-life segment. Growth in this product category was supported by an increase of 3.8 percent in the number of contracts, bringing the total market portfolio to nearly 6.3 million.

The stock of land vehicle casco contracts decreased slightly (by 0.2 percent) in 2024. At the same time, premiums per contract increased by 17.9 percent, almost double the 9.0-percent growth registered for MTPL contracts. As a result, the overall premium income of the casco portfolio expanded by 17.6 percent compared to 2023.

Household property insurance saw premium growth of 14.5 percent in 2024, which was only slightly below the previous year’s growth rate and can be considered historically high. As with casco, the number of contracts rose marginally, by 0.1 percent over the year. In corporate property insurance, the number of contracts fell by 2.9 percent, in line with previous years, which reduced the 11.1-percent growth in premiums per contract.

Among other non-life insurance, general and professional liability insurance, payment protection insurance and travel insurance still showed dynamic growth of more than 10 percent. Small market share products, not mentioned above, grew more moderately than the larger ones, with an overall growth rate of less than 10 percent in 2024. In travel insurance, the number of contracts exceeded 1.3 million, reflecting more moderate growth (13.5 percent) than in the previous two years, but in terms of volume the market exceeded the level before the 2019 Covid pandemic.

Chart 2.18
Development of gross written premium and number of contracts in the non-life segment by products



Note: The product category’s loss of portfolio was also added to the number of travel insurance policies, as the parties usually conclude the contracts for a period less than one year. Categories belonging to the “other products” category, with a share of at least 3 percent: accident insurance, cargo and transport insurance, health insurance, surety and guarantee, extended warranty, various financial losses and legal expenses insurance.

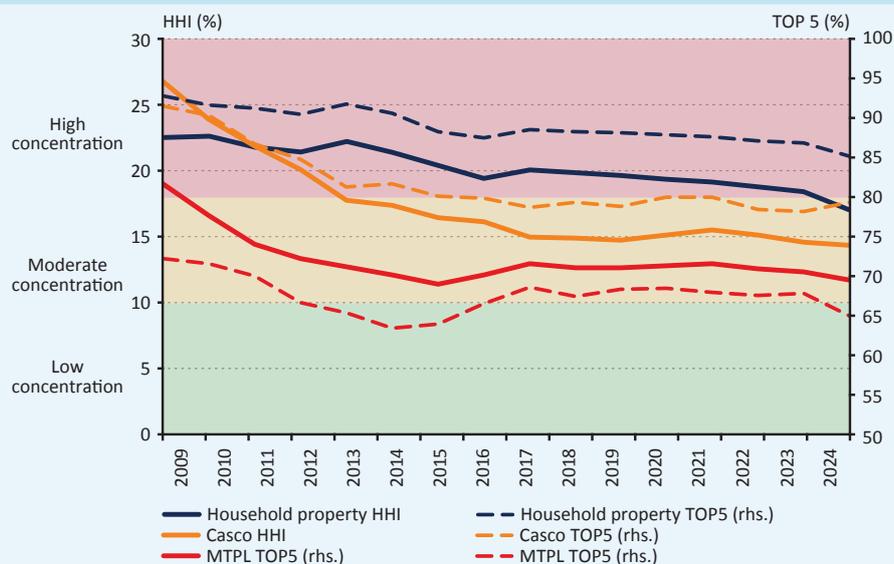
Source: MNB.

2.3.2 Moderate concentration in the main non-life insurance products

Market concentration in the main non-life product groups continued to decline moderately, as seen in previous years. The largest decrease in concentration was seen in the MTPL product group, where the TOP5 dropped by 2.8 percentage points and the HHI fell by 0.7 percentage point. In casco insurance, the sectoral HHI concentration rate fell slightly, with a 1.1-percentage point increase in the TOP5. These changes led to a moderate level of concentration in each insurance category. This market structure can ensure high profitability for market players, which can also encourage competition between institutions.

In the case of home insurance, one additional competition driver may be the MNB's announcement of the Certified Consumer-Friendly Home Insurance (MFO), which primarily aims to put the interests of the customer first by setting standardised minimum frameworks. Spread of the MFO criteria could lead to a more uniform product range, but also to a more comparable product offering, which may foster market competition and contribute to the reduction of market concentration. In the case of home insurance, the option to cancel the contract in March, outside the anniversary date, which was introduced for the first time in 2024, has become a competitive factor, creating a campaign situation in the market. Compared to the same period in previous years, the first housing campaign increased insurers' increment.

Chart 2.19
Share of the 5 largest insurers (TOP5) and the Herfindahl-Hirschman Index (HHI) of the entire sector based on gross premium written in the non-life segment, by major products



Note: The colour of the background illustrates the strength of the concentration according to the HHI.

For housing products, the chart shows the household property insurance premiums (individual housing, condominium, payment protection and other household property products) for 2002–2023 from the national data reporting, while the 2024 data represents the closing premiums for individual home and payment protection products from the data reporting required by decree in the housing campaign.

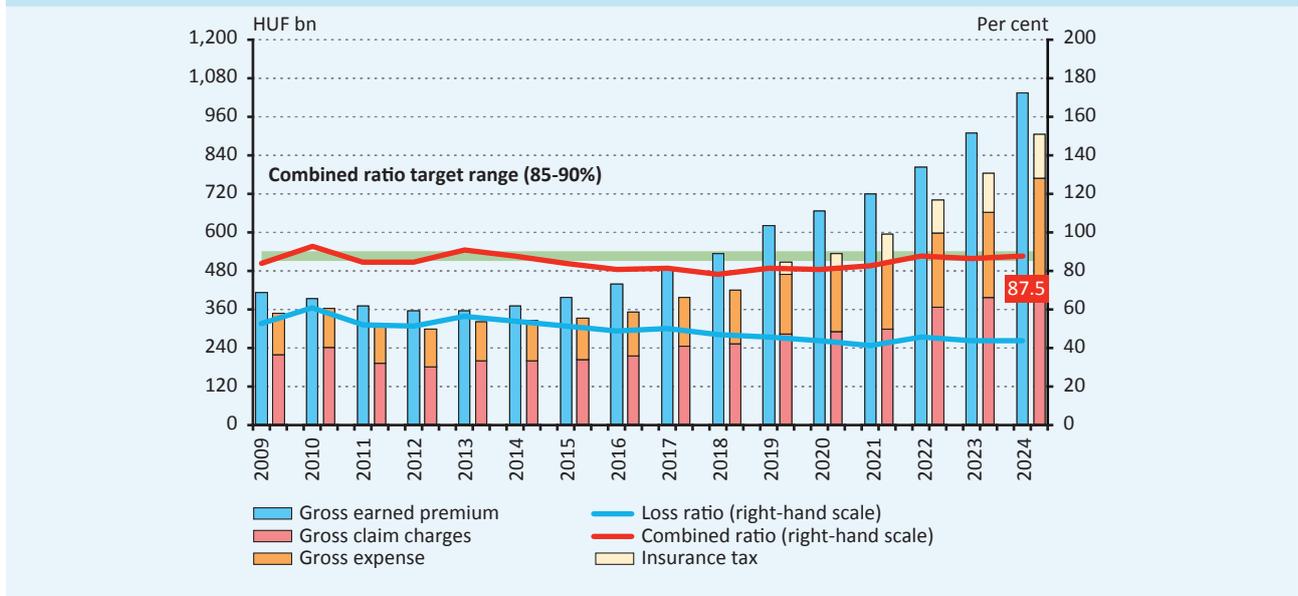
Source: MNB.

2.3.3 Non-life combined ratio inside the target range

The combined ratio for the non-life sector level rose to 87.5 percent in 2024. The growth in premiums earned was below both claim charges and costs. The insurance tax paid on MTPL products increased slightly compared to premiums earned, which may be due to the tax ceiling and the time lag between the tax liability and the earning of premiums. Gross claim charges were 16.2 percent higher and costs were 15.4 percent higher in 2024 versus the previous year, while premiums earned grew by 13.6 percent, lagging behind the growth rate for gross claim charges. As a result of the above, the loss ratio remained stable at 43.5 percent. The value of the combined ratio is in line with the target range of 85–90 percent in the FIS.

In 2024, inflation decreased significantly compared to the previous year, but the increase in the number of claims paid and the increase in claim payments per claim strengthened growth in gross claim charges. The increase in premiums followed the pattern from the previous year. The concentration of the non-life market leaves insurers more room to set prudent premium rates for their products. In the absence of excessive competitive pressures, insurers have been able to avoid setting lower-than-necessary premiums for their products in response to rising claim charges. So far, the effects of the MFO and the housing campaign have not significantly altered the prevailing trends in the market as a whole.

Chart 2.20
Developments in the non-life combined ratio



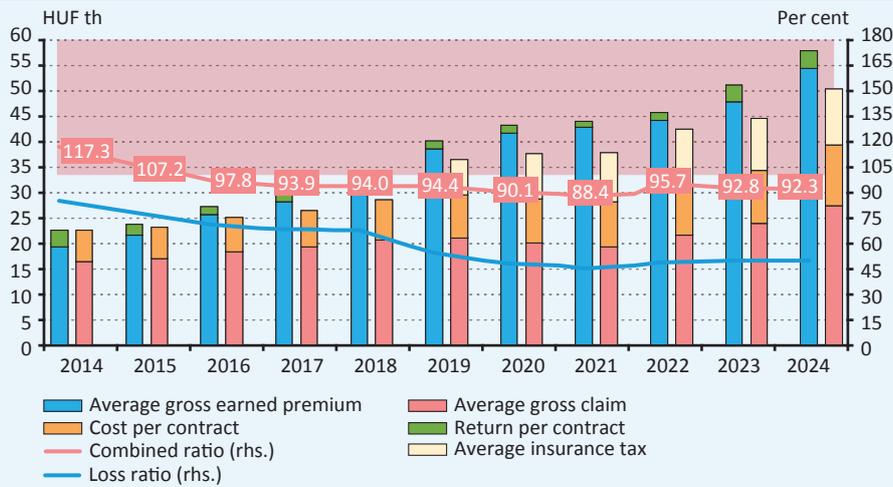
Note: Insurance tax is calculated from the expenditure data in the profit and loss accounts of insurance companies, and estimated using the MTPL insurance tax values for 2018–21.

Source: MNB.

2.3.4 Return on MTPL improves

With the post-pandemic recovery in road traffic, the number of claims started to increase in 2021 compared to the trough in 2020, and this growth continued in 2022, albeit to a smaller extent. At the same time, in the following years the number of claim events declined despite the increase of the number of policies. The rate of increase in gross claim charges per contract was 14.1 percent in 2024 compared to 2023, while the growth rates were 13.7 percent for premiums and 16 percent for costs. With virtually parallel growth, the combined ratio showed a further minimal decline compared to the previous year, from 92.8 percent in 2023 to 92.3 percent in 2024, with slow progress towards the target range of 85–90 percent. The loss ratio has been around 50 percent since 2022 and was at 50.3 percent in 2024. With MTPL products, the increase in claims again could only be reflected in the premiums with a delay as new premiums are calculated in view of past claims experience. Looking ahead, if the market manages to maintain a low claim frequency, the impact of the recently observed claims inflation may be mitigated.

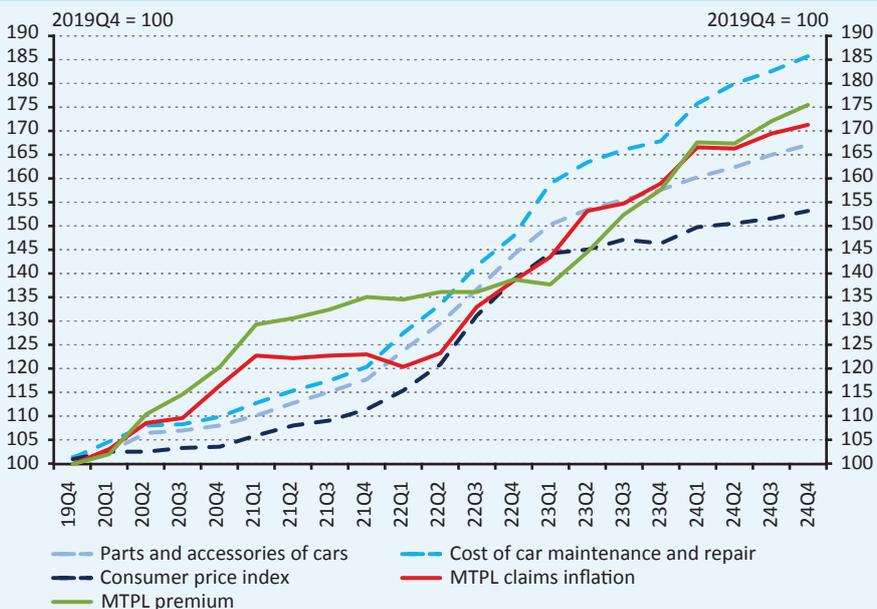
Chart 2.21
Development of combined ratio of motor third-party liability insurance in Hungary



Note: The loss ratio values were adjusted for the change in outstanding loss reserves. The pink area in the chart denotes the band of the combined ratio above 100 percent. The MTPL insurance tax is calculated from the expenditure data in the profit and loss accounts of insurers.
Source: MNB.

A significant portion of MTPL claims is vehicle damage ('tin damage'); therefore, when estimating the level of claims inflation, in terms of the HCSO's consumer price indices, primary consideration should be given to the indices for the costs and spare parts prices necessary to repair this type of damage, and new and used vehicle prices. Compared to the pre-pandemic situation, the MTPL market's premium income increased more than the volume of claim payments, resulting in a sustained divergence between the two indices in 2021 and 2022. The opening of the gap between premiums and claims was fostered by the weaker economic environment due to the pandemic, which led to lower inflationary pressures and premium growth above claims inflation. As a result of the increase in claims following the rise in inflation, the gap between premiums and claims closed in 2022 Q4, returning to close to the ratio seen at the end of 2019. By 2023, claims inflation had increased further and exceeded premium growth, but by 2024 the gap had closed again, with MTPL premiums exceeding claims inflation during the year. At the same time, MTPL market claims frequencies remained below the 2019 levels, which compensates for the claims inflation reflected in the premium needs.

Chart 2.22
MTPL claims inflation with consumer price changes



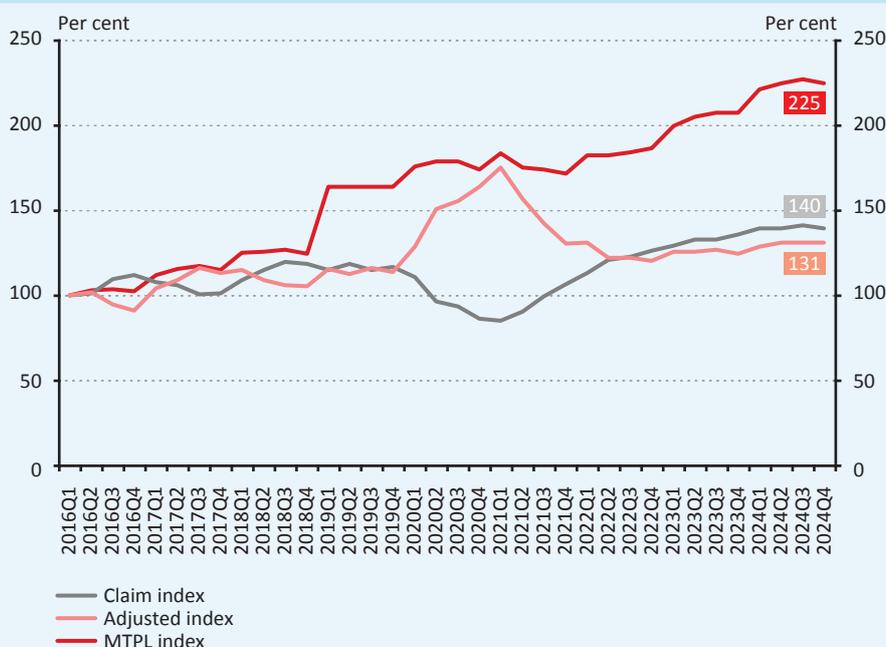
Note: For premiums and claims inflation, the chart shows changes in the value of the moving average per claim.
Source: HCSO, MNB.

2.3.5 MTPL premiums fall after two years of increases

The MTPL index, which is published regularly on the MNB website, is based on the Central MTPL Itemised Database (KKTA), which contains all domestic claims and policy data, and therefore provides a complete, up-to-date view of changes in average market premiums. The average annual premium for normal use passenger cars was HUF 57,300 in 2024 Q4, showing a decrease of 1.2 percent versus 2024 Q3. In 2024, the growth rate slowed in the two quarters following the increase in the first quarter, but then reversed in the fourth quarter, bringing the level of premiums back to the half-year level. Meanwhile, claim charges showed an increase of only 0.2 percent on a quarterly basis at the end of the year, meaning that for the first time in six quarters, the growth rate of claim charges exceeded that of premiums.

On an annual basis, there was an 8-percent increase in average annual premiums in 2024 Q4, which appeared in both Budapest and non-Budapest premiums, with slightly higher rates (10 percent) in Budapest. However, the upward trend in claim charges did not change significantly, with an annualised increase of only 3 percent relative to the final quarter of 2023. The significant increase in claim charges seen in previous years was no longer observed in 2024, due to the still low level of claims frequency. With inflation moderating, a consolidation of premium increases would be justified, as can already be seen from the decrease in the fourth quarter.

Chart 2.23
Passenger car MTPL index



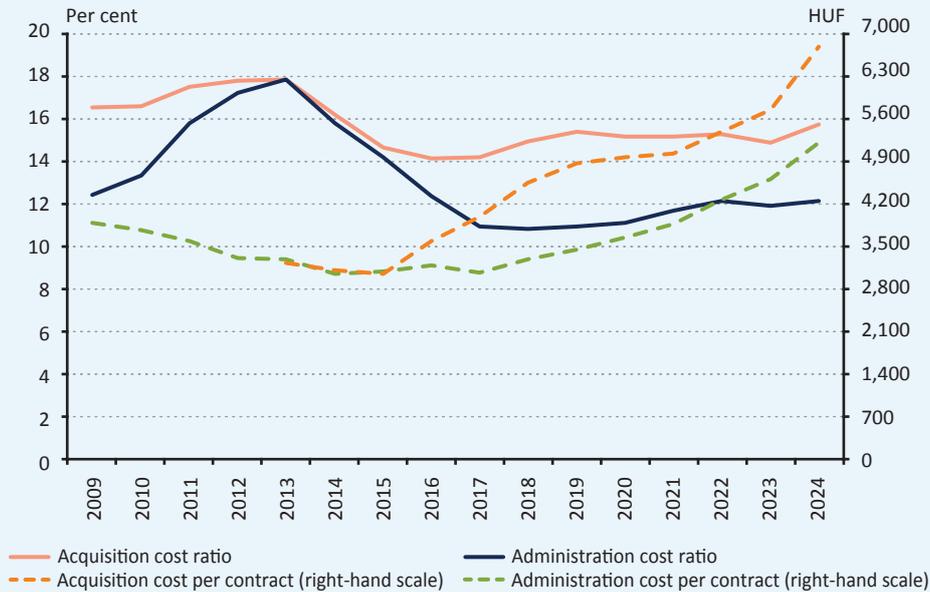
Note: the adjusted index includes adjustments for tax effects and claim charges.

Source: MNB.

2.3.6 Slight increase in cost ratios on the MTPL market

The cost ratio of the business line (acquisition and administrative costs as a percentage of premiums) has been stagnating in recent years. The size of the expense ratio was in line with the ideal target of below 30 percent set in the FIS for non-life insurance, and had been below the indicated level since 2015. In 2024, the ratio was 27.9 percent, of which 15.8 percent is for acquisition costs and 12.1 percent for administrative costs. The ratio increased slightly relative to 2023 (26.8 percent). Compared to the favourable cost ratios in 2017, a slow rise can be perceived, but the market essentially settled in at the 27-percent level. Costs per contract increased steadily relative to 2015, with the increase in administrative costs far outweighing the increase in acquisition costs. The rise in administrative costs also follows the rate of increase in average gross wages, albeit at a lower rate. The administrative cost per contract was HUF 5,217 in 2024 and the acquisition cost was HUF 6,786. While the cost ratio is essentially stagnant, values per contract are increasing steadily, essentially tracking the increase in premiums. This is natural, as the premiums applied should also cover the costs incurred.

Chart 2.24
Developments of the cost ratios of motor third-party liability insurance in Hungary



Source: MNB.

Box 2.5

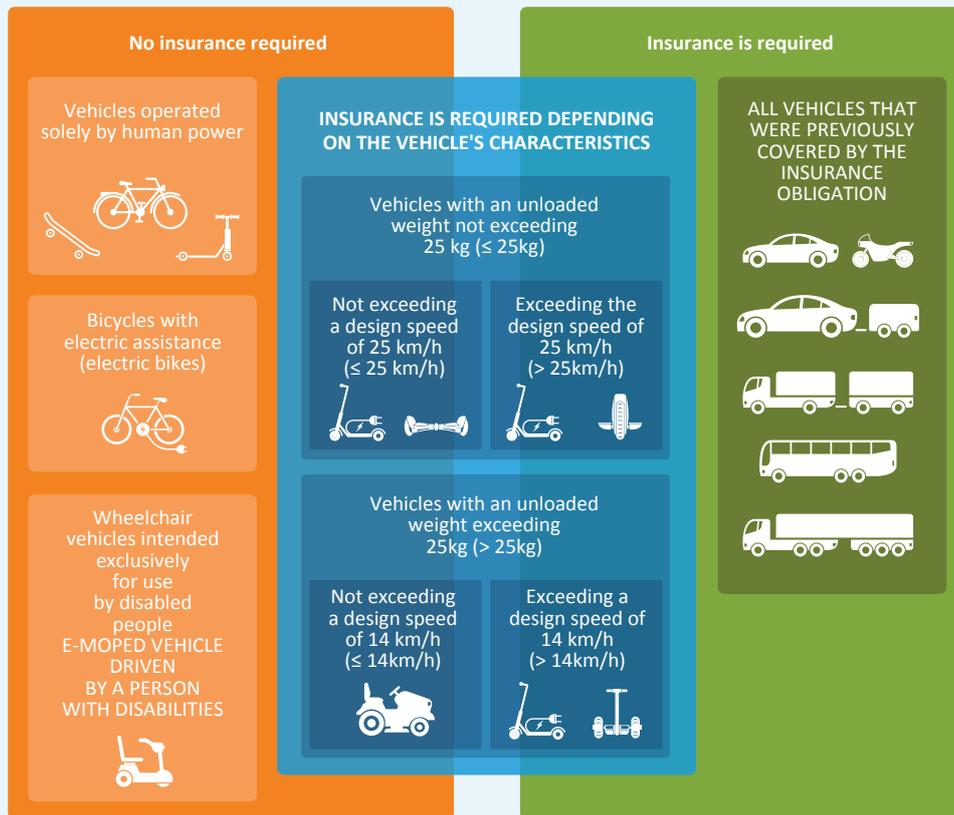
Compulsory third party liability insurance for other motor vehicles

The new provisions of Act LXII of 2009 on Compulsory Motor Third Party Liability Insurance (MTPL Act), which were promulgated on 30 April 2024, amended the definition of motor vehicle to comply with the 2021 amendment to the Motor Insurance Directive (MID), which means that certain micro-mobility devices are also covered by MTPL. According to the new definition, a motor vehicle is any vehicle that is operated on land but not on rails, powered exclusively by mechanical (i.e. not human or animal) force, whether registered or unregistered with the authorities – with the exception of wheelchair vehicles intended exclusively for use by persons with reduced mobility, electrically-assisted (pedelec) bicycles and e-moped vehicles driven by persons with reduced mobility – with a maximum design speed exceeding 25 km/h or a maximum unladen weight exceeding 25 kg and a maximum design speed exceeding 14 km/h, as well as any trailers and semi-trailers to be used with them, even if they are not attached to the vehicle. For some, typically micro-mobility devices, the net weight or design speed of the vehicle will therefore determine whether or not it is necessary to take out MTPL for the vehicle. MABISZ has published an information chart on its website for guidance, but it is not a substitute for the provisions of the legislation in force.

In connection with the new definition of motor vehicles, NGM Decree 24/2024 amending PM Decree 20/2009 defined the category ‘Other motor vehicle’: Other vehicles (vehicles which do not fall into any of the above categories, as defined in Section 3(10) of the MTPL Act), thus resolving the situation where, during the transitional period between the amendments to the MTPL Act and the PM Decree, insurers had to release a premium without the PM Decree including the category in question.

According to the data of the Central MTPL Itemised Database (KKTA), five insurers have live in force insurance contracts classified as other motor vehicles as of 31 December 2024, with a total of 11,454 contracts on the market, with a portfolio premium of HUF 84 million. According to the data, 25 claim events were reported, all of them vehicle damages, with total claim charges of HUF 13.6 million; two-thirds of the claims have already been closed.

Chart 2.25
Classification of vehicles under the Motor Insurance Directive (MID)



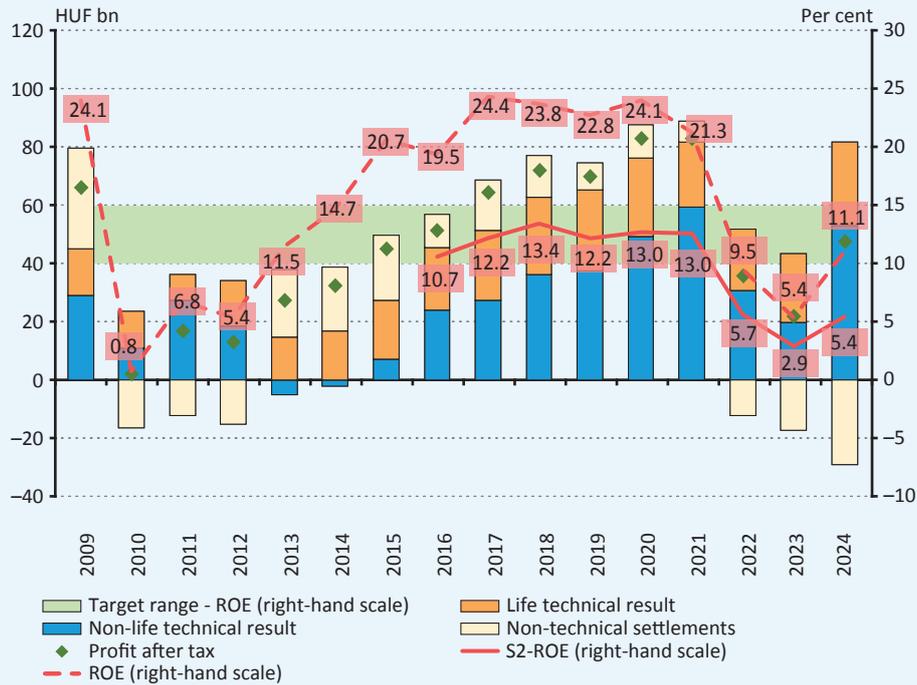
Source: MABISZ 20240506 Information material on vehicles covered by the MID.

2.4 PROFITABILITY AND CAPITAL POSITION

2.4.1 Insurance sector remained profitable

Although profit after tax almost doubled compared to 2023, with an increase to HUF 48 billion, this figure is still far below the levels of HUF 80 billion seen prior to the surtax. Although this corresponds to an ROE of 11.1 percent on an accounting basis, on a Solvency 2 basis – which is of much more relevance in terms of the economic capital at risk – it only equals 5.4 percent.

Chart 2.26
Profitability of the Hungarian insurance sector and its composition

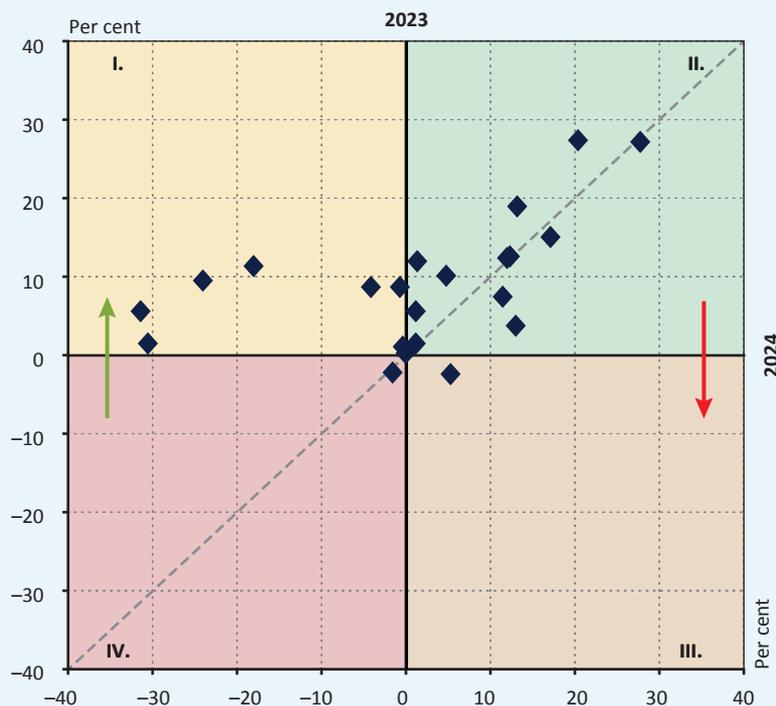


Note: The sector-level ROE values (with the exception of 2024) were calculated on the basis of the annual audited data reporting, where equity does not contain the current year's dividend. For the S2-ROE indicator, the after-tax profit was compared to the eligible own funds.

Source: MNB.

Institutional-level ROE results show that three insurers were loss-making in 2024, which represents a significant improvement relative to 2023, when seven insurers were loss-making. In line with this, the vast majority of institutions had higher profitability, with seven institutions showing a decrease in ROE. Overall, the sector was able to adapt to the external economic conditions and to the burden of the insurance surtax in 2024.

Chart 2.27
ROE value of Hungarian insurers



Source: MNB.

Box 2.6**Insurance surtax and the related tax allowance**

The post-coronavirus period and the impact of the Russian–Ukrainian conflict since 2022 on the economic environment led to the introduction of surtax (under Government Decree 197/2022 (VI.4.) on surtax), which also affected insurers (hereinafter referred to as ‘insurance surtax’). As a result of the adverse conditions, the sector’s capitalisation had fallen to 172 percent by the end of 2022. The insurance surtax levied is based on the gross premiums written in the current period, from which the tax burden is determined by bands, using progressive rates for the life and non-life segment.

In line with interim changes in tax rates and the growth of the insurance market, the tax liability generated in each year increased in year-on-year terms, putting significant pressure on the sector’s capitalisation and profitability. In 2022 and 2023, the sector’s profit indicators fell to between one-third and one-quarter of their previous levels. Insurers took measures (capital increases, retaining dividend, using subordinated liabilities) to strengthen their capital position, and business policy adjustments had been made by 2024. As a result, both capitalisation and profit indicators changed in a positive direction (Chapter 2.4).

For 2025, the method in which the insurance surtax is calculated is changing again, both in terms of bands and rates. The effect of the restructuring (in simple terms) is expected to be an increase for institutions with higher premium income and a decrease for institutions with lower premium income, but no significant change at the sector level, due to the impact of the tax rates and bands. The amending decree also allows for a significant reduction in the tax, which may even lower the 2025 insurance surtax liability by one-half.

According to the Decree, the tax can be reduced if the insurance institution purchases Hungarian government bonds maturing after 1 January 2030, which increase its daily holdings for the period from 1 January 2025 to 30 November 2025 compared to its average daily holdings between 1 August 2024 and 31 October 2024. Up to 30 percent of the increase in the nominal value of the government securities holdings thus obtained can be claimed as a tax allowance, which can be used to offset the amount of tax payable in the life segment and up to 40 percent of the tax payable in the non-life segment. The nominal value increment may be taken into account up to the amount by which the nominal value of the institution’s total government securities holding increases.

The available data show that between 2024 Q3 and 2024 Q4 a number of insurers started to substantially increase their holdings of government bonds maturing beyond 2030.

Table 2.5
Changes in the insurance surtax rates (2022–2024)

	2022		2023-2024	
	Life	Non-life	Life	Non-life
< 2 HUF bn	2%	4%	1%	2%
2-36 HUF bn	3%	8%	1,50%	4%
> 36 HUF bn	6%	14%	5%	12%
Insurance surcharge accounted for the current year	50 HUF bn		88 és 101 HUF bn	

Source: MNB

Table 2.6
Insurance surtax rates in 2025

	2025	
	Life	Non-life
< 48 HUF bn	2%	3%
> 48 HUF bn	6%	14%
Insurance surcharge accounted for the current year	64-128 HUF bn*	

Note: *the bottom and top of the range are estimates of the rates after and before the tax rate cut.

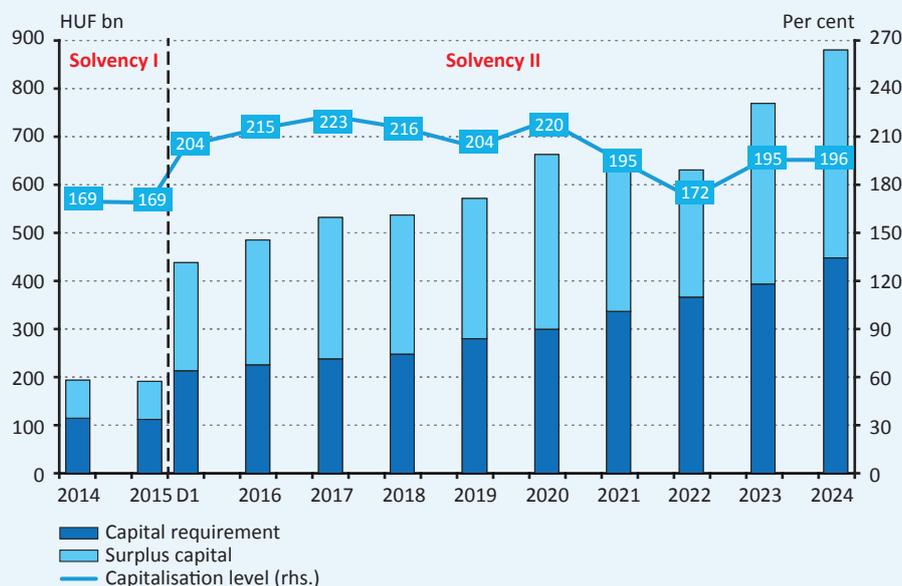
Source: MNB.

2.4.2 Capital level close to 200 percent

The capital adequacy of the insurance sector stood at 196 percent at the end of 2024, almost double the level required by law. The yield curve showed only a slight increase in 2024 and thus had no significant impact on the changes in the sector's capital level. The capital-reducing effect of the insurance surtax introduced in 2022, however, continued in 2024, without which the sector's capitalisation may presumably even have been higher, depending on additional dividend payments.

The sector's capital level was essentially stagnating towards the end of 2024, as a result of the combined effect of the nearly identical dynamic of increase in the available regulatory capital and the capital requirement. Much (89 percent) of the growth of the regulatory capital was driven by an increase in the reconciliation reserve. The amount of expected dividend payments dropped by 2 percent year-on-year, which also contributed to some extent to the maintenance of the sector's capitalisation.

Chart 2.28
Capitalisation rate at sector level

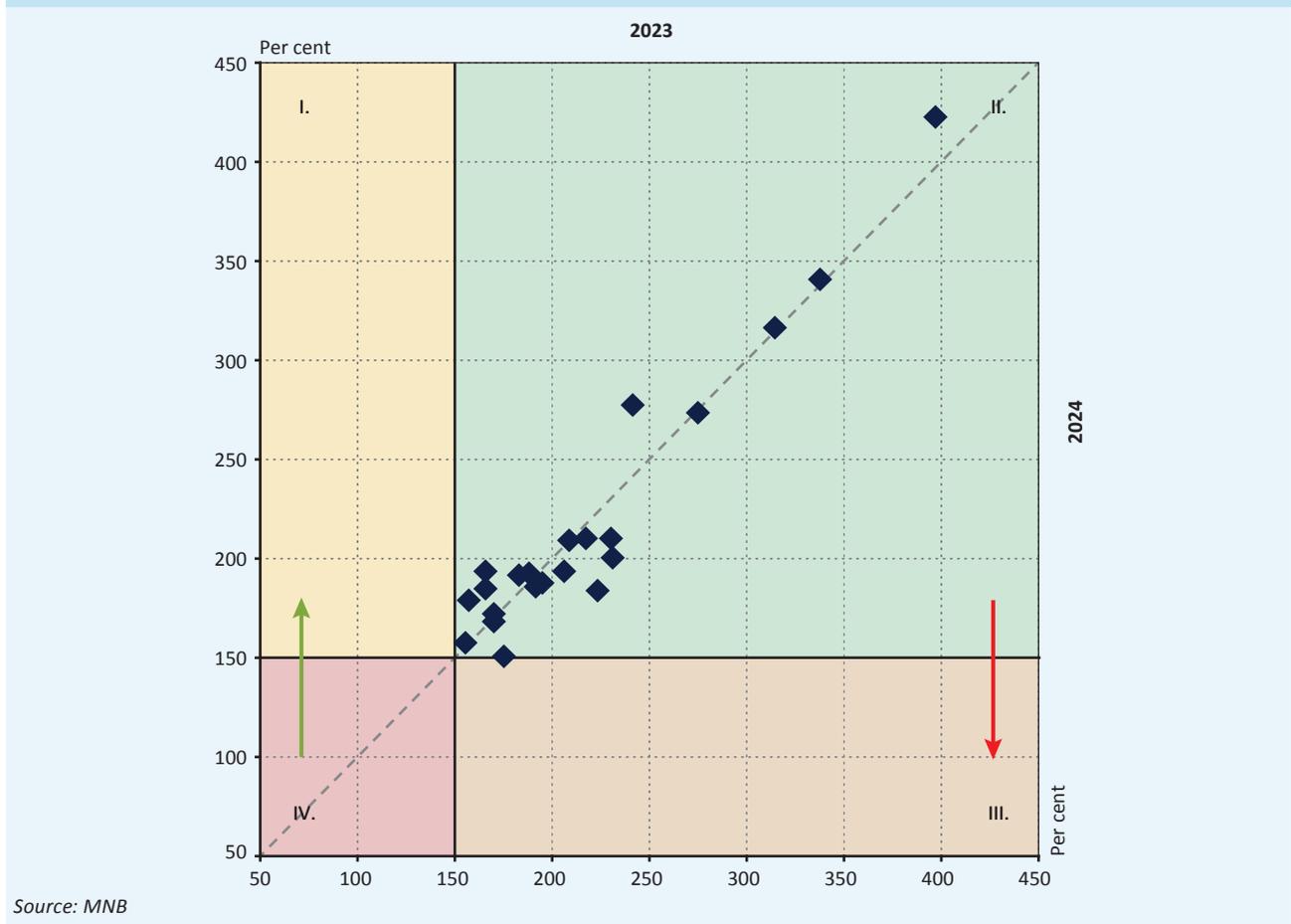


Source: MNB.

2.4.3 Insurer capitalisation stable at individual level as well

The unweighted average capital adequacy of insurers was 214 percent in 2024, with individual values spread around 69 percentage points, up 6 percentage points in a year-on-year comparison and indicating an increase in differences between institutions. However, all institutions apart from one had capital ratios above 150 percent; consequently, the overwhelming majority of the sector met the capitalisation level from the MNB’s volatility capital buffer recommendation. At the same time, the regulatory capital ratio for even the insurer which failed to comply with the MNB recommendation was also higher than 100 percent at end-2024: in other words, none of the institutions breached the statutory ratio. Out of the 23 insurance companies, eleven – i.e. nearly one-half of them – raised their capital adequacy ratios.

Chart 2.29
Individual capitalisation level of insurers



2.5 INSURANCE MARKET RISKS

2.5.1 Stability preserved, despite risks

Table 2.7 Insurance market risks				
Risk category	Risk groups	Risk rating	Risk prospects	Evaluation in words
Business model	Environment Strategy, business plans Profitability			yield curve shifted upwards everywhere except for the 1 and 2 year points during the year although the HUF 48 Bn after-tax profit has almost doubled compared to 2023, it is still far behind the levels of over HUF 80 billion before the introduction of the additional tax. On an accounting basis, this means an ROE of 11.1%, but on a Solvency2 basis, which is much more relevant in terms of economic capital at risk, it is only 5.4% change in additional tax rate and band, in addition, by subscribing to government bonds after 2030 in 2025, the additional tax can be reduced by approximately HUF 60 billion <i>profitability prospects may improve due to the additional tax relief</i>
Corporate governance	Exercise of owner's rights Internal governance Risk assessment system and ORSA Internal control			management of environmental risks based on forward-looking business environment assumptions with high-quality internal control continuous supervisory focus on changes in ownership structure and management composition stress tests have been largely integrated into the risk management system of institutions, the procedures of the risk management system are regulated <i>changes in ownership structure, management and key functions</i>
Financial and operational risks	Insurance risk Market risk Credit risk Operational risk Other relevant risks			In the life branch, there is a possibility of returning single and top up premiums due to the additional tax reduction options (government securities subscription) MTPL combined ratio did not change significantly compared to the previous year <i>Non-life insurance claims growth is slowing down, stagnation of risk is expected with the return of single premium contracts</i>
Capital and reserve risks	Capital Reserves			solvency ratio increased by one percentage point to 196% compared to last year <i>non-life insurance reserves increased by 13% year-on-year, the risk of this was offset by good returns and the improvement in the capital position, so stagnation is expected at a moderate level</i>
Market entry risk	Products Customers			Ethical Insurance 2.0 analysis shows low customer value for some UL life insurance products EIOPA warning on credit protection insurance, incomplete POG processes <i>Thematic review on credit protection insurance provided through banking channels, Ethical Insurance 2.0 compliance from 2026</i>
<p>Legend:</p> <p>Degree of risks high  significant  moderate  low </p> <p>Direction of risks increasing  stagnant  decreasing </p>				
Source: MNB.				

Although profit after tax almost doubled compared to 2023 to reach HUF 48 billion, it remains far lower than the levels of HUF 80 billion seen prior to the surtax. While this corresponds to an ROE of 11.1 percent on an accounting basis, on a Solvency 2 basis, which is of much more relevance in terms of the economic capital at risk, it only equals 5.4 percent.

For the most part, the sector's forward looking business environment assumptions are well-founded, on the basis of which the environmental risks are managed through high-quality internal controls. Owners provide institutions with robust strategic guidance and adequately participate in the management and control of institutions via the governing and supervisory bodies. Prudential supervision is, nonetheless, focused on changes in ownership structure and the composition of management bodies, as well as the associated risks. In the course of elaborating their risk strategies, insurers take account of all material risks and, for the most part, incorporate stress tests in their risk management systems, which have well-established, regulated frameworks and procedures. As regards the quality of the institutions' internal control systems, supervisory audits found individual institutional risks and shortcomings. The MNB expects no change in the modest corporate governance risk in the short term, with a stagnant risk outlook.

No significant surrender rate was recorded last year in the life segment, with positive cash flows in both the regular and the single-premium segments. The MTPL combined ratio dropped to 92.3 percent, approaching the 85–90 percent appearing in the FIS publication. The first home insurance campaign was closed without materialisation of the associated pricing risk. Life insurance reserves increased only slightly, while non-life insurance reserves grew by more than 10 percent year-on-year. Risks are expected to stagnate, in view of the prevailing expectations regarding claims inflation and the yield environment.

Market entry risk is expected to decline as a consequence of the regulatory actions taken by the MNB in 2024 and 2025. The Ethical Insurance 2.0 package was launched at the end of 2024 and introduces the fourth generation of life insurance products to the insurance market. The regulatory package aims to promote long-term sustainable growth based on consumer confidence. The Ethical Insurance 2.0 package included the amendment of two existing regulatory instruments and the issuance of three new recommendations.

Group credit protection insurance sold via banking channels was subject to a comprehensive inspection by the MNB in 2023 and a thematic inspection in 2024, in which the focus was on the insurance products' compliance with POG requirements, in addition to analysis of the factors causing the weak customer value indicated by EIOPA. The final resolutions adopted in the framework of the inspection will be released in May 2025. Customer value improvement is expected in the case of credit protection products (CPI).

In view of the lessons from the first home insurance campaign, the MNB issued three management circulars in 2024, in order to mitigate risks during the next campaign periods. One circular promotes more active involvement of condominiums in the home insurance campaign. In another circular, the MNB set out a consumer-friendly framework for the application of term discounts and modified the information letter that must be sent to consumers before the launch of a campaign period. Starting from 2026, such letters will have to contain the most important details of existing home insurance policies and properties as well.

3 Funds market and associated risks

3.1 OVERALL MARKET SITUATION

3.1.1 Funds sector's 2024 results bolster stability, but unpredictable use of real estate-related services entails risks

As a result of the positive investment result and positive cash flow, the **voluntary pension funds sector's** coverage reserve rose to an all-time high of HUF 2,238 billion, up 15.4 percent in year-on-year terms. In 2024, the increase in investment instrument prices generated an investment gain of about HUF 263 billion on the sector's coverage reserve.

In contrast to the typically strongly negative returns recorded in 2022, weighted by closing assets, voluntary pension funds achieved average net returns of 21.2 percent in 2023 and 13.8 percent in 2024. The 10-year average net return (weighted by closing assets) was 6.1 percent, and accordingly the funds were able to outperform inflation over this period by an annual average of about 0.6 percentage point. The 15-year average net return (weighted by closing assets) of the sector's participants, which looks even further back and thus provides an even more accurate picture, was 6.8 percent. As a result, the real rate of return over the same period was 2.2 percent. Starting from 2025, the MNB publishes 20-year returns as well: for this period, the voluntary pension fund sector's average annual net return and real return was 6.5 percent and 1.7 percent, respectively.

The sum total of membership fee payments credited to voluntary pension funds' coverage reserves and the tax credits transferred from the tax authority amounted to HUF 165.1 billion, 12.6 percent more than in 2023 and the largest amount to date. The amount of individual membership fee revenues (HUF 98.8 billion) increased by 15.2 percent in 2024, while that of employer contributions (HUF 46.5 billion) grew by 8.8 percent, and the amount transferred by the NTCA (HUF 19.9 billion) rose by 9.9 percent versus 2023.

One institution was wound up in 2024, bringing number of institutions comprising the voluntary pension funds sector to 27, while membership increased to 1,075,000 by the end of the year, up 1,400 in year-on-year terms. A drop in membership of 4,400 in 2024 H1 was followed by an increase of 5,800 in 2024 H2. The proportion of membership fee payers was 52.1 percent of the total number of fund members in 2024 Q4.

Voluntary pension funds' operating profit amounted to HUF 1.0 billion in 2024, down HUF 0.7 billion compared to the previous year. Of the 27 institutions, 20 were profitable. The high yields allowed for a higher deduction of unpaid membership fees from non-paying members. This amounted to HUF 2.3 billion at the sector level. By the end of 2024, the sector-level reserves of voluntary pension funds available for operating purposes increased by 5.3 percent year-on-year, to HUF 20.0 billion.

Due to the availability of new real estate-related services, fund payments may grow markedly in 2025 and the first two months of 2026. The management of liquidity for real estate-related service payments is a major task, involving considerable risks, in view of the difficulties of planning their distribution over time. Attention must be paid simultaneously to ensuring liquidity to meet payment claims within the deadline, to keeping investment instruments within the limits specified by law and the funds' investment policies, and to achieving the best possible returns on investments. The latest available statistics on 2025 Q1 show that a total of 16,600 persons – 1.5 percent of the membership (of 1,069,000 as at 30 September 2024⁸) – submitted claims to voluntary pension funds for real estate-related payments. Claims for payments totalling HUF 38.0 billion were submitted in relation to real estate-related services, equalling 1.8 percent of voluntary

⁸ According to the relevant statutory regulations, claims for real estate-related payments may be submitted by those who were members on 30 September 2024, up to the amount of their balance at that time; therefore, we determined the relative frequency of claims in relation to the number of members and assets at that time.

pension funds' sector-level coverage reserve. Owing to the 60-day administrative time limit, an amount of HUF 16.6 billion was paid out during the first three months.

The government has announced a gradual expansion of the social group that is exempt from paying personal income tax (PIT). The amount deductible under the family tax allowance will also increase. The expansion of the range of available PIT allowances, which may weaken the motivation of the savers concerned, may result in risks regarding supplementary pension and health savings that are supported by tax allowances.

The number of institutions (16) in the **sector of health and mutual aid funds** remained unchanged in 2024.

Although the amount allocated to individual accounts (coverage reserve) from the membership fees paid was exceeded by the amount of benefit payments, the amount of tax credits claimed plus the institutions' investment result was enough to offset this effect, resulting in an increase in the coverage reserve.

Revenues received by health and mutual aid funds and credited to individual accounts increased by a significant 20.4 percent year-on-year to HUF 102.5 billion in 2024. The amount of members' contributions grew in 2024 relative to 2023 by 22.8 percent to HUF 75.9 billion, the amount of employers' contributions increased by 11.2 percent to HUF 10.0 billion, while the amount transferred by the tax authority rose by 15.7 percent to HUF 16.6 billion.

The sector of health and mutual aid funds already surpassed the voluntary pension fund sector in terms of number of customers as early as 2023 Q1, due to the growth trend in the number of members, as a result of which total membership had risen to 1,187,000 by the end of 2024, up more than 5.6 percent (63,000) in year-on-year terms. Total membership increased by 165,000 between 2020 and 2024. The ratio of membership fee payers was 38 percent at end-2024.

The benefit payments of health and mutual aid funds (HUF 98.1 billion) increased by 20.0 percent (HUF 16.3 billion) versus the previous year. The majority of payments continue to cover the reimbursement of medicines, special dietary products and vitamins purchased for prevention, which account for a 39.0-percent share.

Health and mutual aid funds realised an operating surplus again in 2024, in the amount of HUF 1.3 billion, which was HUF 0.14 billion less than in 2023. Only two out of 16 institutions were loss-making on an annual basis. The deduction (HUF 0.5 billion) from the return of non-payers was an important contributor, but the operating profit is significant even without it. The operating reserve increased by 20.2 percent to HUF 8.3 billion.

Table 3.1

Key data of the voluntary pension funds sector

	Pension funds				Health and mutual aid funds			
	2023		2024		2023		2024	
Number of institutions (pcs)	28		27		16		16	
Number of members (thousand persons)	1,073		1,075		1,124		1,187	
Number of members paying membership fee (thousand persons %)	556	51.8%	560	52.1%	427	38.0%	449	37.8%
Total funds portfolio (HUF billions)	1,960		2,262		91		104	
<i>Of this: Coverage reserve (HUF billions)</i>	1,939		2,238		84		96	
Asset value per contract (HUF thousands)	1,807		2,082		75		81	
Membership fee payments (HUF billions)	134		152		76		92	
<i>Of this: Membership fee payments allocable to coverage reserve (HUF billions)</i>	128		145		71		86	
Claimed tax credit (HUF billions)	18		20		14		17	
Payments against the coverage reserve (HUF billions)	139		130		83		100	
Operating profit/loss (HUF billions)	1.71		1.03		1.42		1.28	
Reserves for operational purposes (HUF billions)	19.0		20.0		6.9		8.3	

Source: MNB.

Box 3.1**New service objective and regulatory changes at voluntary pension funds**

One of the most important changes in legislation in 2024 was an amendment to Act XCVI of 1994 on Voluntary Pension Funds, which entered into force on 29 November 2024. This change enabled pension fund members to use the amounts accumulated on their individual accounts in 2025, up to the amount of the balance as at 30 September 2024, for real estate-related purposes, at their discretion. A fund member may request this service up to three times and the fund must disburse the required amount within 60 days of receipt of the request. Other detailed rules on the real estate-related service were laid down by the Ministry for National Economy in a separate decree.

An amendment to Government Decree 281/2001⁹ (hereinafter referred to as ‘Government Decree’) – which introduced 20-year return notification in addition to the existing 10- and 15-year investment return notification, with the first such notification to be made in 2025 – enabled an extension of the list of long-term average rates of return representing funds’ investment performance. Information on long-term returns enables fund members to plan their savings for their years after retirement more accurately. Under the amended regulation, funds now disclose their annual and long-term investment performance figures earlier, by 28 February, instead of 15 March. Members are to be informed about the gross rates of return in addition to the net rates, enabling them to make comparisons with the reference rate of return.

Other amendments to the Government Decree include an obligation to provide statements of the asset coverage of members’ savings in a breakdown by fund (coverage, operating, liquidity) and sub-account (cash flow, investment), applying, at the same time, to contingent items as well. Also clarified were the rules on the valuation of debt securities, the provisions on the management of petty cash and the management of non-marketability and non-payment risks.

The composition of invested assets was affected by the amendment to the investment limit rules on securities issued by the same issuer. The limit was raised from 10 percent to 15 percent, but this does not apply to government securities, shares of open-ended investment funds, mortgage bonds and, in the case of mergers, the privately-issued equities of Hungarian credit institutions. The limit was raised to the same extent regarding Hungarian and international corporate and local governmental bonds, publicly-traded shares that are not listed on any exchange and equities privately issued by Hungarian credit institutions.

3.2 VOLUNTARY PENSION FUNDS

3.2.1 68 percent of investments are domestic, with Hungarian government securities accounting for the largest share

Years of steady increase in the coverage reserve came to an end in 2022. The total asset portfolio contracted during the first three quarters of 2022, dropping to even below the end-2020 figure by the end of that period. A market rebound commenced in 2022 Q4 and continued in 2023 and 2024, featuring a significantly steeper growth curve than previously recorded. The market value of HUF 2,238 billion as at 2024 marked an all-time high, up 15.4 percent on the preceding year-end figure of HUF 1,939 billion. The increase was driven primarily by the massive investment profit (HUF 263 billion) on the coverage reserve and the positive cash flow (HUF 35 billion). The price increase of investment instruments was enabled by a decrease in bond market returns as well as price gains on the stock markets in 2024.

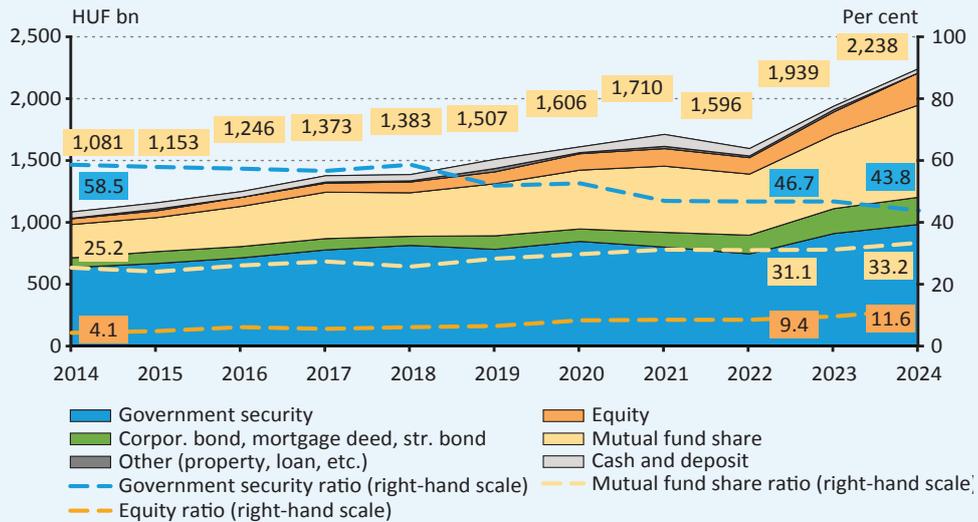
Investments in Hungarian government securities continue to account for the largest share of the assets. The direct exposure of Hungarian government bond investments fell by a modest 2.9 percent compared to the end-2023 level. By contrast, the share of direct equity investment rose by 2.2 percentage points in a year-on-year comparison. At the end of 2024,

⁹ Government Decree 281/2001 (XII.26.) on Regulation Governing the Investment and Financial Management of Voluntary Mutual Pension Funds.

the total equity exposure equalled 11.6 percent, of which 8.3 percent and 3.3 percent consisted of domestic and foreign equities, respectively. The ratio of investment fund shares also increased, rising by 2.1 percentage points to 33.2 percent from the level of 31.1 percent recorded at end-2023.

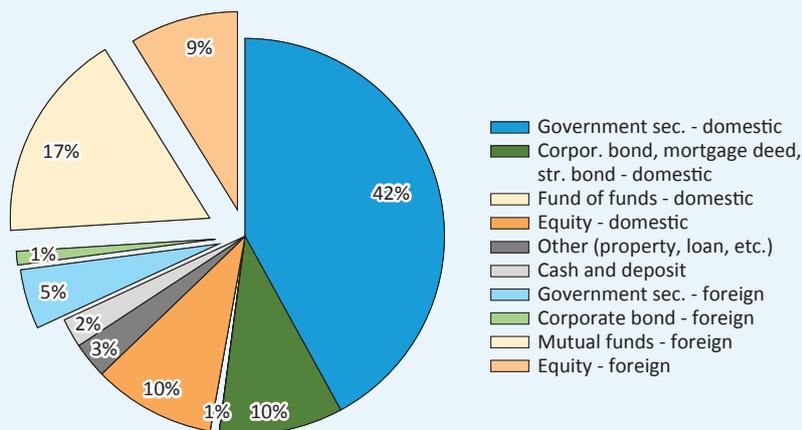
A breakdown of indirect investments indicates that 68 percent of the investments underlying the coverage reserve are domestic assets. The pie chart shows the data for the entire voluntary pension fund portfolio with a breakdown of domestic investment funds.

Chart 3.1
Voluntary pension fund investments in a breakdown by asset groups



Source: MNB.

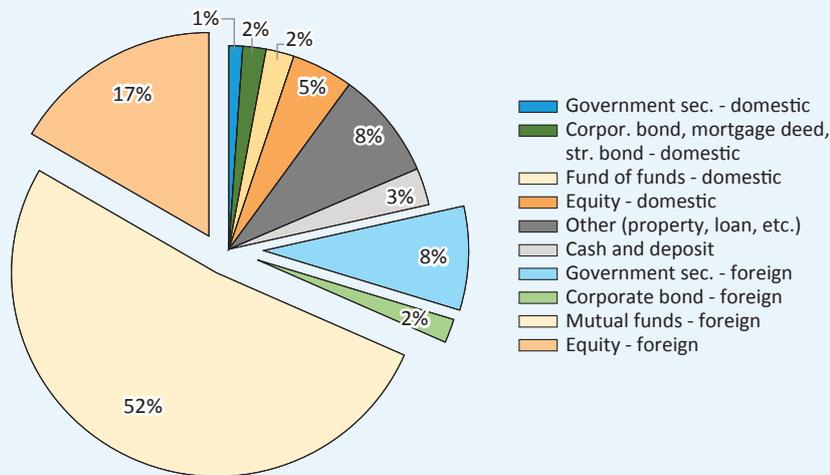
Chart 3.2
Breakdown of voluntary pension funds' investments by asset group with the decomposition of investment fund shares, at end-2024



Source: MNB.

Most of the funds' shares are backed by foreign assets, primarily foreign investment units and equities.

Chart 3.3
Composition of voluntary pension funds' investment funds

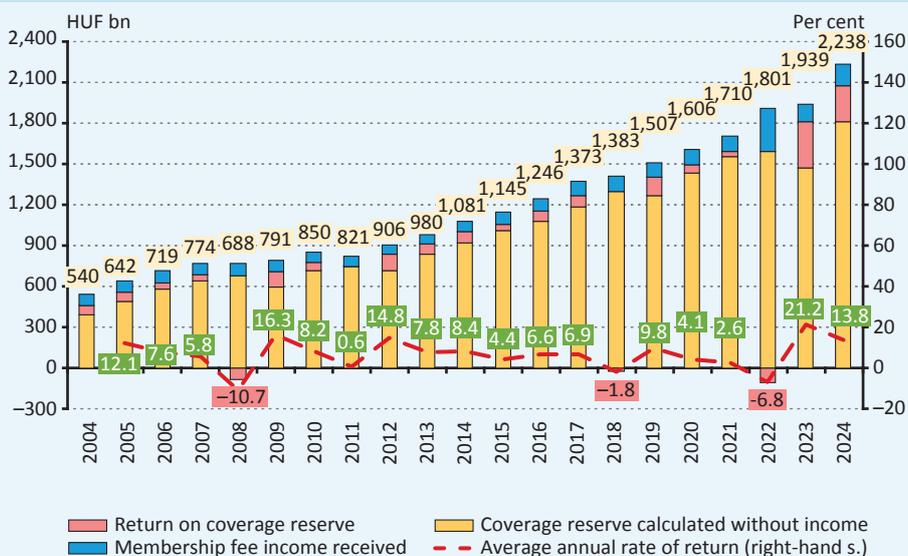


Source: MNB.

3.2.2 Another year with double-digit returns for voluntary pension funds

Voluntary pension funds delivered an average net rate of return of 13.8 percent (weighted by closing assets) in 2024, making it the second year in a row with a double-digit return. Stock markets around the world rose vigorously in 2024, with a significant impact on the returns of domestic funds' portfolios as well. Of the various types of fund portfolios, those with higher proportions of equities also had higher rates of return (in terms of the median). Accordingly, the lowest (6.5 percent) rate of return was generated by group of the so-called conservative type of portfolios which contain no equities at all. By contrast, the group of so-called dynamic portfolios – made up of at least 66 percent equities – produced the highest (21.8 percent) rate of return. Year-on-year inflation was¹⁰ 4.6 percent in December 2024, meaning that the voluntary pension funds delivered a real rate of return of 8.8 percent last year.

Chart 3.4
Developments in voluntary pension funds' membership fee revenue, volume of yields and net annual average rate of return



Source: MNB.

¹⁰ The December/December inflation rate shows the annual change in price levels between the end of the previous year and the end of the current year, which is why this value is used to calculate real returns; funds' annual rates of return should be compared with this.

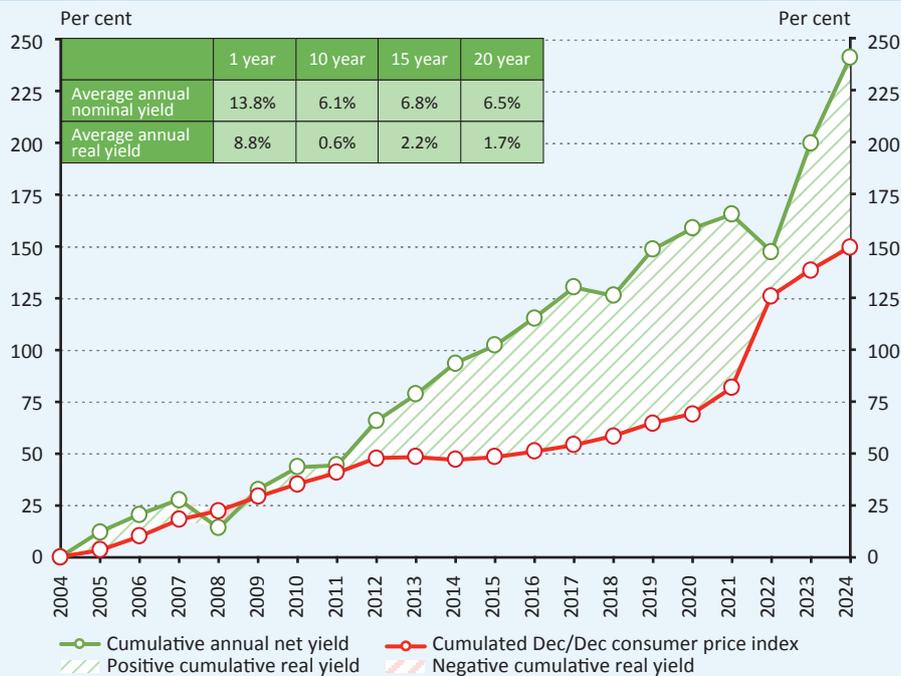
In addition to 10-year and 15-year rates of return, in 2025 funds calculated 20-year rates as well, which the MNB verified and posted on its website in February 2025.

3.2.3 Long-term nominal and real returns in the positive range, low cost level

The 10-year average net return (weighted by closing assets) is 6.1 percent; accordingly, the funds were able to outperform inflation over this period by an annual average of about 0.6 percentage point. The 15-year average net return (weighted by closing assets) of the sector’s participants was 6.8 percent. As a result, the real rate of return over the same period was 2.2 percent. The 20-year average net return (weighted by closing assets) of the sector’s participants, which looks the furthest back, was 6.5 percent, from which a 1.7-percent real rate of return can be derived.

In consideration of the investment performance of voluntary funds, their low annual operating and other costs (contribution charges) amounting to less than 1 percent, and the 20-percent tax allowance on contributions, voluntary funds remain a competitive form of self-provision in the market for retirement savings products.

Chart 3.5
Long-term cumulative returns of the voluntary pension fund sector



Source: MNB.

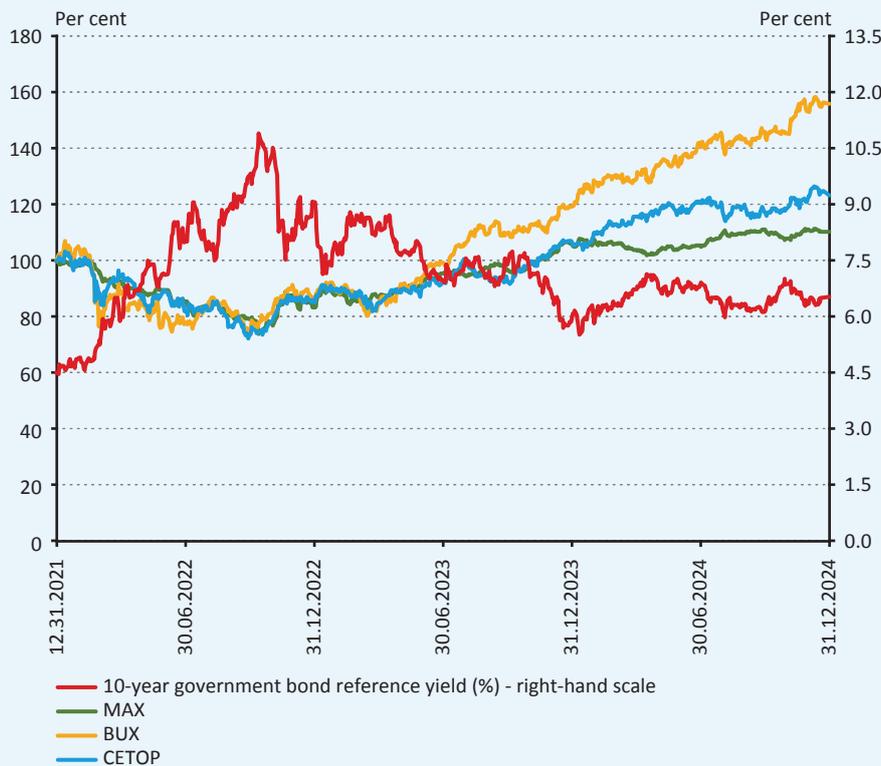
Box 3.2

Voluntary pension funds’ investment profits and underlying trends

Pension funds delivered outstanding returns in 2024 again, with a 13.8-percent average net rate of return. After 2022, which was a negative year from the perspective of investment, funds’ investments generated returns of more than 20 percent for nearly two-thirds of fund members. The sector’s average rate of return was as high as 21.2 percent. In view of this, investment performance in 2024 was even more favourable, as there have never been two consecutive years in the past 20 years in which pension funds delivered double-digit positive returns. It is worth examining the trends that led to the favourable yield results in 2024.

Government securities account for almost one-half of pension fund portfolios at the sector level. The reference rates of return on government securities dropped significantly in 2023 (the 10-year reference rate, for instance, fell from 8.98 percent to 5.86 percent) and accordingly, the funds’ portfolios of government securities increased significantly in value. The MAX index, which reflects changes in the prices of over-year government securities, rose by 26.8 percent in 2023. It was expected however, that in the following year – 2024 – the pace of decline in benchmark yields on the government securities market would slow down. In 2024, the decline in the reference yield on securities with a maturity of more than one year turned into a modest increase, and the price of government securities fell slightly.

Chart 3.6
Changes in the MAX, the BUX and the CETOP indices (end-2021 = 100 percent), and the reference rate of return on 10-year government securities



Source: GDMA, BSE, MNB.

Stock markets around the world posted gains in 2024, with outstanding returns also being generated on the domestic stock exchange. The BUX index, which shows changes in the most important stocks listed on the BSE, rose by 30.86 percent in 2024, but even the CEE region’s CETOP index also increased by 15.14 percent in terms of HUF. The US capital markets also saw a significant increase in prices. The S&P index, for example rose by 40.1 percent in terms of HUF, largely due to movements in the foreign exchange market. In view of the market trends, one can assume that funds’ portfolios which included equity investments as well delivered higher returns in 2024. We assigned the 78 voluntary pension fund portfolios to five different categories based on the risk level specified in their respective investment policies. The risk assumed by a portfolio is determined on the basis of the target ratio of equity assets specified in the investment policy. The bands associated with the risk categories were determined such that they are in line with the portfolio names generally used in funds’ practices. Such categorisation does not, of course, mean a perfect match with the terminology applied by funds. For instance, there are funds whose target proportion of equity instruments in their ‘classic’ portfolios is 0 percent, and therefore those portfolios are categorised as ‘conservative’. Most of the funds that are not operating systems with optional portfolios are, for the most part, assigned to the middle – balanced – category with some of them assigned to the ‘classic’ risk category.

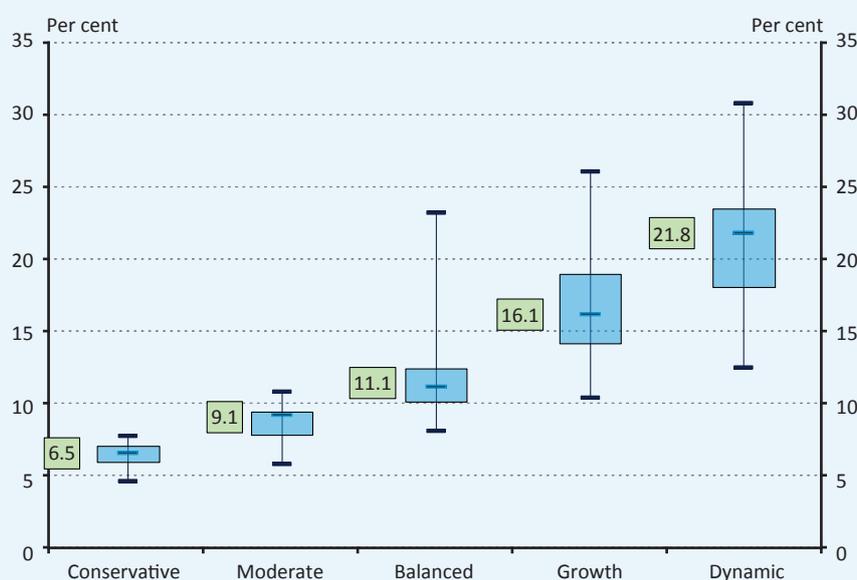
Table 3.2
Types of portfolios held by voluntary pension funds

Target ratio of equity assets	Type
0%	Conservative
1-15%	Moderate
16-35%	Balanced
36%-65%	Growth
66%-	Dynamic

Source: MNB.

A look at annual returns in a breakdown by portfolio reveals that portfolios with higher proportions of equity investments delivered higher rate of return in 2024.

Chart 3.7
Voluntary pension funds' 2024 rates of return, by type of portfolio

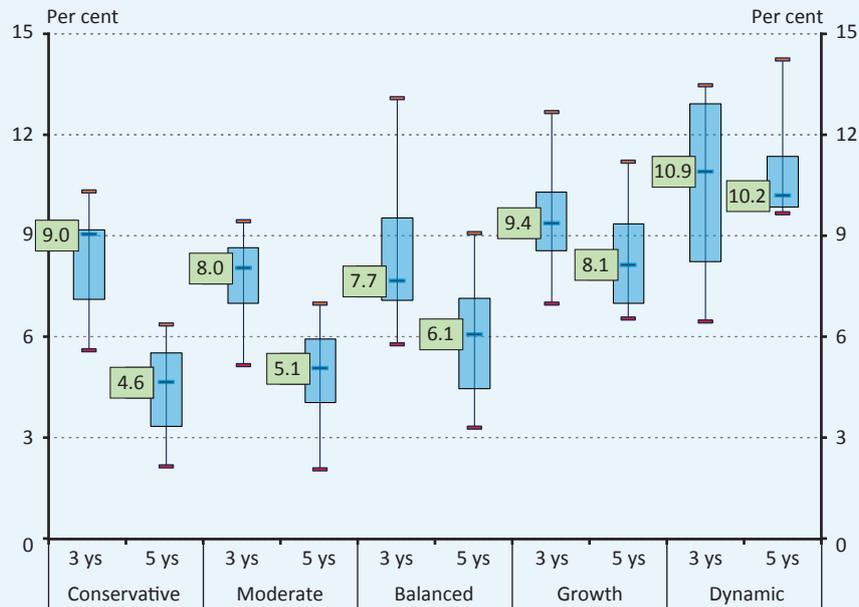


Source: MNB.

Returns on conservative and classic portfolios were, for the most part, around 10 percent in 2024. The median return on growth portfolios with equity investments accounting for about 50 percent was as high as 16.1 percent, while the median return on dynamic portfolios was 21.8 percent.

In view of the extraordinary market events in the past few years, it is worth examining the returns delivered by funds' portfolios over several years. During the 2022–2024 period, conservative portfolios generally outperformed classic and balanced portfolios, which contain a smaller proportion of equities as well. These portfolios did not suffer negative returns in 2022, but they managed to take advantage of favourable developments in the money market and government securities in 2023 and 2024. As is also proven by this example, choosing a lower-risk portfolio on the basis of the life cycle approach may be a reasonable decision a few years before retirement. Extending the period under review to the past five years, one can see that the higher the proportion of equity investments was in a portfolio, the higher its average rate of return was. Looking back on the past five years, one can see several periods of major stock market upswings – in 2021, 2023 and 2024 as well – which pulled up the rates of return on portfolios with high proportions of equity investments.

Chart 3.8
Voluntary pension funds' rates of return between 2022 and 2024, in a breakdown by portfolio type



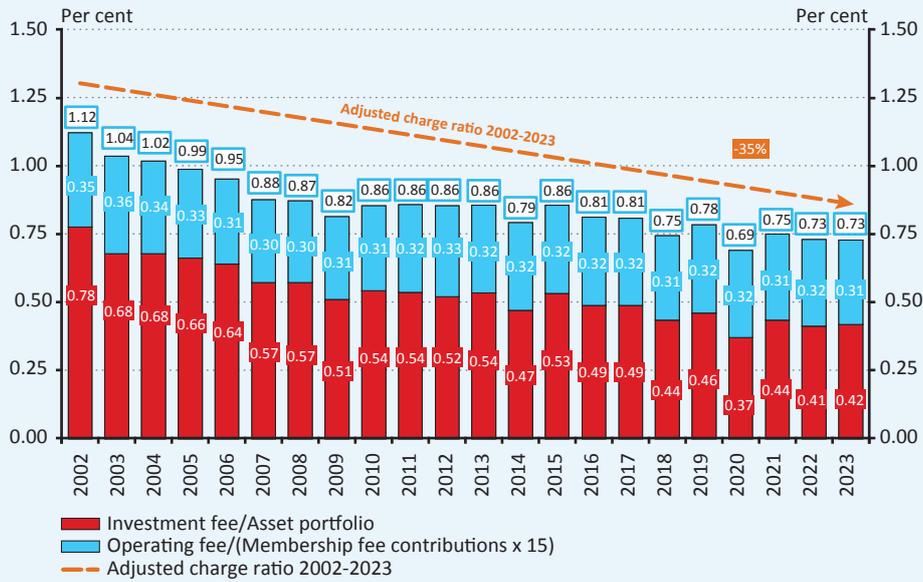
Source: MNB.

In addition to investment performance, attention should be paid to the trend in pension fund costs as well, as customer decisions – along with the institutions' cost-effectiveness and sustainability – can be influenced most by costs, in addition to returns. To ensure the transparency of funds' costs and to provide members with adequate information, the MNB publishes a variety of cost indicators. For example, it performs calculations using the data in funds' reports and publishes the charge ratios. In 2023, the adjusted charge ratio was 0.73 percent, the same as in 2022. The ratio of voluntary pension funds' contributions deducted for operation relative to the total contributions paid decreased by 11 percent in the period 2002–2023

In 2023, the ratio of charges deducted from contributions for operating and liquidity purposes to total contributions dropped by a mere 1 basis point. The increase was related to many of the funds' applying a system of dividing members' contributions in brackets, as a consequence of which they deducted relatively smaller proportions for operation from the contributions in 2023, which were 9 percent higher in that year than in 2022.

The investment charge also changed only modestly, increasing by 1 basis point, relative to 2022. Most of the institutions have performance fee contracts in place with their asset managers. The modest increase in the investment charge was driven partly by the performance fees paid to asset managers for the outstanding returns delivered by the funds in 2023.

Chart 3.9
Developments in the adjusted charge ratio, 2002–2023

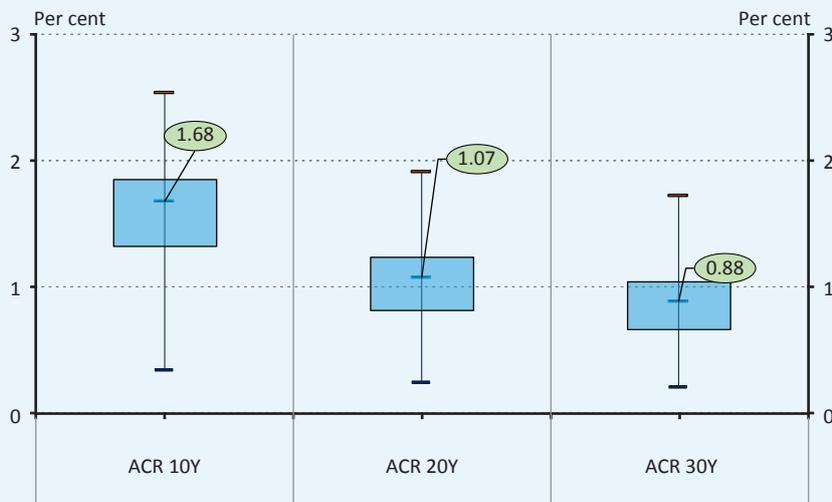


Source: MNB.

The total cost indicator for pension fund products (ACRPF) introduced by MNB Recommendation No 20/2019 (IX. 20.) expresses the charges deducted from a member’s contributions and savings in a single figure. The ACRPF is comparable to the same indicator of life and pension insurance, which enhances transparency and competition within the funds sector and across the different sectors.

In 2024, the 10-year median ACRPF was 1.68 percent, the 20-year median ACRPF was 1.07 percent, and the 30-year median ACRPF was 0.88 percent. There were no significant changes in the ACRPF values at the sector level compared to the previous year. The 10-year median ACRPF value increased by 7 basis points, while the 20-year median ACRPF value decreased by 1 basis point, and the 30-year median ACRPF value dropped by 3 basis points. The funds’ cost ratios also confirm that voluntary pension funds are a cost-effective, long-term investment even when compared to other financial products.

Chart 3.10
ACRPF values in the voluntary pension fund sector (2024)

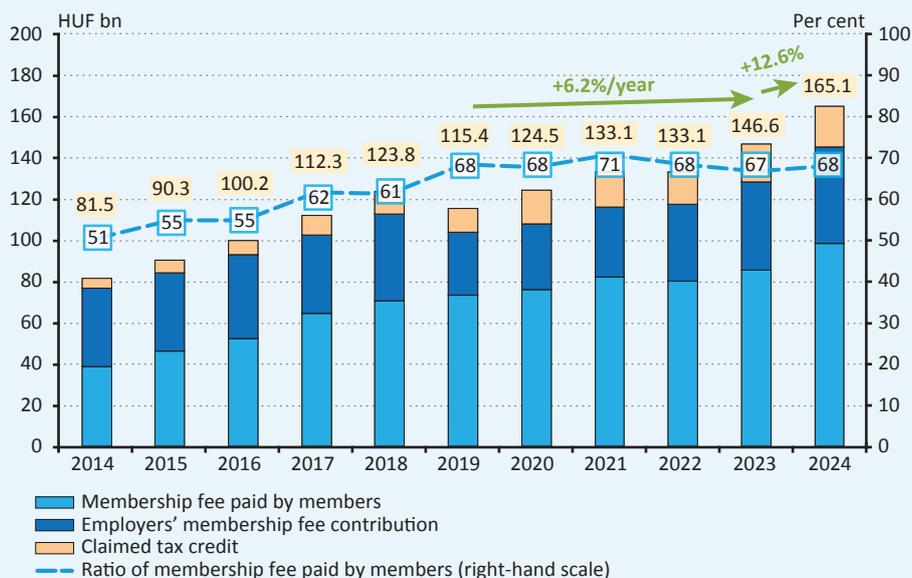


Source: MNB.

3.2.4 Significant increase in revenues affecting the coverage reserve, positive pension fund cash flow in 2024 as well

The sum total of membership fee payments credited to voluntary pension funds’ coverage reserves and tax credits transferred from the tax authority amounted to HUF 165.1 billion, 12.6 percent more than in 2023 and the largest amount to date. The amount of individual membership fee revenues (HUF 98.8 billion) increased by 15.2 percent in 2024 and that of employer contributions (HUF 46.5 billion) grew by 8.8 percent, while the amount transferred by the NTCA (HUF 19.9 billion) rose by 9.9 percent year-on-year. The tax credit of up to 20 percent of individual and employer contributions was not fully used, or part of it was claimed by members who were active in both pension and health insurance funds, for their health and mutual aid funds, as the amount of tax credits accounted for 15.5 percent of the previous years’ contributions in 2024. Members cut back their contributions slightly in 2022, but this changed in 2023 and 2024 when there was an increase totalling 24.1 percent in nominal terms. Individual contributions continued to dominate the inflow, accounting for 68.0 percent of the annual income from contributions. The amount of employers’ contribution dropped in 2019, which may have been partly a result termination of the tax advantage of cafeteria benefits over wages The increase (7.4 percent as an annual average) that has taken place since is a result of an increase in individual membership contribution revenues. Employers’ contributions continue to be important, however, because, as a result of the contractual commitments, they provide a stable, monthly income for the funds, while individual contributions are more likely to decline in economically difficult years.

Chart 3.11
Breakdown of membership fees credited to voluntary pension funds’ coverage reserves by contribution payer



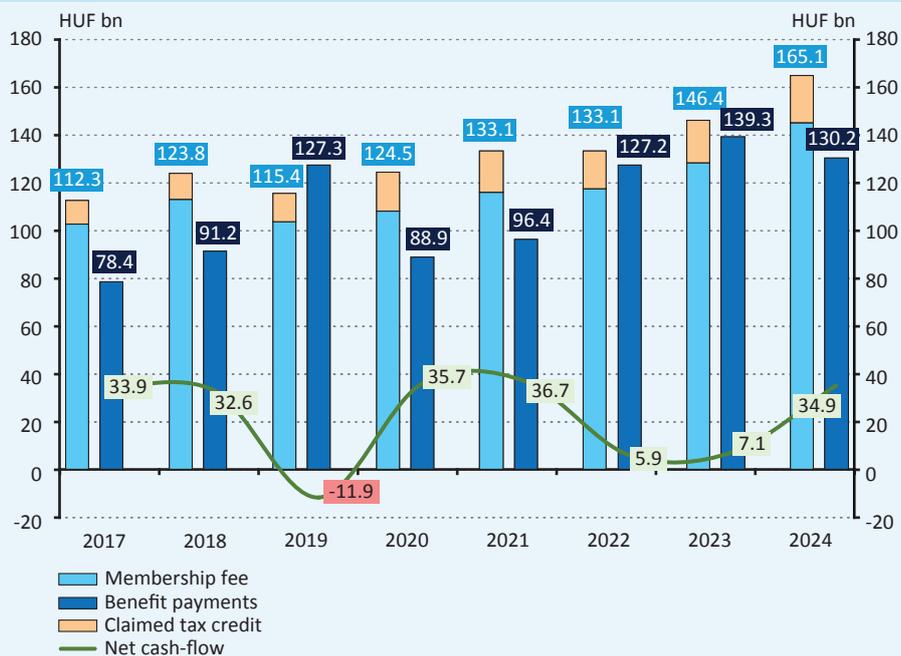
Source: MNB.

An analysis of the cash flows of voluntary pension funds shows that since 2017 there has been only one occasion (in 2019) when the annual cash flow at sector level was negative, mainly due to higher payouts owing to negative returns in 2018 and a decrease in member contributions. With the exception of 2019, voluntary pension funds have recorded a revenue surplus for the last eight years and thus in the long run individual negative fluctuations are smoothed out. It is also clear, however, that in 2022 and 2023 the sector’s cash flow balance would have been negative without the amount of tax refunds, because of an increase in payouts. This does not apply to 2024, when the cash flow balance would have been positive even without the amount of tax refunds.

After the negative voluntary pension fund returns in 2022, the amounts paid out in 2023 exceeded those paid out in 2022 by 9.4 percent, the bulk of which was realised in the first half of the year. This shows that members are highly sensitive to developments in annual returns, despite the fact that voluntary pension funds rely on long-term commitment, and their performance should be evaluated over a 20-year to 30-year time horizon. Based on past experience, the poorer investment performance in some years will not only be corrected by positive results in subsequent years, but will be significantly exceeded. Payouts decreased by 6.5 percent in 2024: this included a drop in lump sum pension benefits and the amounts paid to members exiting from funds.

As a result of payouts for real estate-related purposes, outflows are expected to exceed the volume registered for 2024 and thus a cash flow position less favourable than in 2024 is expected in 2025 and in the first two months of 2026; the MNB, however, continues to pay particular attention to the monthly monitoring of institutions cash flows and any resulting risk.

Chart 3.12
Cash flows of voluntary pension funds



Source: MNB.

Box 3.3
Real estate-related payouts in the voluntary pension fund sector

Statistics for 2025 Q1 show that a total of 16,600 persons – amounting to 1.5 percent of the membership (1,069,000 as at 30 September 2024¹¹) – submitted claims for real estate-related payments to voluntary pension funds. Claims for payments of a total of HUF 38.0 billion were submitted in relation to real estate-related services, equalling 1.8 percent of voluntary pension funds’ sector-level coverage reserve. Owing to the 60-day administrative time limit, an amount of HUF 16.6 billion was paid out during the first three months.

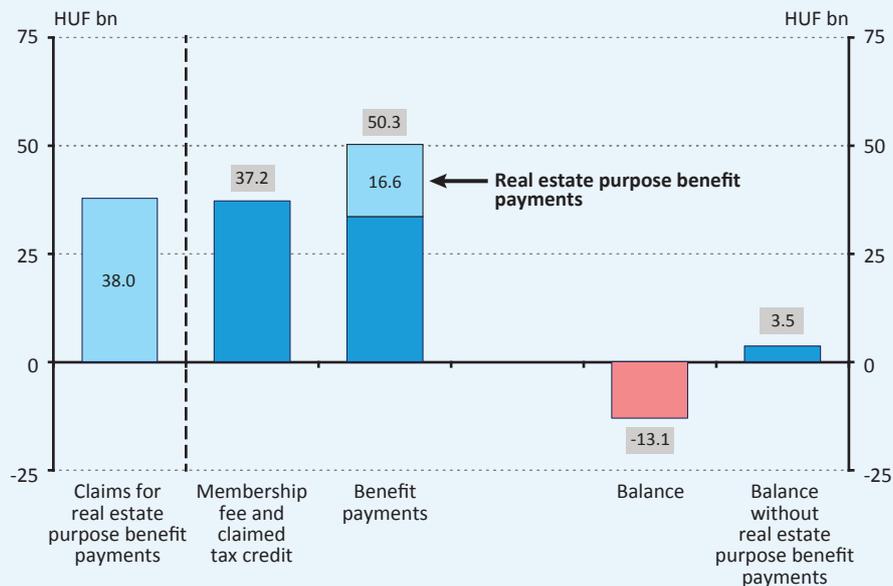
¹¹ According to the relevant statutory regulations, claims for real estate-related payments may be submitted by those who were members on 30 September 2024, up to the amount of their balance at that time; therefore, we determined the relative frequency of claims in relation to the number of members and assets at that time.

The amount of claims for mortgage loan prepayments and final repayments was the largest in the January to March period (HUF 16.2 billion), accounting for 43 percent of the total amount of claims. The second largest claim category was comprised claims for purchases of dwellings or residential buildings (HUF 12.0 billion), with a 32-percent share. The third largest category was that of claims for modernisation, refurbishment or extension of dwellings and residential buildings (HUF 6.1 billion), with a share of 16 percent in the first quarter. The other six categories accounted for a mere 10 percent of the total amount claimed.

The average claim amount was HUF 2.3 million, in which the average of contribution paying members considerably exceeded that of non-payers (HUF 2.7 million and HUF 1.1 million, respectively). Paying members showed considerable activity in terms of claims submitted in the first quarter: 86 percent of all claims were submitted by such members and they accounted for 73 percent of those submitting claims – the latter was considerably higher than the ratio (52 percent) of members considered as paying members in 2024 Q4.

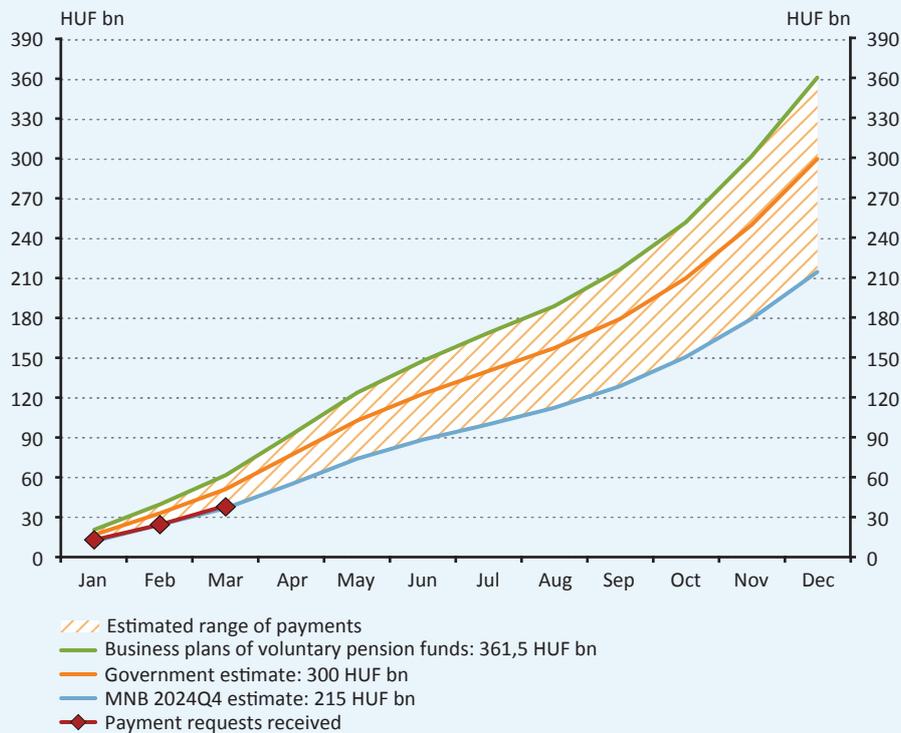
In 2025 Q1, the amount of contributions credited to the coverage reserves of voluntary pension funds was HUF 37.2 billion – up 18.1 percent in year-on-year terms. Expenditures amounted to HUF 50.3 billion, up 50 percent year-on-year, in which expenditures unrelated to real estate grew by a mere 0.5 percent. The cashflow balance was negative, at minus HUF 13.1 billion. The closing balance at the end of the first quarter, calculated without real estate-related payments, would have been a surplus of HUF 3.5 billion.

Chart 3.13
Real estate-related payment claims submitted to voluntary pension funds and the sector’s cash-flows in 2025 Q1



Source: MNB.

The MNB’s expert estimate is that HUF 215 billion may be paid for real estate-related purposes from voluntary pension funds’ coverage assets. Regarding the trend of the estimate during the year, the MNB factored in a seasonal impact; accordingly, activity is expected to be higher in the second quarter and particularly in the fourth quarter in real estate-related payouts, as compared to the first and the third quarters.

Chart 3.14**Cumulative forecast of claims for real estate-related payouts to be submitted to voluntary pension funds, 2025**

Note: the monthly distribution of real estate-related payouts is based on the MNB's estimate.

Source: MNB.

3.2.5 Stagnating membership and contribution payer ratio

At the end of 2024, the membership of voluntary pension funds numbered 1,075,000, nearly 1,400 (0.1 percent) more than at end-2023. In 2024 H1, the total number of members was still decreasing (-4,400 people), in continuation of the preceding years' trend. This was, however, followed by an increase in the second half of the year (+5,800), resulting in a slight increase at an annual level. The proportion of contribution paying members was 52.1 percent at end-2024, similar to the end of previous years. It should also be noted that 53.5 percent of the member were men, in contrast to the general population, in which women make up the majority (52 percent).

The membership of the voluntary pension funds sector peaked in 2008, followed by a continuous decline (totalling 280,000) until 2023. This indicates a growing drift away from the path that is considered ideal, as presented in the FIS in the outlook on self-provision.

A total of 33,100 new members – 26.5 percent more than in 2023 – joined voluntary pension funds in 2024. Some three-quarters of the new members (25,500 people) were recruited by membership organisers. The change in the number of newly joining members may, in itself, be regarded as a positive one, but it would take a larger number of new entrants – preferably as young as possible – to achieve a significant increase in membership. (The average age of the members was 48.4, 48.7 and 49.1 years in 2021, 2022 and 2023, respectively, i.e. the ageing of the membership could not be stopped.) Another factor that contributed to the increase in membership in 2024 was that the number of those receiving benefits (17,500 persons) dropped by 26.4 percent, while that of members exiting funds (10,100 people) decreased by 41.2 percent year-on-year. These changes may also have been influenced by an improvement in the rates of return.

In the voluntary pension sector, along with the average age of members, the number of members eligible for pension benefits (79,600 at end-2024) is also on the rise; consequently, the number of members who will probably cancel their membership to claim benefits is also expected to grow. This effect may be mitigated by the fact that legislative changes effective from 1 January 2016 have considerably expanded the range of options for members reaching retirement age. Members eligible for pension can leave the rest of their savings in the fund while withdrawing part of their individual account and see their savings as a form of investment.

Chart 3.15
Ratio of payers of the voluntary pension fund membership fee



Source: MNB.

The ratio of membership fee payers is still considered low, posing a risk to the long-term viability of the funds. The business model for voluntary funds is that operating expenses should be covered by a share of the costs deducted from members' contributions, which can be supplemented by donations for operating purposes. In the case of non-paying members, from the date of the beginning of the default in payment of the contribution, the applicable legislation enables the fund to reduce the member's return on the investment of their individual account by an amount equal to the share of the current standard contribution of the fund dedicated to operating and liquidity purposes, but not exceeding the amount of the return, and to credit this amount to the operating or liquidity fund. Not all funds take this option, but most do, and it is an important source of their operating income. On the one hand, since autumn 2023, the Mutual Funds Act allows funds to apply deductions not only from the returns of the period concerned, but also from the returns of the period up to the end of the next calendar year. At the same time, the amount that may be thus deducted was also limited,¹² and deduction from the period beyond the current period is only allowed if not even partial deduction was possible during the period concerned, for lack of a positive return. In order to protect the members of the fund, the MNB requires funds wishing to apply the deduction of income for membership fee arrears to lay down in their statutes the rules on the deduction of income for membership fee arrears, including the applicable procedures, legal effects and processes, in a clear, unambiguous and transparent manner. In addition, the MNB recommends that, in the event of lack of a yield in the current period, funds should not apply several instalments for the deduction due to membership arrears in the period opening after the current period and ending at the end of the following calendar year, and that they should deduct the amount at the earliest possible period of the periods corresponding to the frequency of the fund's membership payments.

3.2.6 Operating profit, adequate reserves

Voluntary pension funds' operating profit amounted to HUF 1.0 billion in 2024, down HUF 0.7 billion versus the previous year. Of the 27 institutions, 20 were profitable. The reason for this is that, thanks to the significant returns in 2024 as well, it was possible again to apply a return deduction on unpaid membership fees in the case of non-paying members, which amounted to HUF 2.3 billion (+11.7 percent) at the sector level. Without such deduction from the returns, the sector would have been in the red in 2024 again (with a loss of HUF 1.3 billion). The dividend received amounted to nearly HUF 1.0 billion (+9.3 percent).

By the end of 2024, the sector-level reserves of voluntary pension funds available for operating purposes increased by 5.3 percent year-on-year, rising to HUF 20 billion.

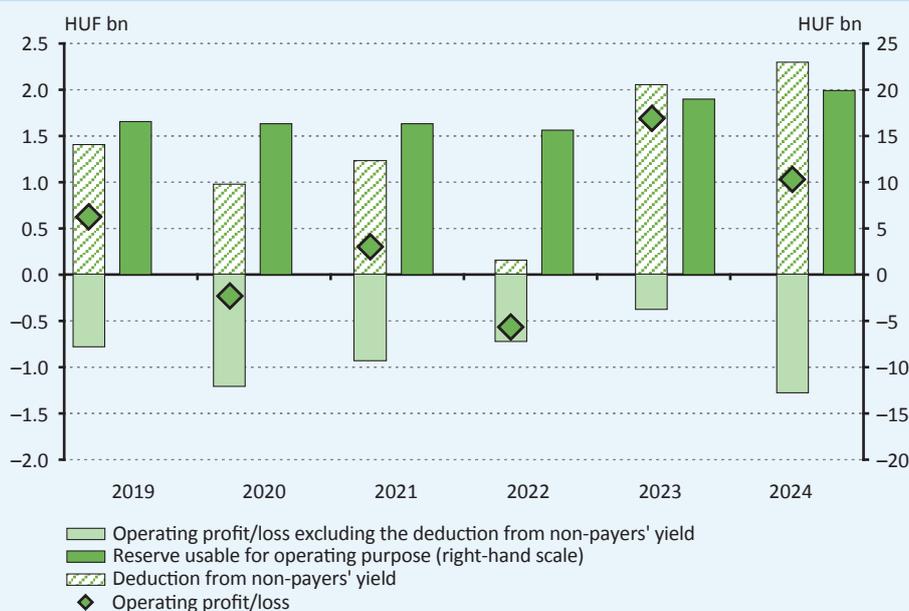
Health and mutual aid funds that have realised an operating loss over a longer period need to reassess their operational scheme (improve communication with non-contributing members and revise their cost structures). The MNB puts

¹² The rate of the deduction from the return on account membership fee in arrears must not exceed the amount that equals the proportion (of the membership fee equalling 5 percent of the minimum wage in effect on the first day of the year concerned, payable for the period of the selected deduction frequency) allocated to the operating and liquidity fund.

particular emphasis on monitoring the operational position of the funds, both through continuous supervision and during the inspections. If the reserves available for operations at health and mutual aid funds approach or fall below the prudentially-required minimum level as a result of prolonged loss-making operations or other factors, the MNB may apply various measures (e.g. by holding a prudential meeting, requesting an action plan, requiring an operating and liquidity report, or launching a targeted inspection) at the institutions concerned.

As of end-2024, the operating reserves available could have covered 21.4 months of operations, had the sector had generated no income. At the end of 2023, a similar level of coverage was observed (21.5 months).

Chart 3.16
Trends in the operating profits/losses of voluntary pension funds



Source: MNB.

3.3 HEALTH AND MUTUAL AID FUNDS

3.3.1 Considerable increase in contributions in the health and mutual aid sector

Relative to 2023, the revenues received by health and mutual aid funds, and credited to individual accounts increased by a significant 20.4 percent in 2024, reaching HUF 102.5 billion. The amount of members' contributions grew by 22.8 percent to HUF 75.9 billion. The total amount of employers' contributions went up 11.2 percent to HUF 10.0 billion in 2024 relative to 2023. The amount transferred by the tax authority rose by 15.7 percent to HUF 16.6 billion. The amount of members' contributions and tax credits was significantly larger in 2024 than in any one of the preceding ten years.

The sector-level amount of individual membership contributions was nearly five times the amount paid ten years before and is rising steadily. The ratio of individual and employer contributions in the sector has reversed in comparison to 2014, with particular emphasis now placed on individual membership contributions. The amount of employers' contribution dropped in 2019 – not only in terms of its proportion of the total amount of contributions, but also in terms of its amount – which may have been partly a result of termination of the tax advantage of cafeteria benefits in comparison to wages. The increase (+15.3 percent as an annual average) that has taken place since is a result of an upswing in individual membership contribution revenues.

Seasonality continues to be a typical feature: a large share of members' contributions is concentrated in the last quarter, partly as a result of the funds' campaigns. In 2024, some 43 percent of individual contributions was received in the last quarter, while the quarterly volatility of employer contributions is lower, but their amount was nonetheless also the largest in the fourth quarter. The amount of the tax credit on individual and employer contributions equalled 23.4 percent of the preceding year's contributions in 2024, indicating that many of the members who also paid contributions to voluntary pension funds chose their healthcare funds as beneficiaries of their tax credits.

Chart 3.17
Member contributions credited to the individual accounts of health and mutual aid funds, broken down by payers



Source: MNB.

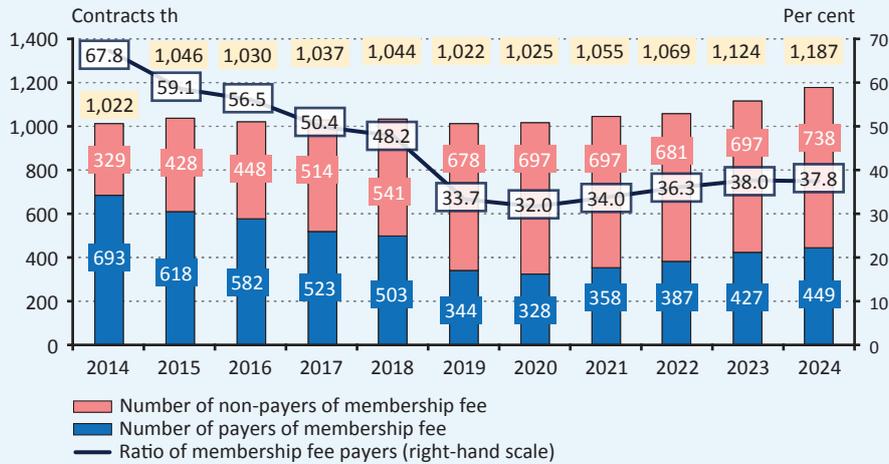
3.3.2 Membership increased again, the number of contribution payers stagnated

The membership of the health and mutual aid fund sector in 2023 exceeded the membership of the voluntary pension funds sector and the difference continued to increase in 2024. The membership of the health and mutual aid fund sector increased considerably in 2024 as well, rising to 1,187,000 by the end of the year, up 5.6 percent (63,000) compared to end-2023.

The rate of increase in membership rose in year-on-year terms. The rate of increase was 11.1 percent (118,800) during the past two years. The number of new entrants (86,500) was up 5.3 percent relative to the previous year and about 70 percent more than in 2019–2020 (50,000–51,000 persons, respectively). About two-thirds of new members were recruited by membership organisers. The number of members exiting (15,100) was down 8.0 percent year-on-year.

The ratio of membership fee payers was 38 percent in 2024 Q4, with no material change in a year-on-year comparison. Willingness to pay membership fees is lower in the health and mutual aid fund sector than in the voluntary pension fund sector; thus, at the end of 2024, despite the larger number of members, the number of contribution payers in the health and mutual aid fund sector was 19.8 percent (111,000 people) below the corresponding number in the voluntary pension fund sector. At end-2014, a total of 68 percent of the membership qualified as contribution payers according to the statutes thanks to a 71-percent rate of employer contributions, but the proportion of contribution payers was as low as 38 percent (with a 12-percent rate of employer contributions) in 2024. Thus, the proportion of non-paying members is considerable and the consequences of non-payment are determined by the funds themselves (e.g. deduction from the returns of the part of the standard membership fee that can be used for operation and liquidity, termination of membership).

Chart 3.18
Ratio of payers of the health and mutual aid fund membership fee

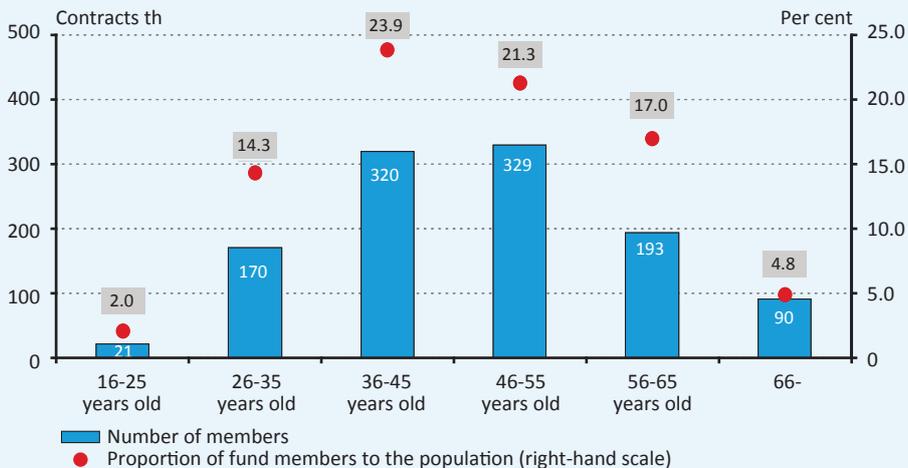


Source: MNB.

Box 3.4
Middle generation is the most important client category for health and mutual aid funds

At end-2023, the number of health and mutual aid fund members was 1,124,000, representing 13.5 percent of the population aged 16 and over, i.e. those eligible for fund membership. The number of fund members grew by 100,000 (9.7 percent)¹³ in comparison to 2020. Health and mutual aid funds are most popular in the age groups 35–45 and 46–55, in which one in four or five persons is a member of a fund. The 650,000 members belonging to these age groups account for 58 percent of the total membership. The number of members in the 46–55-year age group increased most (+62,000) in three years, while in terms of proportion membership in the 65+ age group increased the most (+49 percent). By contrast, the number of those belonging to the 26–45-year age group decreased.

Chart 3.19
Number and percentage within the population of the members of health and mutual aid funds, in a breakdown by age group, end-2023



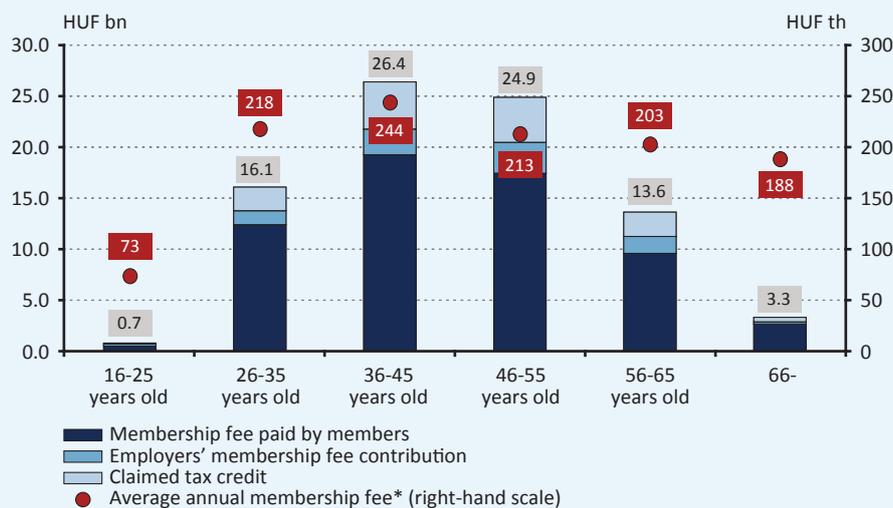
Source: HCSO, MNB.

¹³ Quarterly unaudited 2024 data show an additional significant increase, as a result of which the total membership exceeded the 2020 number by as many as 163,000 (15.9 percent).

In 2023, a total of HUF 85.1 billion was credited to individual accounts, 51 percent more than in 2020. The increase was largely due to an increase in the average annual amount credited (up 37 percent) and, to a lesser extent, to an increase in membership. Inflation in healthcare goods (26 percent in 2021–2023 according to data from the HCSO¹⁴) may also have played an important role in the increase in the average annual amount credited; thus, the amount credited credit per member increased by 9 percent in volume over three years.

Unlike voluntary pension funds, health funds are not intended to accumulate wealth, but to provide financing for healthcare expenses. The amounts paid by funds closely correspond to the amounts credited, both in terms of total amounts and in a breakdown by age group. In 2023, some 73 percent of the amounts credited were made up of individual contributions, 17 percent was accounted for by tax credits on the preceding year and about 10 percent came from employer contributions. In the case of the two middle age groups (36–45 and 46–55 years), HUF 51.3 billion was credited to individual accounts, accounting for 60 percent of total credits in the sector. A significant share of the financial transactions of health and mutual aid funds is linked to this so-called middle generation, which may also be related to the fact that members of this group are able to optimise the use of fund services for family members who belong to different generations (children and/or parents).

Chart 3.20
Amount and average value of health and mutual aid fund credits by age group, 2023



Note: * Among members who pay the compulsory membership fee.

Source: MNB.

The share of members who pay a single membership contribution was the highest in the 16–25 age group (45 percent), which may be related to the significant role of employer contributions in this group, accounting for 33 percent of their total credits, the highest ratio among all age groups. Due to the PIT allowance available to those under the age of 25, this age group has a more limited ability to benefit from tax credits than any other groups. Taking this into account, it is a positive development that some employers choose to make fund contributions for their young employees, even though these payments are subject to the same tax burden as regular wages.

Among members who pay a single membership contribution, the average amount credited to individual accounts reached HUF 216,000 in 2023, up 34 percent versus 2020. The highest average annual credit, HUF 244,000, was observed in the 36–45 age group. While those aged 65 and over showed significant growth between 2021 and 2023, with membership up 49 percent and contributions up 92 percent, their overall significance within the sector remains minor. Nevertheless, the target market is significant, with nearly 1.9 million people aged 65 and over at the end of

¹⁴ 1.1.1.3. Classification of harmonised consumer price index according to individual consumption by purpose (COICOP).

2023, equivalent to one-fifth of the population. Moreover, based on the most recent HCSO data¹⁵ from 2020, the healthcare expenditures of this age group were significantly higher than those of younger people, reaching HUF 148,000, twice the total population average and 2.6 times¹⁶ the level observed among those under 65.

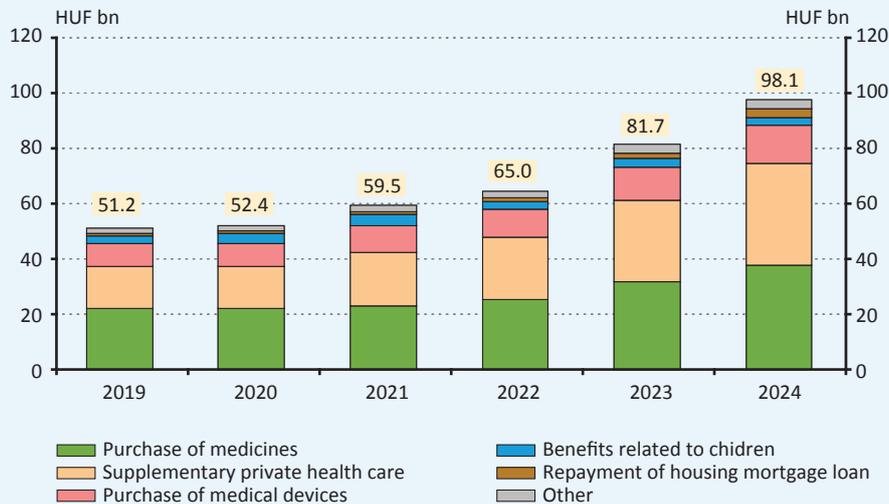
HCSO population and consumption data indicate that around 37 percent of households' healthcare expenditure is associated with people aged 65 and over. However, this age group is generally not eligible for tax credits and rarely receives employer contributions, factors that substantially lower their motivation to start or maintain fund membership.

3.3.3 Over a two-year period, service payments by health and mutual aid funds increased one and a half times, amounting to almost HUF 100 billion

The voluntary healthcare financing sub-systems are dominated by the healthcare-related expenditures of voluntary health and mutual aid funds. Service payments (totalling HUF 98.1 billion) increased by 20.0 percent (HUF 16.3 billion) compared to the previous year. Payments increased by 50.9 percent compared to 2022, which may also have been influenced by inflation, as the HCSO's consumer price statistics for the '6. Healthcare' category¹⁷ indicated a 19.6-percent increase over the same period.

The majority of payments continue to cover the reimbursement of medicines, special dietary products and vitamins purchased for prevention, with a share of 39.0 percent, the same proportion as in 2023. The second largest category is the financing of private healthcare services such as dental care and imaging diagnostics, accounting for 37.4 percent, followed by the reimbursement of therapeutic equipment purchases with a 14.3-percent share.

Chart 3.21
Trends in the services provided by health and mutual aid funds



Source: MNB.

¹⁵ [14.1.1.31. Detailed breakdown of per capita annual spending by COICOP group, according to the reference person's age and education level, and the age composition of household members](#) (data downloaded on: 28 April 2025).

¹⁶ Magyar Nemzeti Bank calculation.

¹⁷ [1.1.1.5. Consumer price indices according to the Classification of Individual Consumption by Purpose \(COICOP 2013\)](#).

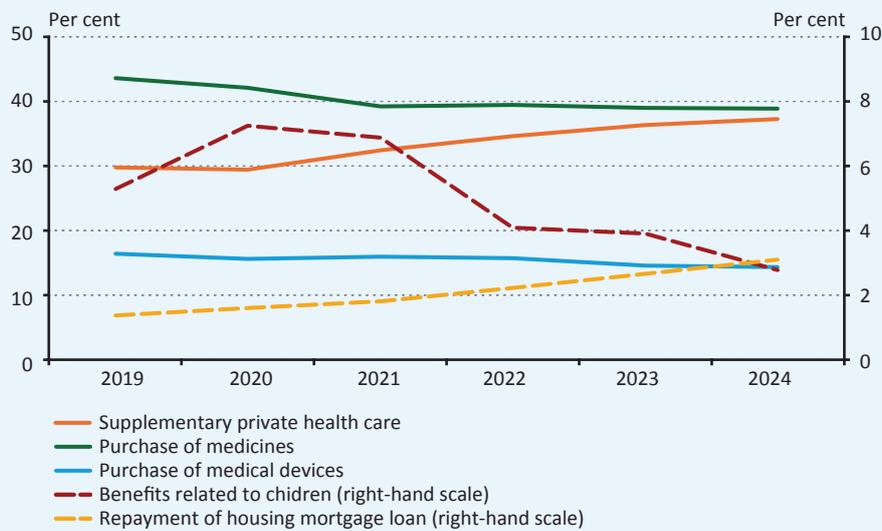
Box 3.5

Trends in payments by health and mutual aid funds (2018–2024)

The service expenditures of health and mutual aid funds have doubled since 2019, and the internal ratios of the main service types have also shifted. Although the reimbursement of medicine purchase prices, private healthcare service fees and therapeutic equipment purchase prices remain the most significant categories, the financing of private healthcare services has shown an outstanding increase among them.

Mutual-type services continue to represent only a small share. In previous years, the most popular mutual-type service was the reimbursement related to children; however, its share fell from 7.0 percent in 2020 to 2.8 percent.

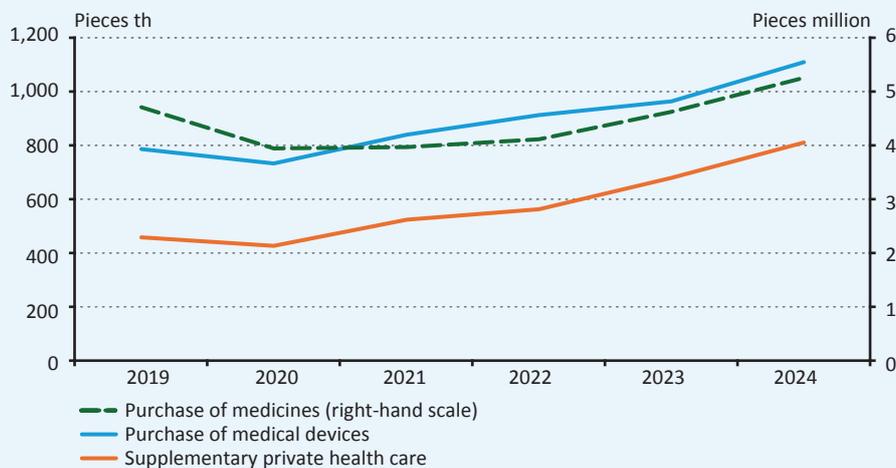
Chart 3.22
Share of major service types within the service payments of health and mutual aid funds



Source: MNB.

Not only has the total amount of payments increased, services have also been used more frequently in recent years: The purchase of medical devices and healthcare services rose by hundreds of thousands, while the purchase of medicines increased by millions between 2020 and 2024.

Chart 3.23
Number of times major service types used in health and mutual aid funds



Source: MNB.

In Hungary, private financing has represented about 30 percent of total healthcare spending over the past two decades, reaching 27.4 percent in 2022. This is considered high within the European Union, since the EU average is 18.7 percent. Among the 27 EU countries, Hungary ranked seventh in 2022, as only six countries had a higher ratio of private financing.

In 2022, total private healthcare expenditure amounted to HUF 1,212 billion, of which 89 percent was financed directly by households (out-of-pocket), and only slightly over 10 percent (HUF 139 billion) through institutionalised voluntary healthcare financing products. In 2022, health and mutual aid funds financed nearly one-half of the institutionalised private healthcare expenditures, amounting to HUF 61 billion. The amount rose to HUF 76 billion in 2023 and to HUF 92 billion in 2024.

For healthcare funds, it is a strategic question to what extent they can channel a share of the significant out-of-pocket expenditures directly financed by households into institutional financing, through an attractive service structure, financial education and raising awareness of the benefits offered by the funds.

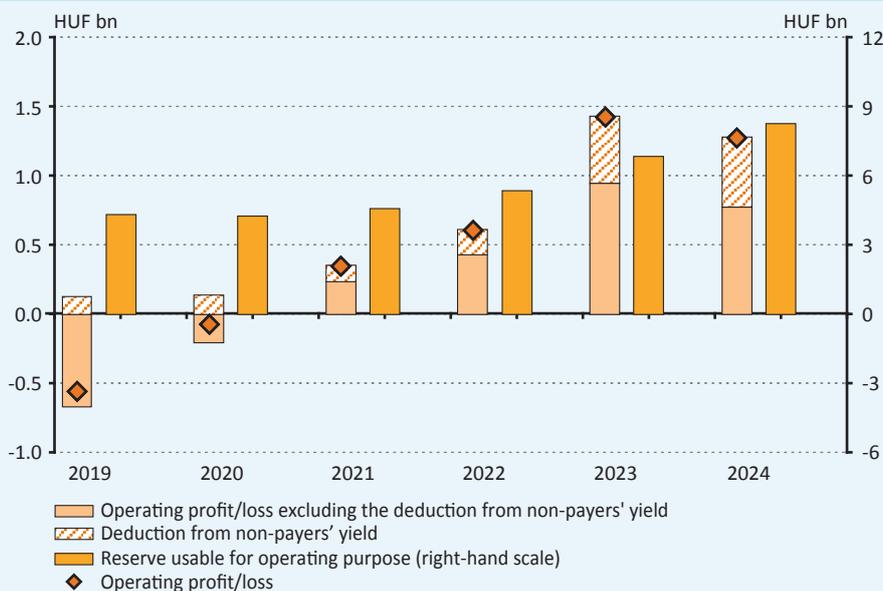
3.3.4 Operating profit, adequate reserve level

Health and mutual aid funds realised an operating profit of HUF 1.3 billion in 2024, HUF 144 million less than in 2023. Only two out of 16 institutions were loss-making on an annual basis. The deduction (of more than HUF 500 million) from the return of non-payers was an important contributor, but the sector was still characterised by operating profit without taking such deduction into consideration.

The operating reserve increased to HUF 8.3 billion (+20.2 percent). Health and mutual aid funds that have realised an operating loss over a longer period need to reassess their operational scheme (improve communication with non-contributing members and revise their cost structures). If the reserves available for operations at health and mutual aid funds approach or fall below the prudentially required minimum level as a result of prolonged loss-making operations or other factors, the MNB may apply various measures (hold a prudential meeting, request an action plan, require an operating and liquidity report, or launch a targeted inspection) at the institutions concerned. Through the establishment of sufficient operating reserves, health and mutual aid funds can ensure the stability and continuity of their operations during potential adverse periods.

As of end-2024, the operating reserves available could have covered 15.1 months of operations if the sector had generated no income. By the end of 2023, a similar level of coverage was observed (15.3 months).

Chart 3.24
Trends in the operating profits/losses of health and mutual aid funds



Source: MNB.

3.4 RISKS IN THE FUNDS MARKET

3.4.1 Possibility of real estate-related services constitutes a significant risk in 2025

Table 3.3
Risks in the funds market

Risk category	Risk groups	Risk rating	Risk prospects	Evaluation in words
Business model	Environment Strategy, business plans Sustainability of operation			Positive operating results in both sectors, adequate loss-absorbing capacity Voluntary pension fund membership stagnates, health fund membership grows dynamically Many institutions lack a strategy to rejuvenate their membership <i>Real estate services may pose varying degrees of operational, sustainability and liquidity risks depending on the fund</i> <i>Personal income tax benefits may weaken the motivation of paying membership fees</i> <i>Risks are not expected to decrease in the medium term</i>
Corporate governance	Exercise of owner's rights Internal governance Risk management system Internal control			The extent and distribution of real estate service requests is difficult to estimate, the fund management must work closely with the asset manager to plan and ensure the appropriate level of liquidity Managing service payments is an additional burden <i>Managing the risks and tasks of real estate services, providing human resources takes focus and resources away from the basic strategic goals</i>
Financial and operational risks	Insurance risk Investment risk of operational and liquidity reserve Operational risk			Voluntary pension fund outflows decreased, payments peak, operational risks in IT, accounting, data provision, member settlements <i>Significant risk still exists due to real estate outflow expectations</i>
Sustainability and reserve risk	Coverage reserve investment risk Capital Operating and liquidity reserve			The coverage reserve increased due to another double-digit positive return and positive cash flow balance The operating reserve level at the sector level is adequate <i>Cash flow development is uncertain due to the temporary availability of real estate services</i>
Market entry risk	Products Customers			Voluntary funds products are cost-effective, number of complaints is low 2024 yield results further improved the funds' reputation risk of increased customer service workload due to real estate withdrawal option <i>Number of complaints may increase in connection with new real estate service requests</i>
<p><i>Legend:</i></p> <p><i>Degree of risks</i> high  significant  moderate  low </p> <p><i>Direction of risks</i> increasing  stagnant  decreasing </p>				
<i>Source: MNB.</i>				

Operating profit was observed in both sectors, and the loss-absorbing capacity was adequate. The membership of the voluntary pension funds sector was stagnant, whereas membership in health and mutual aid funds grew at an increasingly rapid pace. However, a number of institutions still do not have a strategy in place to attract younger members. Real estate-related disbursements may represent operational, liquidity and sustainability risks for voluntary pension funds in 2025. The contribution side could be negatively influenced by an increase in PIT allowances. The level of risks is not expected to decrease in the medium term.

Since the amount and timing of real estate-related payments are hard to predict, fund management needs to cooperate closely with the asset manager to ensure proper liquidity planning and maintenance. From a corporate governance

perspective, the management of service payments constitutes an additional responsibility. Tasks related to real estate-related services make it more difficult to focus on core strategic objectives.

Outflows from voluntary pension funds decreased, while payments remained outstandingly high in 2024. However, operational risks have emerged in IT, accounting, data reporting and the management of member accounts. Significant risk persists due to expectations related to real estate-related outflows.

The coverage reserve reached another record level in 2024, driven by double-digit returns and a positive cash flow balance. While the operating reserve level is adequate across the sector, the temporary availability of real estate-related services in 2025 fuels uncertainty regarding cash flow developments.

The fund products operate cost-effectively, with only a small number of consumer complaints recorded. Returns observed in 2024 further improved the reputation of the fund sector. The availability of property-related payments may lead to higher customer service workload and a rise in complaints.

4 Consumer protection risks in the insurance and pension funds markets

4.1 ROBUST CONSUMER PROTECTION

4.1.1 New framework for assessing consumer risks and other enhanced supervisory tools

In March 2024, the Insurance and Fund Supervision Directorate of the Magyar Nemzeti Bank concluded a nearly two-year project designed to enhance the supervisory and inspection tools of the consumer protection function. The project was funded by the EU, through the Technical Support Instrument (TSI), and EIOPA was involved in the implementation process as a professional partner, in cooperation with the European Commission's Directorate General for Structural Reform Support (DG Reform).

The primary objective of the programme was to develop a new Consumer Protection Risk Framework methodology (C-RAF) containing specific practical recommendations, as well as to prepare a related practical guide on market monitoring-type mystery shopping, which may enhance the effectiveness and efficiency of this supervisory tool in identifying risks. The project included a pilot mystery shopping exercise comprising approximately 300 visits, conducted in 2023 Q4, with the participation of an external contributor. Furthermore, numerous valuable studies and surveys were completed in the course of the project on the Hungarian insurance market.

(1) New risk assessment framework for consumer risks: The methodology developed during the project focuses on the identification, monitoring and prioritisation of market-level issues related to business conduct and other risks affecting consumers. The framework generates indicators based on existing data, processes them, and aggregates and evaluates the results at the market level. Risk classification is established by comparing indicators with either the expected value or the market average, which strongly supports the risk assessment process. The identified risks are classified according to the product life cycle, while quantitative and qualitative inputs are collected to determine the level of risk. Risk indicators and problematic practices observed in the market are examined and assessed together, allowing for the creation of a product-level, market-wide risk map that incorporates criteria for prioritising risks and assessing potential supervisory measures.

(2) New approach to mystery shopping for market monitoring purposes: Mystery shopping is a versatile financial supervisory tool that enables the mapping of market behaviours and can also provide valuable evidence for identifying actual infringements. Mystery shopping enables the collection of information on service providers' sales practices, while it also reveals numerous previously unobserved aspects and experiences related to consumer experience. The new methodology provides practical guidance for the entire mystery shopping process and all its phases, particularly for planning and preparation, including identifying the topics and risks for which this supervisory tool can be applied most effectively. The methodology addresses the process of involving external contributors, as well as the effective execution of mystery visits, and the evaluation and follow-up of the results. The MNB successfully applied the new methodology in its 2024 housing campaign after the pilot project launched in 2023.

(3) Study on digitisation trends: The study prepared by EIOPA presents digitisation trends and related risks in the Hungarian insurance market. It highlights that although the share of sales through digital channels and the use of mobile applications are still low (e.g. 70 percent of Hungarian insurance companies do not have a mobile application, compared to 35 percent of all EU insurance companies), Hungarian insurance companies already use technologies such as Artificial Intelligence (AI) and Blockchain to a significantly greater extent than their European peers (45 percent already use Blockchain/DLT compared to the EU average of 7 percent). Stakeholders consider cyberattacks and data

protection issues to be the most significant consumer-related risks. The study also highlights the growing importance of ensuring fair treatment and non-biased, non-discriminatory practices.

(4) Survey on green insurance products: During the project, EIOPA compiled a summary on insurance products in the Hungarian market that include sustainability features, in particular, insurance-based investment products (IBIPs) qualifying as financial products under Articles 8 and 9 of the EU Sustainable Finance Disclosure Regulation (SFDR) on sustainability disclosures in the financial services sector. The study concludes that, despite the existence of some green asset funds and investment opportunities (albeit in limited number), the dominant trend in the Hungarian market remains the recommendation of traditional investment products without sustainability features classified under Article 6 of the SFDR (432 out of 528 products in 2023). The findings were also confirmed by the mystery shopping pilot project, and the results were presented by the MNB in its 2024 Risk Report.

(5) Study on financial inclusion and non-discriminatory pricing: The literature on fairness and financial inclusion often emphasises that the use of certain ML/AI models in insurance pricing may give rise to discriminatory insurance premiums. Such practices may operate as a 'black box' for the public, the supervisors and even for the model developers themselves. As a result, the improper use of deeply embedded data within the algorithm may lead to inappropriate insurance premiums for certain consumer segments protected by legal or regulatory provisions. Within the project, a study conducted in cooperation with an external consulting firm found no evidence of discriminatory pricing practices, whether income-based or of another nature (e.g. ethical), against vulnerable consumers in the Hungarian motor third-party liability (MTPL) insurance market.

4.2 LIFE INSURANCE PRODUCTS

4.2.1 Product testing and regular review are required to justify any deviation from the ACR

ACR was introduced to help clients access the information they need to make informed decisions before taking out savings-type life or pension insurance policies. ACR has contributed to greater product transparency, making it easier to compare the cost levels of different products. As set out in the Ethical 2.0 regulatory package issued by the MNB in 2024, from 1 January 2026 insurance companies must calculate the ACR value using individual parameters in addition to the previous established parameters, and this information must be communicated to clients during the pre-contractual information process.

In the case of savings-type life and pension insurance contracts, the following cost categories typically apply: initial costs related to the conclusion of the contract, fees arising from asset management and charges applied for operating expenses.

The MNB expects that for unit-linked life and pension insurance products with regular-premium payments and a minimum duration of 10 years, the ACR will remain below the following thresholds:

- 4.25 percent for a 10-year maturity;
- 3.95 percent for a 15-year maturity;
- 3.5 percent for a 20-year maturity.

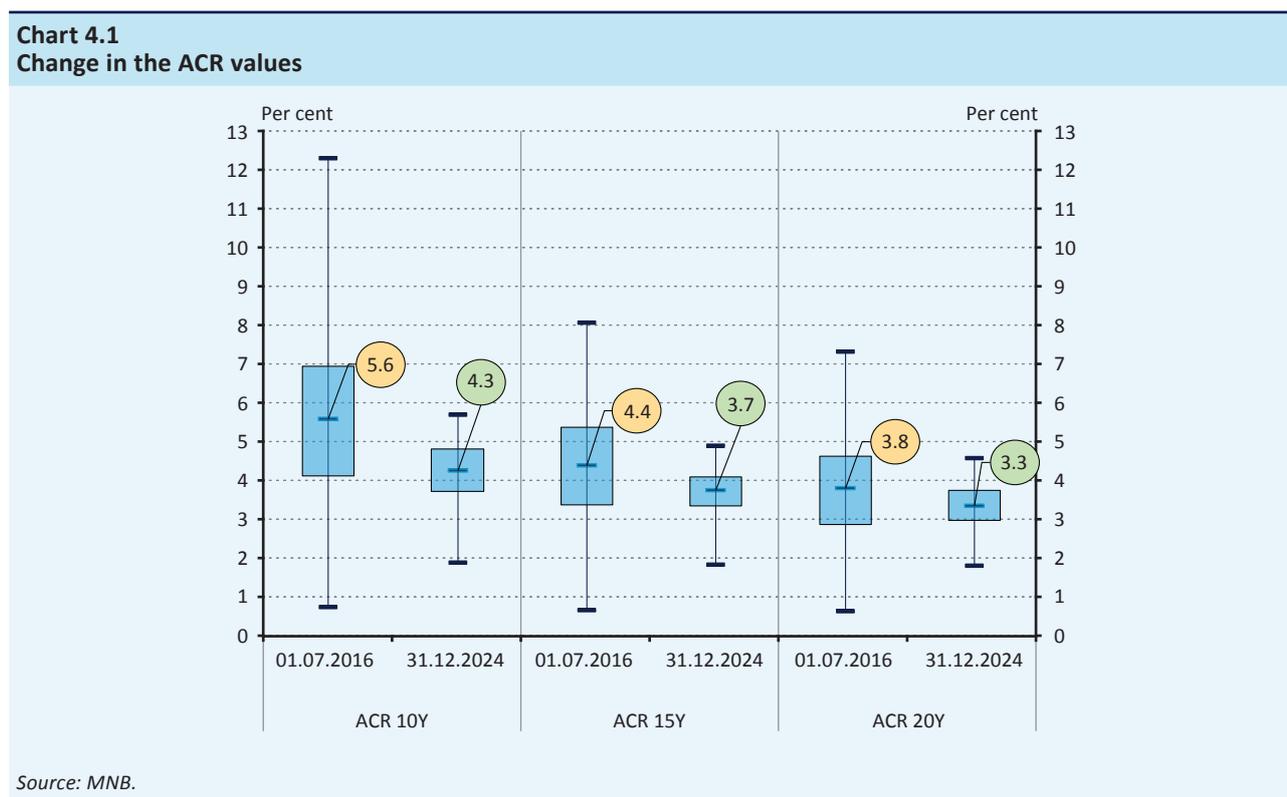
A difference of up to 1.5 percentage points from the values specified above may be allowed in cases where:

- the asset fund linked to the insurance policy is considered complex based on its asset composition or specific characteristics, and it offers a higher-than-average yield potential; or
- it includes a capital guarantee, or both capital and yield guarantees; or
- it is justified by the insurance risk inherent in the product.

Any deviation and the underlying reasons must be quantified and justified. Pursuant to the Ethical 2.0 regulatory package, effective from 1 January 2026, the MNB expects that an insurance company will apply an ACR deviation justified by the complexity of the asset fund and its higher-than-average yield potential only if it can substantiate the expected recovery and higher yield potential of the asset funds through product testing and regular review, in line with the MNB’s Product Oversight and Governance (POG) Recommendation.

In the case of single-premium insurance contracts, the MNB has established a uniform ACR limit of 3.5 percent, and no deviation is allowed.

The chart below illustrates the change in the ACR of regular-premium unit-linked products with an insurance term between 2016 and 2024, showing that the introduction of the MNB’s Ethical Concept led to a decline in ACR values.



The MNB regularly monitors the ACR values of unit-linked contracts covered by MNB Recommendation 8/2016 (VI.30.) on the application of prudential and consumer protection principles related to unit-linked life insurance products, and MNB Recommendation 1/2017 (I.12.) on pension insurance (Recommendation). In 2024, two insurance companies deviated from the limit thresholds defined in the Recommendation and required by the MNB, due to a carryover from the previous year.

The MNB issued a management letter urging insurance companies to meet the ACR limit requirements. In response, one company reduced its asset management costs, while another closed an asset fund characterised by high fees.

The limit overruns in 2023 were caused by the increase in the risk free rate of return affecting the ACR calculation, as well as by the amendment to Commission Regulation (EU) 2017/653 effective from 1 January 2023, according to which investment fund managers, in contrast to previous practice, are required to include portfolio transaction costs in the management expenses of asset funds.

Insurance companies review the ACR values on an annual basis and update them by 1 July of the given year. They are required to submit the updated values to the MNB within 15 days following the completion of the calculation. If changes in the costs associated with products or investments result in a mid-year modification of ACR values, insurance companies must recalculate the ACR values on an extraordinary basis. The ACR values are published by insurance companies on their

own websites and are also available on the websites of the MNB and the Association of Hungarian Insurance Companies (MABISZ).

The ACR comparison application on the MNB's website (www.tkm.mnb.hu) allows consumers to compare the costs of different life and pension insurance products, supporting them in choosing the savings product that matches their needs and in making better-informed decisions. Increased comparability of products can strengthen market competition.

Insurance companies are responsible for uploading and updating the data in the ACR comparison application.

4.2.2 Guidelines for identifying greenwashing and supervising sustainability reporting (EIOPA Opinion)

Consumers are demonstrating an increasing preference for sustainable investments in the case of both insurance and pension fund products. This is supported by the findings of EIOPA's 2023 Eurobarometer survey,¹⁸ which show that 32 percent of EU consumers have heard of sustainable insurance or pension products, 13 percent have already bought such products and another 13 percent would consider buying them. Overall, 58 percent of consumers are distinctly interested in sustainable products and another 27 percent would like to learn more about them. As demand grows, a rising number of service providers offer green products; nevertheless, where sustainability claims and disclosures are ambiguous, insufficient or cannot be verified, the risk of greenwashing may arise. In its 2022 report on consumer trends,¹⁹ EIOPA also emphasised the importance of substantiating the sustainability claims made by institutions.

Alongside the preparation of the report responding to the European Commission's May 2022 request for advice on greenwashing,²⁰ EIOPA issued an **Opinion**²¹ offering guidance and an overview of greenwashing-related challenges in the insurance sector. The Opinion establishes a framework to assist the competent supervisory authorities in assessing the sustainability claims made by insurance companies and pension funds, and in ensuring that the oversight of sustainability disclosures is conducted according to harmonised principles.

Sustainability claims may be misleading or deceptive in multiple ways, for example through one-sided or incomplete disclosures, unsubstantiated (empty) statements, the total lack of relevant information, vague, ambiguous or contradictory wording, reports without specific figures or containing unfounded data, as well as through the use of false information or misleading terminology. The Opinion defines four key criteria for the assessment and identification of greenwashing, based on the specific requirements of sustainability and the general principle of 'fairness'. All sustainability-related disclosures must fully comply with these criteria in order to avoid greenwashing:

- 1. Requirement for accurate and precise sustainability claims, i.e. the correctness and reliability of the information provided.** The institution's communication on sustainability must be comprehensive and thorough, excluding no relevant information, and must avoid exaggerations, ambiguities or the undue emphasis of certain aspects. In addition, product manufacturers must ensure transparency regarding their actual activities and provide information on the practices related to their claims, including when and how they intend to fulfil their commitments. The name of the product must be as accurate as possible. For example, a product focusing on climate factors should explicitly refer to this in its name rather than using a general sustainability term (e.g. 'ESG').
- 2. Requirement of substantiation, meaning that the accuracy and validity of the information disclosed must be justified with facts and clear explanations.** Service providers may only make adequately substantiated sustainability claims. The terminology used may not refer to any sustainability profile or objective unless sufficient evidence and documentation are provided to substantiate such claims. If service providers use an ESG rating or classification, its principles (what is measured and how for the purpose of defining the product's profile) must be properly presented or explained in the disclosures. In the case of insurance-based investment products (IBIPs), references to sustainability, whether in the

¹⁸ [Results of EIOPA's 2023 Eurobarometer – Consumer trends in insurance and pension services.](#)

¹⁹ https://www.eiopa.europa.eu/publications/consumer-trends-report-2022_en.

²⁰ https://www.eiopa.europa.eu/publications/eiopas-final-report-and-opinion-greenwashing-advice-european-commission_en.

²¹ [Opinion on sustainability claims and greenwashing.pdf.](#)

product name or in the underlying investment opportunities, may only be made when supported by facts, and these claims must be properly justified in the investment strategy. Relevant sustainability information should not be blended or hidden among unrelated details, as doing so may make it difficult for consumers to concentrate on the key elements.

- 3. Requirement of accessibility: Sustainability-related information and data must be easily accessible and understandable.** The visibility, accessibility, and clarity of sustainability claims and their substantiation are essential for consumers to make well-informed decisions. The use of technical terminology in explanations should be restricted, instead, clear and plain language should be applied, and key elements should be clearly emphasised. In both the preparation of disclosures and consultation-based sales processes, transparent, easy-to-follow explanations must be used to facilitate the accurate interpretation of terminology. Sustainability information provided on online platforms must be readily available, allowing consumers to locate and comprehend key information quickly and efficiently, without being overwhelmed by excessive content. Therefore, key content must already be displayed on the homepage, and the use of the so-called 'layered' approach is expected (e.g. through pop-up windows, informative boxes, or FAQ pages) to ensure access to further details and data. The documentation must be easy to review and navigate.
- 4. Requirement for maintaining the continuous up-to-date nature of sustainability disclosures: All changes must be disclosed promptly and accompanied by an appropriate and transparent explanation.** Where material amendments are made to sustainability policies or objectives, service providers are required to reassess their claims and provide a clear justification for the amendments and notify all affected stakeholders without undue delay. Pursuant to provisions of law, service providers must keep their SFDR disclosures up-to-date at both the institutional and product levels. They must also ensure during product reviews that sustainability claims remain consistent with the product's sustainability characteristics and the consumers' sustainability preferences throughout the contract's duration. If the sustainability characteristics of a product change, such changes must be communicated to consumers in a timely and transparent manner, along with options that allow them to switch to a more suitable product.

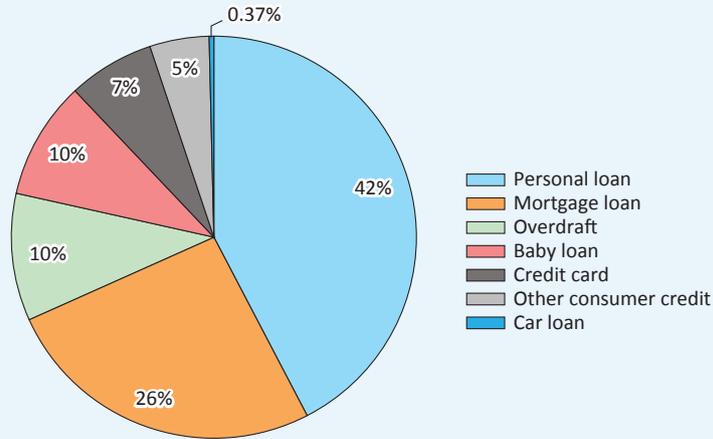
Box 4.1

In its thematic inspections, the MNB examined the factors contributing to the low quality of group credit protection insurances

Credit protection insurance policies are designed to support loan repayment in the case of unforeseen events. In the case of death or partial loss of health, the remaining debt is repaid, whereas in case of temporary incapacity or unemployment, the insurance company covers the consumer's monthly instalments. The Hungarian credit protection insurance market is characterised by a closed structure, since in most cases a specific product of a particular insurance company is distributed solely through one credit institution or financial enterprise. Consumers therefore have limited options when seeking to complement their loan agreements with credit protection insurance.

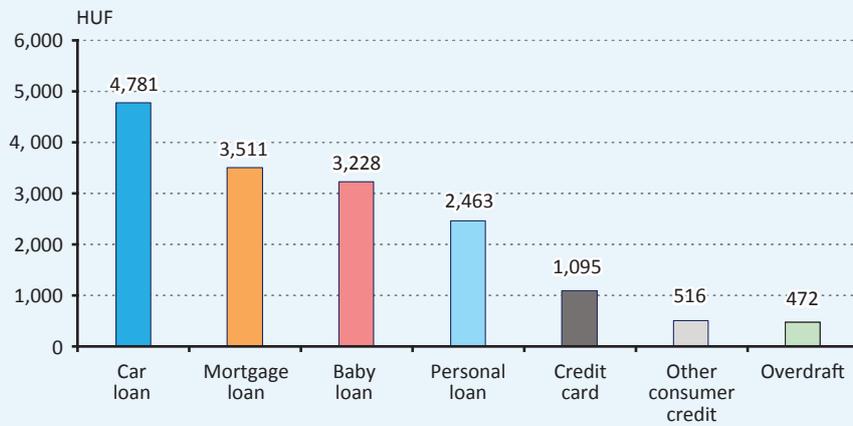
Based on the market survey conducted by the MNB and the available data reports, it can be established that premium income from credit protection insurance accounted for 1.8 percent of the total insurance market premium income in 2023. The average monthly premium of the products ranges between HUF 500 and HUF 4,700, depending on the type of product used. An overview of the average monthly premiums (Chart 4.3) shows that credit protection insurance products can be grouped into three main categories: low-premium products (credit card, overdraft, and other consumer loans, generally below HUF 1,000 per month), medium-premium products (personal loans and prenatal baby support loan, between HUF 2,500 and HUF 3,000 per month), and high-premium products (mortgage loans, above HUF 3,000 per month). The number of policyholders in a car purchase credit protection insurance is low; therefore, a few policies linked to higher-value car purchase loans can easily increase the average monthly premium per policyholder.

Chart 4.2
Distribution of annual premium income of credit protection insurance products by product type in 2023



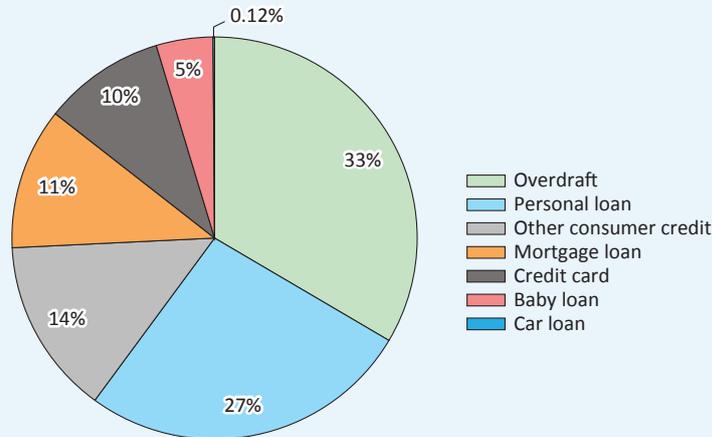
Note: group credit protection insurance policies sold through banking channels.
 Source: MNB.

Chart 4.3
Average monthly premium per policyholder (HUF) by product group in 2023



Note: group credit protection insurance policies sold through banking channels.
 Source: MNB.

Chart 4.4
Number and share of policyholders by product group in the 2023 credit protection insurance market



Note: group credit protection insurance policies sold through banking channels.
Source: MNB.

The MNB initiated a thematic inspection involving nine insurance companies in January 2024. The MNB selected four product types for inspection: group credit protection insurance linked to personal loans, credit cards, prenatal baby support loans and real estate loans. The selected products account for more than one-half of the credit protection insurance market based on premium income and approximately one-third based on the number of policyholders. They also cover the majority of product types available on the market, and thus the MNB’s inspection can be considered particularly comprehensive. The inspection aimed to ensure that the products complied with the Commission Delegated Regulation supplementing Directive (EU) 2016/97 of the European Parliament and of the Council (IDD), which sets out the product oversight and governance (POG) requirements for insurance companies and distributors. In addition, the MNB assessed the ‘value for money’ represented by the products and evaluated whether clients were properly informed throughout the distribution process. Another objective of the inspection, which covered the period from 1 January 2022 to the conclusion thereof, was to assess the implementation of the measures specified in the Warning²² concerning credit protection insurance distributed via banking channels issued by the European Insurance and Occupational Pensions Authority (EIOPA) in 2022.

The inspection concluded that, due to incomplete implementation of product oversight and governance (POG) rules, the intended customer protection functions of this regulation were not adequately achieved. Consequently, insufficient application of POG requirements resulted in the products being inspected providing inadequate value for money. The MNB concluded that every product inspected, including those still available on the market, shows weak value for money, given that the average loss ratio is only 11.5 percent. The weak value for money is strongly correlated with the high percentage of client claim rejections by insurance companies; in several instances, the proportion of rejected claims exceeds 40 percent. The main reasons for rejection include incomplete information or missing documents, along with existing or previous health conditions. Due to the high number of exclusions and restrictions, these products qualify as complex instruments that are difficult for clients to understand. However, when defining the target market, insurance companies often neglect to consider clients’ financial knowledge and familiarity with the products. The internal regulation of the products inspected also showed deficiencies, as the inspection identified shortcomings in several areas, including sales strategy, rules for assessing value for money, target market definition, identification and management of detrimental conflicts of interest, and product testing.

²² https://www.eiopa.europa.eu/publications/warning-insurers-and-banks-credit-protection-insurance-cpi-products_en.

The product review process was also found to be inadequate, as insurers disregarded key indicators and circumstances during the process, the omission of which had a significant impact on the value for money provided by the products. Examples include the omission of external event analysis, such as the effects of the legal environment, inflation or Covid, and the insufficient evaluation of key indicators, including loss ratio, the level of commissions and expenses, as well as compliance with sales requirements and sales outside the target market. The inspection highlighted that credit protection insurance is sold with high commission levels, but insurance companies do not assess the resulting detrimental conflicts of interest and fail to take measures to mitigate such, disregarding close institutional interconnections, high commission rates and existing profit-share agreements. The investigation also uncovered issues related to client information, including the needs assessment preceding the conclusion of the contract and provision of the product information document.

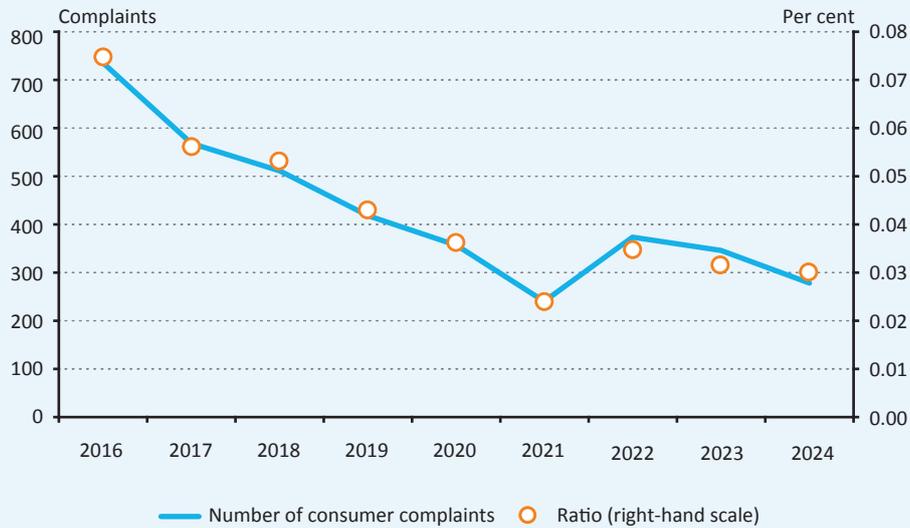
Following the conclusion of the investigation, the MNB imposed fines amounting to a total of HUF 103 million on the nine insurance companies. The MNB expects market participants to begin implementing the obligatory measures required under the resolutions as soon as possible, giving priority to preparing the missing internal rules and guidelines that underpin adequate POG procedures. A thorough assessment of the causes behind the low loss ratio and the rejected claims is also required, along with actions aimed at reducing their occurrence. Based on the findings of the thematic inspection, the MNB plans to develop a proposal that will supplement the POG recommendation with new, specific requirements concerning credit protection insurance.

4.2.3 Life insurance product complaint statistics

Promising trends in life insurance product complaint statistics

Among life insurance products, insurance-based investment products remain in demand, particularly unit-linked life insurance policies. Given their structure, these products can be difficult to interpret, and thus it is crucial that clients clearly understand the product terms when entering into a contract. Insurance companies must make every effort to explain product features clearly and in sufficient detail, in line with the client's financial knowledge, ensuring that clients understand the investment risk is assumed by the policyholder not the insurance company, and that they are fully aware of the cost structure, possible redemption-related losses and the risks inherent in different asset funds. This is the only way to ensure that clients' expectations concerning costs and yields are realistic and well-founded. Insufficient client information may subsequently lead to a significant number of complaints. Both EU and domestic legislation include several provisions that help to ensure clients receive appropriate information about the products in due time. The impact of increasingly precise disclosure obligations will begin to appear, albeit slowly, in the declining rate of complaints related to information provided upon the conclusion of the contract.

Chart 4.5
Consumer complaints related to pre-contractual information and intermediaries, and their ratio to the total number of consumer contracts among unit-linked life and pension insurance policies



Source: MNB.

A favourable trend was observed in complaint statistics after 2017, but this trend ended in 2022. In 2023 and 2024, signs of improvement were already visible, as the ratio of complaints related to unit-linked life insurance products remained stagnant, similarly to the complaint ratio observed for traditional life insurance policies. In the case of pension insurance products, a clear decline can be observed, the ratio of complaints related to both traditional and unit-linked pension insurance policies decreased from 0.29 percent in 2023 to 0.22 percent in 2024.

Chart 4.6
Number and ratio of life insurance product complaints compared to the number of contracts in the product group



Note: The traditional and unit-linked (UL) categories do not include pension insurance products.

Source: MNB.

Breakdown of complaints received on life insurance products by complaint category

By categorising the complaints received by insurance companies, it is possible to identify the frequency of specific objections and determine the main areas of weakness in insurance companies’ operations.

Complaints concerning the insurance company’s general operations and administration were classified under administrative failures, including issues such as accounting background errors, administrative mistakes, inadequate customer service, delays in case management, and deficiencies in complaint handling procedures. These account for nearly one-half of all life insurance product-related complaints.

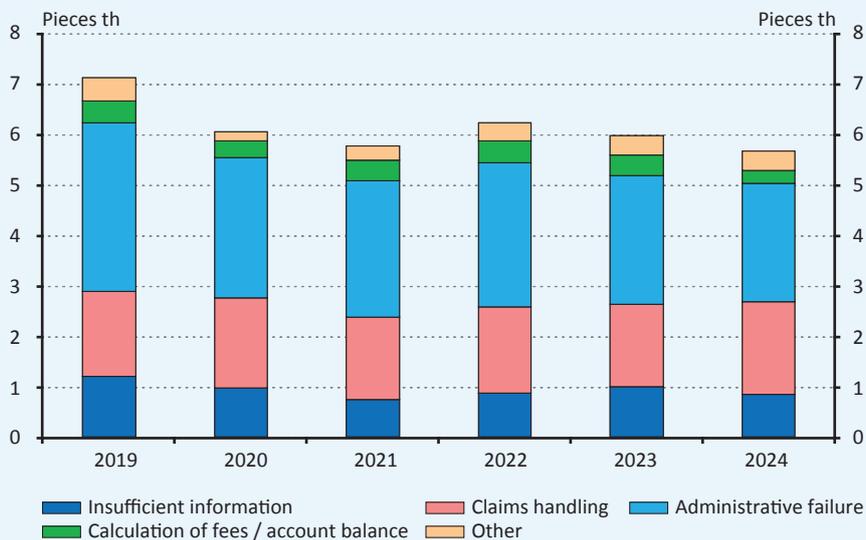
The claims management category includes complaints concerning delays in the settlement of claims, the rejection of claims that policyholders considered justified or disputes regarding the amount of service provided. In 2024, more than one-third of the complaints in the life insurance segment were associated with the management and settlement of service claims.

The information deficiencies category covers complaints regarding information provided before and during the contract period, as well as those linked to contract termination and intermediaries; this category accounts for 15 percent of life insurance product-related complaints.

Complaints related to premium calculation and account balance include cases concerning incorrectly determined premiums, errors in statements prepared by the insurance company or objections arising from discrepancies between current and previous statements or other supporting documents. This amounts to 5 percent of all life insurance product complaints.

The ‘other’ category includes less frequent complaints that cannot be classified into the above categories, such as those related to unauthorised activities, IT system failures or financial misconduct, representing 7 percent of the total.

Chart 4.7
Breakdown of complaints received on life insurance products by complaint category



Note: Traditional and unit-linked (UL) insurance products including pension insurance products.

Source: MNB.

4.3 NON-LIFE INSURANCE PRODUCT

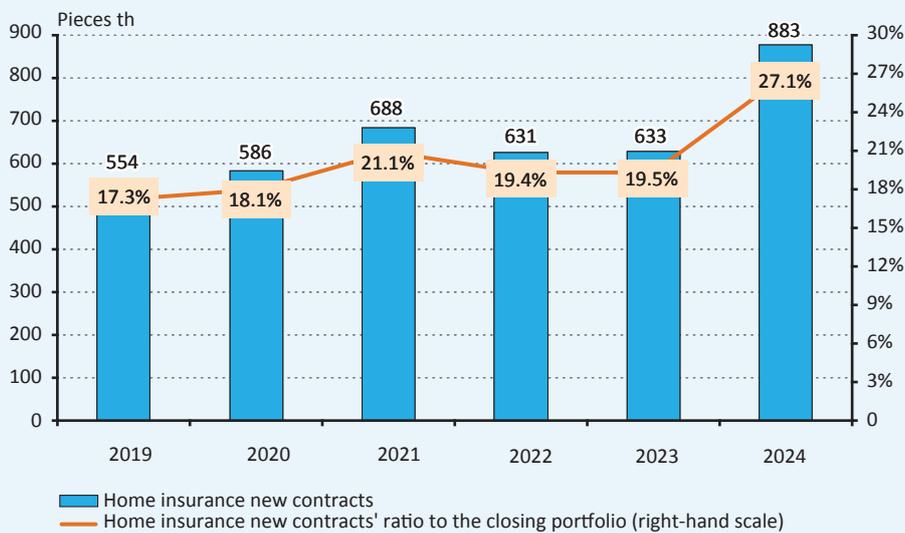
4.3.1 First home insurance campaign

In the framework of the first home insurance campaign in 2024, more than 640,000 contracts were renewed in March and April, while around 300,000 policyholders chose to switch to another insurance company.

The campaign’s main goal was to enhance competition, focusing not solely on price but on the combined competition of service quality and premium levels, which in turn contributes to improving the overall value for money in the market.

In the course of 2024, about 900,000 clients renewed their contracts, an increase of roughly 250,000–300,000 compared to the average seen in prior years. Approximately one in four home insurance contracts was reviewed by policyholders.

Chart 4.8
New home insurance policies and its ratio to the closing portfolio

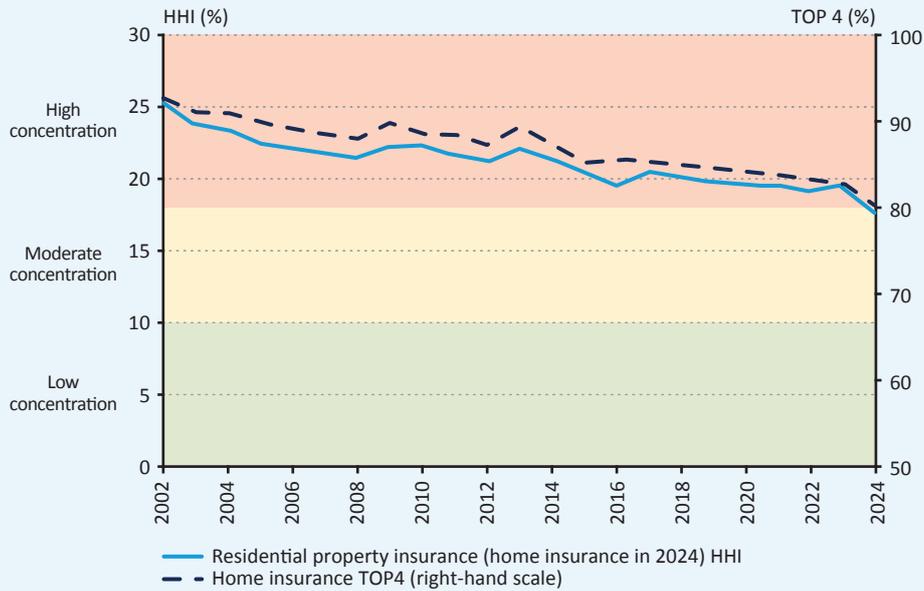


Source: MNB.

Gradual decline in market concentration

Concentration in the home insurance market was the highest among all insurance products. Market concentration shifted to the moderate range in 2024. In new acquisitions, however, market concentration declined significantly, as small and medium-sized market players acquired a 31-percent share of new sales compared to their 19-percent market share (based on the closing portfolio premium at the end of 2024), indicating strengthening market competition. Based on the indicative data reporting received during the campaign (in terms of contract numbers), 47 percent of home insurance contracts sold in 2025 were already linked to small and medium-sized market players.

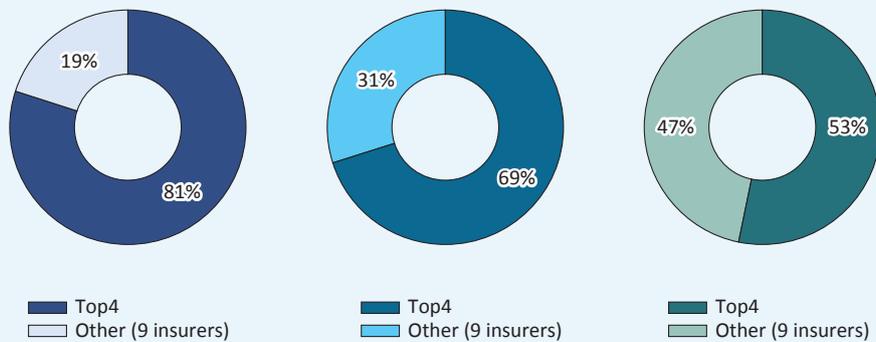
Chart 4.9
Market concentration of household property insurance policies (home insurance in 2024), HHI index



Note: The figure shows the premium income of residential property insurance (individual home, condominium, credit protection and other residential property products) from the national data provision between 2002 and 2023, while the data for 2024 shows the closing premium of individual home and credit protection products from the data provision ordered by resolution in the housing insurance campaign.

Source: MNB.

Chart 4.10
Market shares of home insurance companies based on 2024 premium income, 2024 new business portfolio premium, and the number of policies issued during the 2025 housing campaign



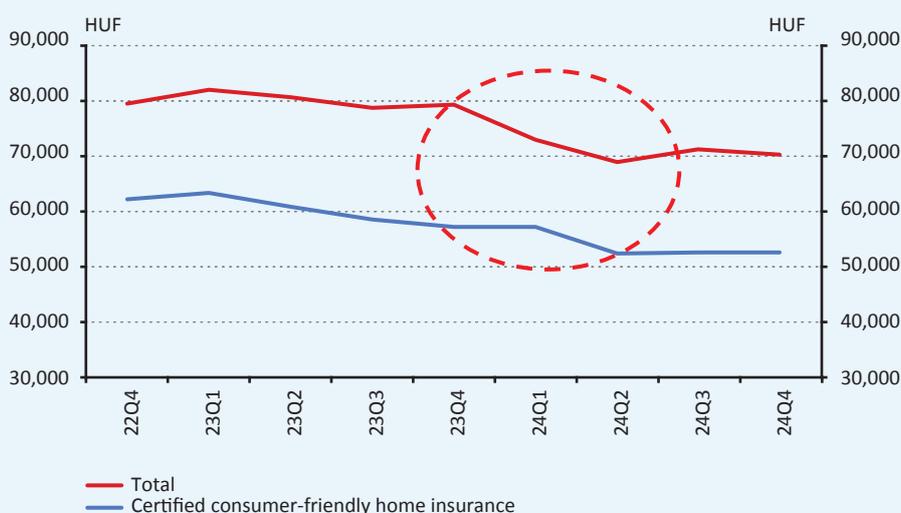
Note: The figure shows individual home and credit protection products data.

Source: MNB.

Improving value for money ratio

The average premium for fully insured, permanently inhabited properties increased by 17.1 percent over one year. Insurance coverage (sum insured for real estate and movables) rose by 32.1 percent, outpacing premium growth and reflecting an improvement in overall value for money. The chart below shows the evolution of average premiums for fully comprehensive home insurance policies covering permanently occupied properties, based on a fixed insured sum of HUF 70 million. During the first half of the year, average premiums calculated at a fixed insured sum decreased, but they began to stabilise from the third quarter.

Chart 4.11
Average premium for permanently occupied full-coverage home insurance with a fixed sum insured



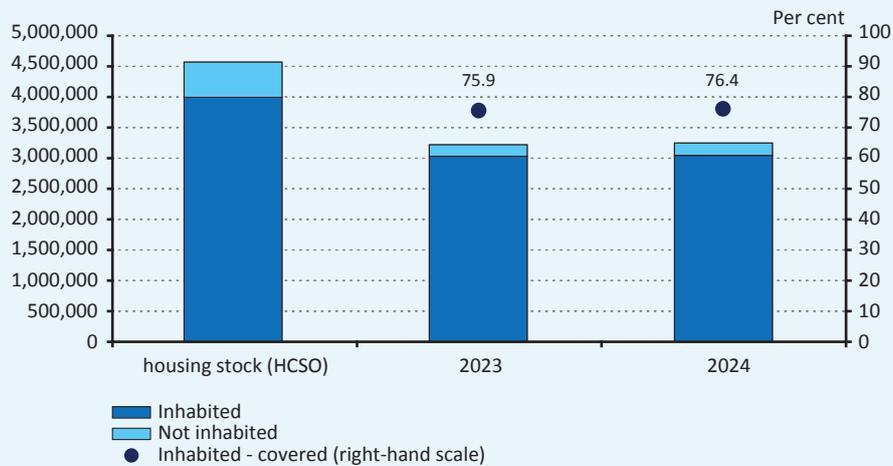
Note: Sum insured fixed at HUF 70 million.

Source: MNB.

Overall market size also increased moderately

Based on the data reporting received from insurance companies, it can be concluded that the market did not shrink; instead, it expanded slightly with the number of contracts rising by 1.1 percent. This represents nearly 35,000 contracts, with the increase primarily attributable to insurance policies covering movables and non-residential real estate. There were 3.26 million home insurance contracts in the market by the end of 2024. The market’s portfolio premium also increased by HUF 28 billion to HUF 192 billion, equivalent to growth of 17.2 percent. The growth in the portfolio premium reflects a 16-percent increase in average premiums and a 1.2-percent increase in contract volume. With the increase in the number of contracts, the coverage of residential properties rose by 0.5 percentage point to 76.4 percent.

Chart 4.12
Number of contracts of home insurances and coverage of residential properties



Note: The coverage includes comprehensive, real estate-only and movable-only insurances.

Source: MNB, HCSO.

MNB supports upcoming campaigns with circulars

Based on experiences from the first home insurance campaign in 2024, the MNB drafted a management circular on several topics. Some of the measures envisaged in the circulars can make an effective contribution to enhancing competition and protecting consumers' interests in the upcoming campaign periods.

On the one hand, the MNB supplemented the content of the sample letters on the home insurance campaign to be sent to clients annually. In order to facilitate clients' calculations and to conclude new contracts, data related to the existing home insurance policy (policy number, main data of the insured property, annual insurance fee, possible term discount or – e.g. due to a housing loan – assignment of the insurance payment) were also included in these prospectuses. On the other hand, the MNB also highlighted in the client prospectus that starting from 2025 contracts terminated during campaign periods will be terminated uniformly on 30 April (until then, the fee must be paid).

The other circular of the supervisory authority eliminates the undesirable phenomena related to term discounts (i.e. the principle of 'those who contract for a longer period pay a lower fee') granted by several insurers for home insurance. The MNB considers the maximum 3-year term discount to be a good practice. Client needs change rapidly, and long-term discounts (as the customer has to pay the difference of the waived premium part in the event of early withdrawal from the contract) can prevent clients from freely re-contracting, even during home insurance campaigns. In addition, the MNB supports that, after expiry of the period of the term discount and premium discount, the home insurance policies in question should remain in force without any further conditions, i.e. the insurance premium of the clients should change at most according to the contractual indexation. It is not a practice to be followed if the insurer instead automatically renews the term discount – possibly without the repeated explicit consent of its clients – thereby imposing the obligation on the client to maintain the contract for a new period, and the insurer may demand payment of the discount granted if the client terminates their contract prematurely.

In order to involve condominiums more actively in home insurance campaigns, in another circular, the MNB called on insurance intermediaries to develop online comparison calculators (with the active support of insurers via web services) that make it easier for condominiums with a maximum of six apartments to choose among the offers. In the case of condominiums with more than six apartments, the MNB urges insurance intermediaries to contact the condominium manager in January or February before the campaign periods, in order to review property insurance for condominiums. This will allow the general assembly to make decisions related to condominium insurance during the campaign period.

Based on the market consultation, the MNB expects major developments from 2026 in order to ensure adequate preparation time for the insurers, but it formulated it as a good practice for institutions to apply the contents of the circulars from 2025.

The MNB also amended the MFO's set of conditions, the main goal of which is to enable consumer-friendly home insurance policies to compete with traditional home insurance policies competing under more flexible pricing conditions during home insurance campaigns. Until now, the fees of MFO products could only be adjusted on a quarterly basis for the first day of the quarter, and this had to be reported to the MNB 60 days in advance. By contrast, the premiums of traditional home insurance policies may have changed several times during the campaign, and so the MFO was pushed into the background. This condition was made more flexible by the introduced amendment, which allows insurers to announce a new premium for MFO products even the next day.

Box 4.2

Consumer protection violations and concerns in the term discount notices of home insurances

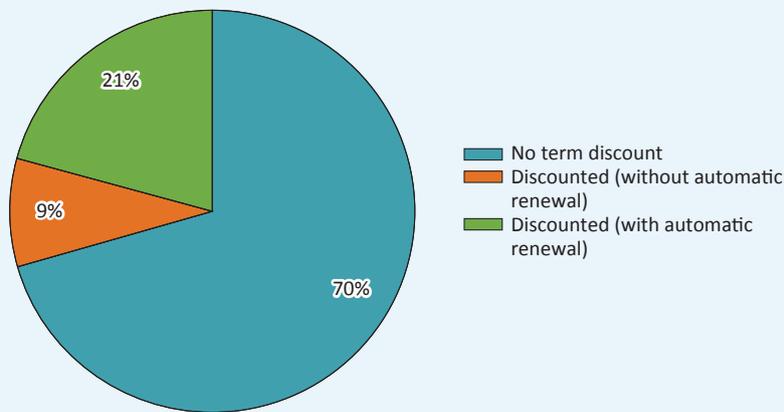
The central theme of the 2024 home insurance campaign was the term discount previously stipulated in the contracts. The MNB conducted consumer protection targeted reviews on the issue and obtained further information on the application of the term discount through other supervisory instruments, as a result of which a management circular was issued in December 2024 (<https://www.mnb.hu/letoltes/vezetoi-korlevel-a-tartamengedmeny-alkalmazasaval-kapcsolatban.pdf>), and in March/April 2025, decisions sanctioning insurers were issued in a continuous supervisory procedure.

Detailed, accurate information suitable for raising consumer awareness was inadequate in most of the cases examined, and thus the MNB set an expectation for insurers that if they apply a term discount, they should pay special attention to the content of the related information and that consumers should be aware of the extent of their obligations. Transparent information is of paramount importance when presenting the term discount nature of the contract.

Another major problem was automatic renewal. The MNB did not support the practice of making the term discount automatically renewable and maintaining it for a new period without any further explicit declaration by the consumer. After the expiry of the term discount period, the discount will be earned, and thus it is not consumer-friendly if the insurer does not differentiate between the new and the old term discount client, as a result of which it imposes the same obligations on the consumer for an indefinite period of time (i.e. the loss of the discount in the event of termination).

The MNB welcomes the fact that practices in the insurance sector had changed radically by the spring of 2025 and had adapted to supervisory expectations.

Chart 4.13
Share of term discount contracts in the home insurance portfolio (2024 Q2)



Source: MNB.

4.3.2 Non-life insurance product complaints statistics

Higher ratio of complaints received about non-life insurance products

Objections to the conduct, activity or omission of insurers are regarded as complaints. Consumer complaints are subject to consumer protection rules with guarantees, in particular the 30-day deadline for responding.

In its ex officio and request-based procedures, the MNB repeatedly experienced that institutions do not always qualify submissions objecting to their activities as complaints, and therefore it takes strict action to ensure that institutions assess clients' submissions on the basis of their content. As a result, submissions that were not previously reported as complaints also appear as complaints, and the complaint statistics show growth, but they increasingly provide a realistic picture of the number of complaints received by the institutions.

In 2024, the ratio of complaints received to the number of contracts increased for all compulsory motor third-party liability insurance, casco insurance contracts, travel insurance and household property insurance.

When it comes to travel insurance contracts, it is often a problem that clients do not know exactly what their contract covers. For example, damage caused by an airline is usually compensated by the airline, so excluding or limiting it is a common and accepted practice.

It is also important to know what limitations and exclusions are set out by insurers in the terms and conditions of travel cancellation insurance, such as the conditions under which the trip can be cancelled and how many days before the start of the trip.

There was a strong increase in the proportion of complaints received in connection with household property insurance contracts.

In 2024, especially during the home insurance campaign, the MNB focused on complaints objecting to the restrictions related to the term discount applied in the case of home insurance. In view of the fact that termination of the contracts affected by the term discount entailed an obligation for the policyholders to pay the discount used with this in mind, thus, they could not take advantage of the option to switch provided by the home insurance campaign, or could only take advantage of the opportunity if they paid the discount they had used, even a significant amount. In connection with the term discount, the MNB launched target tests at several insurers and also formulated its expectations in a management circular (the issue of the term discount is discussed in detail in Box 4.2).

In addition to insurance policies reimbursable at the new value, home insurance policies appeared on the home insurance market, in the case of which the sum insured does not have to be indicated upon conclusion of the contract. By reducing the risk of underinsurance, these schemes significantly increase the clients' sense of security and trust in services.

On the home insurance market, we also find contracts with all-risks all-risk coverage. These contracts cover all damage to the insured assets that occurred due to external influences, with the exception of excluded risks.

The MNB continues to investigate the complaint management of insurers, both in its ex officio investigations and in consumer protection proceedings initiated upon request. In addition to official procedures, it maps out customer-friendly solutions that improve communication between insurers and clients, and shares its experiences in this regard with market participants from time to time in the form of recommendations and circulars.

Chart 4.14
Number and ratio of non-life insurance product complaints compared to the number of contracts in the product group



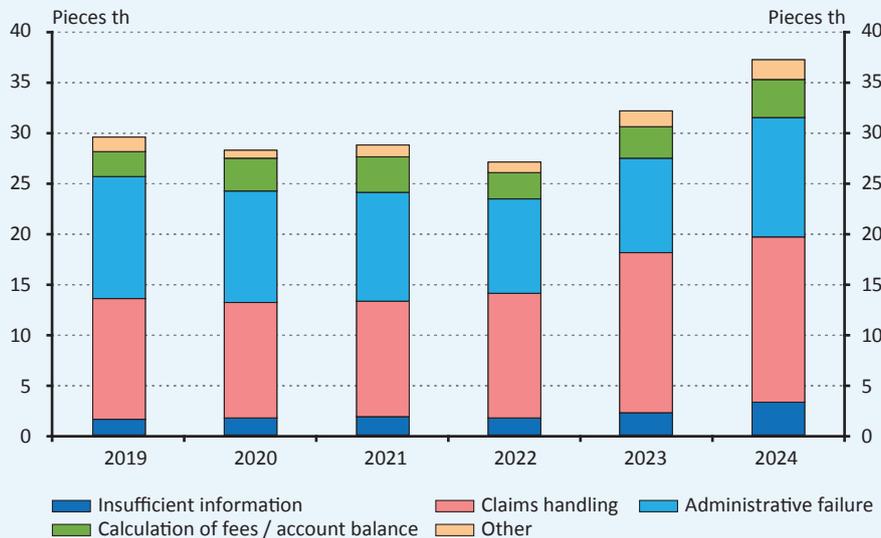
Note: Household property insurance: home insurance (individual) and household property insurance with a credit protection clause.
 Source: MNB.

Breakdown of the number of complaints received on non-life insurance products by complaint category

As in 2023, claims management received the most complaints in relation to non-life insurance products, although their proportion decreased compared to all non-life insurance product complaints (for more the principles of grouping complaints, see Chapter 4.2.3). While in 2023, nearly half of the complaints, 49 percent, objected to the excessive duration of claim settlement process, the rejection of the claim for compensation or the amount of compensation, in 2024 their proportion decreased to 44 percent. The regulation of claims settlement procedures with supervisory instruments may bring about a favourable change in the development of complaints related to damages.

One-third of the complaints contained objections related to administrative deficiencies. This was followed by complaints related to fee calculation and account balance, which accounted for one-tenth of all complaints, followed by complaints objecting to receiving information and complaints in other categories with 9 percent and 5 percent, respectively.

Chart 4.15
Breakdown of complaints received on non-life insurance products by complaint category



Note: Insurance of household property, MTPL, Casco, Travel.

Source: MNB.

4.4 PRESENTATION OF PHENOMENA AFFECTING THE INSURANCE AND FUND MARKET IN 2024

As in previous years, the MNB prepared a heatmap for 2024 presenting the risks and phenomena affecting consumers in the domestic insurance market. This year, the phenomena and risks affecting the funds sector are also presented on a separate heatmap. The charts illustrate the effect of the given phenomenon on consumers (harmful or rather beneficial to them) and indicate whether the risk or phenomenon affects a wider or rather narrower circle of consumers.

4.4.1 Description of the phenomena related to the insurance sector indicated on the heatmap

In 2024, the average, aggregated consumer price index was 3.7 percent²³ in the domestic economic environment. As in the previous year, inflation might have continued to result in underinsurance, as insurance premiums might have not been adjusted if clients did not accept indexation (e.g. property reconstruction costs increased) and insurance premiums increased. Based on the MTPL index²⁴ for 2024 Q4 published by the MNB, the average annual premium shows an 8-percent increase compared to previous year, which is more than twice as high as the 3-percent annual increase in claim charges. With the decline in inflation, lower fee increases and consolidation would be justified, the first step towards which could be a quarterly fee reduction. Based on the Home Insurance Index²⁵ for 2024 Q4, home insurance premiums also increased by 17.1 percent versus the previous year.

²³ <https://www.ksh.hu/gyorstajekoztatok/far/far2412.html>, 1.2.1.2 The consumer price index by main consumption groups, and the consumer price index for pensioners, monthly.

²⁴ <https://statisztika.mnb.hu/publikacios-temak/felugyeleti-statisztikak/biztositasi-piaci-szervezetek/mnb-kotelezo-gepjarmu-felelossegbizto-si-tas-index>.

²⁵ <https://statisztika.mnb.hu/publikacios-temak/felugyeleti-statisztikak/biztositasi-piaci-szervezetek/mnb-lakasbiztositas-index>.

The average yield of unit-linked products in 2024 (as of 31 December) was 16.64 percent; this was reduced by inflation and incurred costs, i.e. the average real yield amounted to 5.15 percent. As part of the Ethical Insurance 2.0 regulatory package of measures presented in Box 2.4, the Unit-Linked offer was amended, which may result in an increase in yields by stating in the product review that it is necessary to examine whether the higher yield is expected to be met. The MNB's recommendation on product oversight and governance (POG), also referred to in Chapter 4.2.1 and also described in Box 2.4, also contains a provision that may have a positive effect on yields, according to which in the case of unit-linked products, it is necessary to examine the actual yields in comparison with benchmarks and forecasts.

In 2024, the MNB also examined insurance products (group credit protection insurance specifically sold through banking channels) according to the so-called 'value for money' approach, in the course of which the poor product quality was found; the examination is presented in detail in Box 4.1. The measure of the 'value for money' approach is the loss ratio related to the insurance product. This percentage figure is the 'customer value' that the product carries. A higher loss ratio is obviously more favourable for clients. The average loss ratio of credit protection insurance sold through banking channels was 11.5 percent in 2023, which can be considered extremely low, despite the fact that about 23.6 percent of the working-age population owns such a product. Home insurance products are a positive example, given that, based on the Home Insurance Index, the sum insured increased by 32.1 percent in the case of home insurance products, which is well above the extent of fee increases, thanks to which the —value for money ratio of home insurance policies improved in 2024. One of the factors of the loss ratio, i.e. of the —value for money ratio, is the rate at which the submitted claims are rejected by the insurer.

Among other things, the examination of rejected claims is also considered a contractual dispute, as is any case where the client wishes to remedy their financial disadvantage. Such problems fall outside the competence of the MNB, and consumers can turn to the Financial Arbitration Board (PBT) or to the court. In most cases, insurers justify the rejection of the reported service request with a lack of information or incomplete submission of documents, and it is also common for the rejection to be made with reference to the insured's existing or previous illness. The PBT is an out-of-court, alternative dispute resolution forum operated by the MNB, which has been providing an opportunity for the amicable settlement of consumer disputes between consumers and financial service providers supervised by the MNB since 1 July 2011. Within the framework of effective dispute resolution, the PBT handled a total of 1,032 cases involving insurance market products in 2024. In the case of Certified Consumer Friendly Home Insurance products, the tender conditions prescribe an obligation for insurers to make a declaration of being subject to the PBT, i.e. to subject themselves to the PBT's procedure or, in the absence of a settlement, to the decision made in such a procedure.

In the claim settlement process, the procedure may be delayed when insurers ask consumers to submit documents that are not relevant to the assessment of the merits of the claim, and also when the insurer fails to respond to the consumer's written request. In 2024, insurers received a total of 19,000 consumer complaints related to claims settlement practices, and Chapters 4.2.3 and 4.3.2 also show that one-third of the complaints received by insurers were related to claims settlement in the case of life insurance products, while in the case of non-life insurance products, nearly one-half of the complaints concerned insurers' claims settlement practices. The regulation of claims settlement with supervisory instruments may bring about a favourable change in the development of complaints related to damages.

In the case of long-term savings insurance products, the pre-contractual information provided to consumers is often inadequate, incomplete or even misleading, and consumer awareness and financial awareness are essential to make the optimal financial decision, the lack of which can have a negative impact on their financial well-being. On the basis of Chapter 4.2.3, a number of provisions of EU and domestic legislation help to ensure that consumers receive appropriate information about products in a timely manner; thus, as a result of the increasingly precisely mandated information obligations, the complaint rate regarding the information related to the conclusion of the contract is slowly decreasing. In several cases, it can be seen that the salesperson managing the savings life insurance contract persuades the consumer to conclude a new savings life insurance contract besides the redemption or exemption of the existing contract. The impact of an unethical insurance switch on the client's financial situation, if we only take into account the repeated payment of the initial costs, can reach roughly hundreds of thousands of forints. The prevention of mis-selling and insurance switch disadvantageous for the client is regulated by the MNB Recommendation 10/2024 (IX.24) on the detailed rules of quality assurance calls applicable during the sale of insurance-based investment products (Welcome call recommendation).

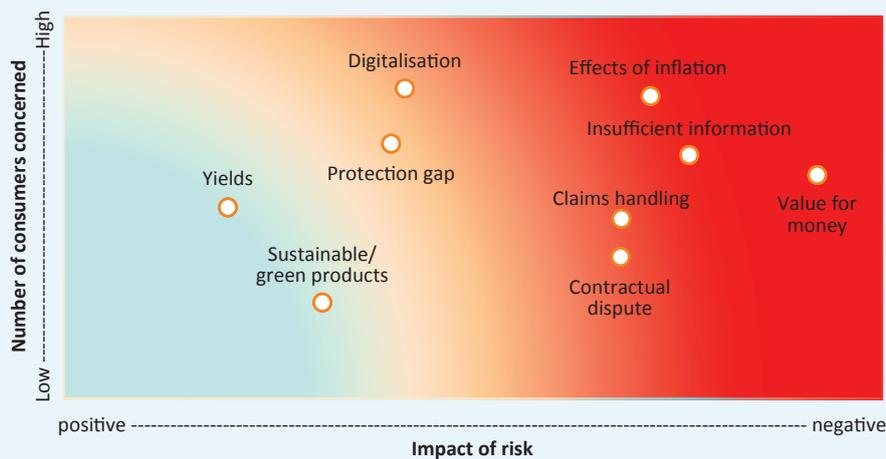
In 2024, insurers received more than 4,000 consumer complaints in connection with the disclosure of information about insurance contracts.

As in 2024, consumers continue to be increasingly open and interested in sustainable investments. Great emphasis is placed on the regulation of sustainable, ‘green’ products both in the EU and in the domestic market, helping to avoid the phenomenon of ‘greenwashing’ for consumers, among other things. Chapter 4.2.2 explains in detail that EIOPA issued an Opinion offering guidance and an overview of greenwashing-related challenges in the insurance sector. The Opinion establishes a framework to assist competent supervisory authorities in assessing the sustainability claims made by insurance companies and pension funds, and in ensuring that the oversight of sustainability disclosures is conducted according to harmonised principles.

Thanks to digitalisation, information is quickly and almost fully available to consumers, which supports and promotes their awareness, but it is important that service providers do not forget about the consumer segment who are less familiar with the digital world, and pay attention to the fact that they are not excluded in any way, and they must emphasise the instruments that can be used to prevent fraud and fraud attempts affecting this segment. The MNB regularly monitors the electronic communication practices of insurers in its investigations, in order to filter out risks that may harm consumers’ interests in the future. One of the panel discussions at the Consumer Protection Day organised by the European Supervisory Authorities on 3 October 2024, presented in detail in Chapter 4.1.2, was about artificial intelligence (AI), including the benefits and dangers of using AI.

An insurance protection gap is defined as the difference between the amount of economic damage incurred and the insured damages, a significant part of which can be linked to natural disasters. A detailed description of the phenomenon is given in Box 2.3. The reason for insurance protection gaps may include that the gap cannot be covered by insurance, or it can be covered by insurance but the insurer does not wish to cover the risk, or it offers coverage, but at too high a premium, or clients do not recognise the risk. In Hungary, the occurrence of drought, storm and flood risk are the most common disaster risks related to climate change. The domestic natural disasters have been manageable in recent years.

Chart 4.16
Heatmap on the risks affecting domestic consumers in the insurance market



Source: MNB.

4.4.2 Description of the phenomena related to the funds sector indicated on the heatmap

The portfolios of voluntary pension funds include both domestic and foreign securities that can be considered green, the ratio of which to total fund assets increased steadily and moderately in 2024. In addition, an institution in the voluntary pension funds sector offers a dedicated green portfolio to its members.

Thanks to the rapid flow of information and its easy accessibility, the development of digitisation is also reflected in the voluntary funds sector, and some of the solutions of large funds are particularly innovative. The implementation of IT developments related to digitalisation is a step forward especially for health and mutual aid funds. During the processing of invoices related to the use of an increasing number of services, various digitisation solutions and developments provide substantial support. They make administration easier, simpler and faster for clients, such as the possibility of submitting invoices on an electronic interface.

Inflation has a negative impact on members' savings, reducing them in real terms. Based on the description in Chapter 3.2.2, the real yield of voluntary pension funds last year amounted to 8.8 percent. The payments of health and mutual aid funds increased by 50.9 percent compared to 2022, with inflation possibly playing a role in this, as the consumer price statistics published by the HCSO for the '6. Healthcare' groups indicate a 19.6-percent price increase for the same period, based on the information in Chapter 3.3.3. Domestic disinflation came to a halt in September 2024, and then a renewed rise in inflation was observed until February 2025.

Funds inform their members about their current individual account balances by sending annual account notifications. Members can find information on services, marketing promotions and administration-related tasks on the websites of the funds. Members can also obtain information on the results of investment performance on the basis of the disclosure available on the MNB's website and the data published in the framework of the disclosure of funds. The funds place great emphasis on informing their members, e.g. about their investment performance and services, through newsletters and information material attached to the annual individual account notification. Continuous monitoring and investigations have not identified any significant deficiencies in the provision of information.

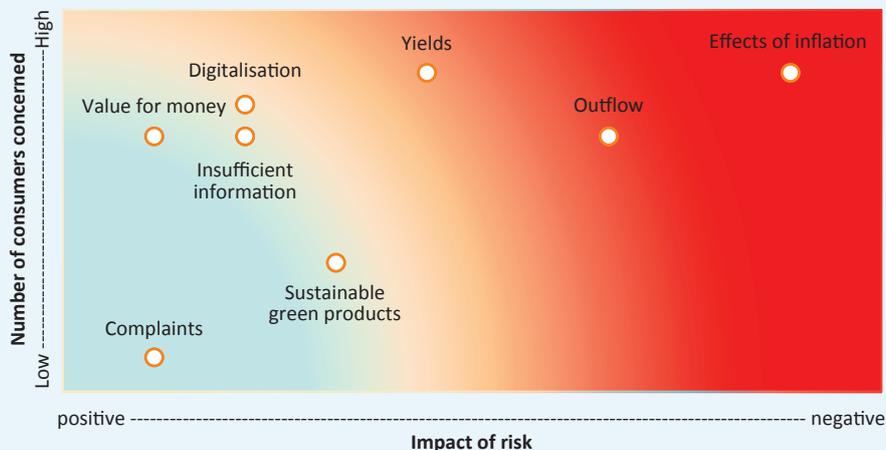
The number of complaint cases is negligible compared to the size of the sector and number of clients in the sector (the number of consumer complaints received by the MNB was three in 2024, and the number of consumer complaints received by institutions was more than 1,500 in 2024). There are practically no legal disputes or PBT procedures in the area of funds, or their number is negligible, as mentioned in Chapter 3.4.

Voluntary pension funds can be considered as a cost-effective investment product with high customer value. A total cost indicator of less than 1 percent is favourable for fund members. Chapter 3.2 describes in detail the income of voluntary pension funds.

Measured on the basis of voluntary pension fund payments, outflow decreased in 2024 compared to previous years, and contributions were also outstanding, as described in Chapter 3.2.4. However, the proportion of assets that can be withdrawn tax-free is high, which shows that the membership is ageing, there is not a sufficient supply of younger generations, and there is still a significant risk due to the outflow expectations for real estate purposes, as described in Chapter 3.4.1.

Yields were high in 2024, which further improved the reputation of funds, but the future outlook is uncertain. International capital markets are volatile. In 2024, voluntary pension funds achieved an average net yield of 13.8 percent – weighted by closing assets – as detailed in Chapter 3.1.1.

Chart 4.17
Heatmap on the risks affecting domestic consumers in the funds market



Source: MNB.

4.5 INTERNATIONAL CURRENT EVENTS

4.5.1 Still no progress in the case of the Slovak insurer

On 1 June 2023, the Slovak Financial Supervisory Authority (Národná banka Slovenska, NBS) revoked the licence of NOVIS Insurance Company, NOVIS Versicherungsgesellschaft, NOVIS Compagnia di Assicurazioni, NOVIS Poist'ovňa a.s. (NOVIS), which was engaged in cross-border life insurance activities in several European countries, and NBS filed an action with the competent Slovak court for the appointment of the company's liquidator, but to date, the court has not appointed a liquidator, in view of the fact that NOVIS challenged the decision withdrawing the licence.

As a result of the decision of the NBS, NOVIS has not been allowed to conclude new insurance contracts since June 2023 and can only carry out the activities necessary for the performance of existing insurance contracts, i.e. collecting insurance premiums, enforcing claims and settling its obligations; however, after the withdrawal of the license, the insurer is only under limited supervision. Due to the ongoing court proceedings, it is currently uncertain when the Slovak court will make its decision, but the current situation may adversely affect consumers. Policyholders may face the risk of financial losses, among other things, because they pay the insurance premium to an unlicensed company, over which the NBS has only limited oversight.

During the ongoing court proceedings, the MNB regularly calls the attention of domestic policyholders in its press releases to carefully assess their options offered by the contract on the basis of the available information, and to seek professional advice to decide what would be the best measure for them, including, but not limited to, suspending or waiving the insurance premium payment or terminating their contract.

4.5.2 Report on the costs and past performance of EU retail investment products

The European Supervisory Authorities (EBA, EIOPA and ESMA – collectively referred to as ESAs) publish an annual report on the performance and costs of retail investment products under their remit. As in previous years, EIOPA's 2025 report²⁶ covered the net yield and costs of Insurance-Based Investment Products (IBIPs) and Personal Pension Products (PPPs), as well as an analysis of data from Institutions for Occupational Retirement Provision (IORPs). In line with the methodology already developed in previous years, EIOPA assessed the costs and performance of the previous five years (2019–2023).

Different trends in the IBIP market were observed in the different Member States. In general, it can be stated that IBIPs achieved a positive net yield in 2023 and, overall, thanks to the recovery in 2023, the four-year horizon under review also resulted in a positive yield, but it did not reach the rate of inflation, despite the fact that inflation fell to 6.3 percent at the EU level in 2023, from 9.2 percent in the previous year. Rising interest rates allowed for higher technical interest rates, thereby shifting demand towards traditional savings insurance in some Member States (e.g. Belgium, Italy and Norway, where gross premium income from Profit-sharing Products (PPs) has jumped since 2021 (+26.8 percent), with a slight decline in unit-linked life insurance products).

Despite high inflation, the costs of IBIPs have not increased significantly, but their costs remain high. Although unit-linked products are still more expensive than other IBIPs, unit-linked products with higher risk exposure (i.e. with a risk indicator between 4 and 7) achieved the highest net yield. By contrast, consumers who were looking for security were able to achieve better income for profit-sharing products (PPs), which have lower costs and higher net yield than unit-linked products with a low-risk indicator.

Unit-linked products showed a varied net yield, lower-risk options (with a risk indicator of 1–3) achieved a net yield of 0.8 percent, while consumers who took a higher risk (on products with a risk indicator of 4–7) achieved a net yield of 4.2 percent on average. According to the analysis, products traded with cross-border activities within the EU are still slightly more expensive than domestic products. The report also highlights that the penetration of products with sustainable (ESG) characteristics has increased significantly in the IBIP market (55 percent of the products in the sample now include ESG functions), and that underlying asset funds with sustainable characteristics were able to achieve better results than those without ESG functions (compared to 5.2 percent yield for ESG asset funds, non-ESG funds achieved 2.4 percent).

Positive yields were also observed in the case of personal pension products, but their costs remain at a stable high level, with an average cost indicator of 1.9 percent. Finally, the report notes that Institutions for Occupational Retirement Provision continue to move towards defined-contribution (DC) schemes.

4.5.3 Continued focus on the value for money of insurance products and decision-making in the digital space (EIOPA Consumer Trends Report)

EIOPA's 2024 Consumer Trends Report (CT Report)²⁷ focused on the impact of digitalisation on informed decision-making and the value for money of insurance and fund products. The CT Report was supplemented this year, as it has been in previous years with a heatmap showing the main observed phenomena and the aggregate results of the Eurobarometer survey.²⁸

The CT Report explains several benefits of digitalisation, such as simplified processes, cost-effectiveness, easy accessibility and comparability, and a better customer experience, but also highlights that not all consumers benefit from these advantages, and that digitalisation can amplify existing problems, in addition to the emergence of new risks. The risk of exclusion arises in particular for older or lower-income consumers, or for digitally unskilled consumers. In addition, overly standardised/simplified processes are not able to effectively handle several individual problems, and aggressive

²⁶ [Despite good returns, performance of retail investment products in insurance and pensions fails to outperform inflation – EIOPA.](#)

²⁷ https://www.eiopa.europa.eu/publications/consumer-trends-report-2024_en.

²⁸ The Eurobarometer survey asked representative samples of EU citizens aged 18 and over, as well as small and medium-sized enterprises, with the aim of obtaining a picture of consumers' experiences. The survey collected data from around 26,000 consumers in the 27 EU countries (https://www.eiopa.europa.eu/tools-and-data/eurobarometer-2024-consumer-trends-insurance-and-pension-services_en).

marketing practices and the application of dark patterns suitable for inappropriate influence were identified in the online space in several countries.

Artificial intelligence (AI)-based instruments used in pricing can reduce costs and improve risk segmentation first, but uncontrolled automated decision-making and poor or limited understanding of consumers' specific situation can also cause problems. All of this can lead to discrimination, bias or mismanagement of customers. AI may sometimes set higher premiums or make insurance less accessible to high-risk or more vulnerable customers. The CT Report also points to problems with the quality of information from AI sources, where AI can make mistakes that go undetected, which is why internal control mechanisms and appropriate risk mitigation measures are essential. Finally, the CT Report also mentions concerns about data protection, safe and ethical use, highlighting the importance of supervisory authorities ensuring that data is collected and used in accordance with the principles of the GDPR, including the principles of fairness, transparency and data minimisation. The report mentions the MNB's 2023 survey on the use of AI and machine learning applications.

Products that offer low customer value can cause disadvantage or harm to consumers and result in a decrease in consumer confidence. Value-for-money problems can arise for both life and non-life products, especially for complex products and for those that are difficult to understand. According to the phenomena of the heatmap presented in the annex to the CT Report, value-for-money problems for IBIPs decreased to some extent in 2023 (due to improved yields), but one-quarter of consumers believe that insurance-based investment products do not offer adequate value.

The ageing of the EU population continues to put pressure on the public pension system. According to the CT Report, the average state pension in the EU, expressed as a percentage of earnings at retirement, is expected to decrease from 46 percent regarding the year 2019 to 38 percent regarding the year 2070. Supplementary pensions can reduce pension gaps, but according to EIOPA's 2024 Eurobarometer survey, only 20 percent of EU citizens indicated that they have occupational pension savings. The CT Report highlighted the importance of financial incentives (e.g. tax credits, tax allowances) to make supplementary pension insurance more attractive, but at the same time, due to high inflation and the resulting cost of living crisis, consumers currently have less disposable income, which is not conducive to savings. It is common for pension products to be so complex that decisions about them are challenging for those who do not have the appropriate financial knowledge. Since the launch of pan-European pension products in March 2022, it has achieved limited success, the reasons for which are briefly analysed in the report.

5 Intermediaries and associated risks

5.1 INSURANCE INTERMEDIARIES

5.1.1 Concentrated brokerage market, record revenues

The decline in the number of institutions with insurance intermediary licences, which has been observed for years, continued in 2024. The decline amounted to 4 percent, which was smaller than in the previous year (Table 5.1), but the change was still due to the concentration of the brokerage market based on portfolio transfers. For years, brokers typically operating with larger administration have seen opportunities in broker integrations and have been successful in addressing smaller brokers in need of support in regulatory compliance, digitalisation and the continuous development of the insurance sector in general, who take advantage of the opportunity to transfer their portfolios and join the larger players together with their intermediaries. In terms of the number of intermediaries and commission revenues, 2024 was a satisfactory year, as after a long time, the number of intermediaries turned in a positive direction, albeit only slightly, and in terms of commission revenues, there was an increase of 16 percent relative to the previous year.

	Insurance intermediaries	
	2023	2024
Number of institutions*	358	344 
Brokers	322	308
Multiple agents	36	36
Number of natural persons (persons)	11,493	12,102 
Commission income (HUF bn)	122.8	142.4 

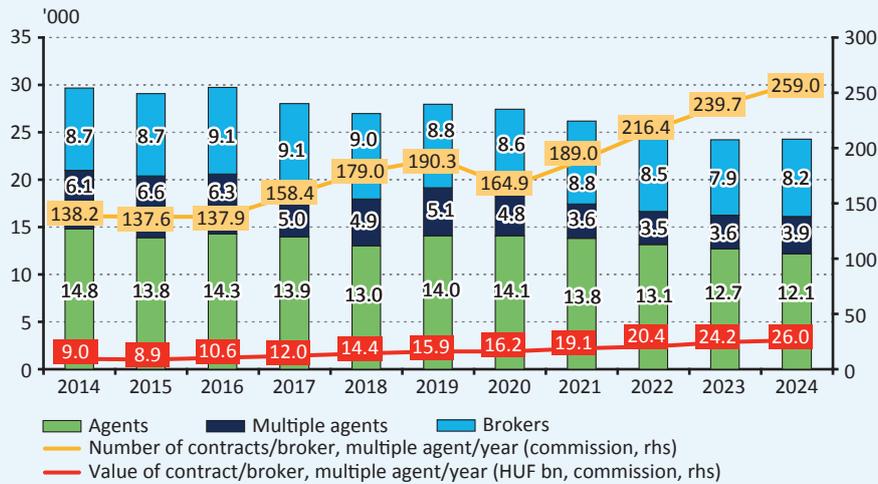
Note: The number of insurance intermediary institutions includes institutions registered as insurance intermediaries and performing insurance intermediary activities as their main activity, as well as institutions registered on the basis of other main activities and also performing insurance intermediary activities.

Source: MNB.

5.1.2 Number of licensed intermediaries increases again after seven years

For the first time in a long while, 2024 was a good year in terms of the number of intermediaries, as the trend-like decline in the number of staff seen in the previous seven years came to an end in the year under review. After the 3.7-percent decrease experienced last year, there was no measurable change in the reporting period, as the 4.7-percent decline in the agent network of insurers was offset by an increase in the number of employees in multiple agent and brokerage networks (Chart 5.1).

Chart 5.1
Trends in the number of insurance intermediary natural persons



Source: MNB.

However, the change in the number of intermediaries did not significantly improve the average age of insurance intermediaries; the slow but steady increase in their average age is not only characteristic of the insurance sector, but can also be considered a general social challenge (Chart 5.2). In the review period, the average age of multiple agents changed in the most favourable direction, as the upward trend seen in previous years reversed and the indicator fell to 36.5 years, showing a decline of 1.6 percent. With regard the year under review, on the whole, it can be said that the evolution of the average age of brokers was the most unfavourable, as the increase in this indicator exceeded 4 years over an 8-year timeframe, in contrast to the increase of roughly 1.5 years registered for multiple agents and agent networks. The different dynamics in the evolution of average age are still based on the characteristics of each type of intermediary and the differences inherent in them. Agents engaged in multi-agency activities typically mediate life insurance products with higher acquisition commissions in a higher proportion, the amount of which is suitable to ensure a living even in the early times. By contrast, non-life insurance products mediated by brokers specialised in non-life insurance are characterised by a lower acquisition fee but a long-term maintenance commission, depending on the product category, and thus this model offers less perspective in terms of livelihood for career starters, but offers more perspective for the long run. Insurance agent networks alone provide an opportunity for a new entrant to manage a portfolio, from which income can be generated even during the training period. Regardless of the average age, the task to be solved in this segment is still to make the profession more attractive and to retain the new intermediaries who have already joined.

Chart 5.2
Trends in the average age of insurance intermediary natural persons



Source: MNB.

5.1.3 Continued decline in life segment performance

With regard to intermediated insurance products, the same trend as in previous years was observed in the year under review, as the traditional shift in brokerage towards non-life insurance products strengthened further. The previous year's decrease in the premium of intermediated life insurance contracts and the remuneration received continued in 2024. Based on the results of the year under review, it can be clearly seen that brokerage is excellent in property insurance, and multiple agency intermediation is dominant in life insurance, and this sharp distinction does not really facilitate an increase in penetration (Table 5.2).

Table 5.2
Sales data of insurance intermediaries

	Value of contracts (HUF bn)		Number of contracts		Commission income (HUF bn)	
	2023	2024	2023	2024	2023	2024
Non-life insurance segment	246.6	284.2 ↑	2,680,474	3,067,198 ↑	95.2	114.5 ↑
Compulsory motor third-party liability insurance	115.6	130.7	1,643,091	1,871,103	22.9	25.8
Home insurance	7.8	13.3	122,503	232,642	10.3	11.9
Casco motor liability insurance	52.0	61.9	229,905	245,804	16.7	19.5
Corporate and institutional property insurance	48.2	50.9	46,716	52,449	29.5	38.3
Travel insurance	6.0	7.1	495,099	562,834	2.3	2.8
Other non-life insurance	17.0	20.3	143,160	102,366	13.5	16.3
Life insurance segment	32.2	31.0 ↓	75,475	67,532 ↓	27.6	27.8 ↑
"Risk (death) life insurance [Traditional life insurance before 2022]"	3.9	4.1	21,102	19,798	4.3	5.4
Life insurance with saving aim	27.3	25.9	53,508	45,315	21.8	21.2
of which						
Unit-linked life insurance	24.5	24.8	46,723	43,874	18.8	20.4
Traditional life insurance	2.8	1.0	6,785	1,441	3.0	0.8
Other life insurance		1.1	865	2,419	1.5	1.2

Source: MNB.

In the year under review, the value of non-life insurance contracts rose by 15.2 percent and the number of such contracts increased by 14.4 percent, while brokers and multiple agents recorded 20 percent more revenue as consideration for intermediation. In 2024, during which home insurance was the focus of a major market campaign, the value of home insurance contracts grew by 71 percent, while the number of home insurance contracts advanced by 90 percent compared to the previous year. The increase in the number of contracts can clearly be attributed to the first-ever campaign that was launched, while the change in the value of contracts was also due to the development of inflation in the construction industry and the elimination of underinsurance. In the case of motor vehicle insurance, growth can already be deemed permanent and it continued in 2024. During the year, the number of compulsory motor third-party liability policies concluded through insurance intermediaries exceeded the figure for the previous year by 13.9 percent, while their value increased by 13 percent, exceeding the annual average premium increase (8 percent). In the case of casco insurance, the number of contracts rose by 6.9 percent, while the value of contracts grew by 19 percent, which shows stagnation in terms of the value compared to last year, while the change in the number of contracts roughly halved. The changes result from the fact that, on one hand, the number of newly registered vehicles exceeded 100,000, and, on the other hand, average casco insurance premiums continued to rise in 2024.

The largest revenue in the review period was generated in corporate and institutional property insurance: a 30-percent increase in premiums was observed here compared to the previous year, with a 12-percent increase in the number of contracts and a 6-percent rise in contract value.

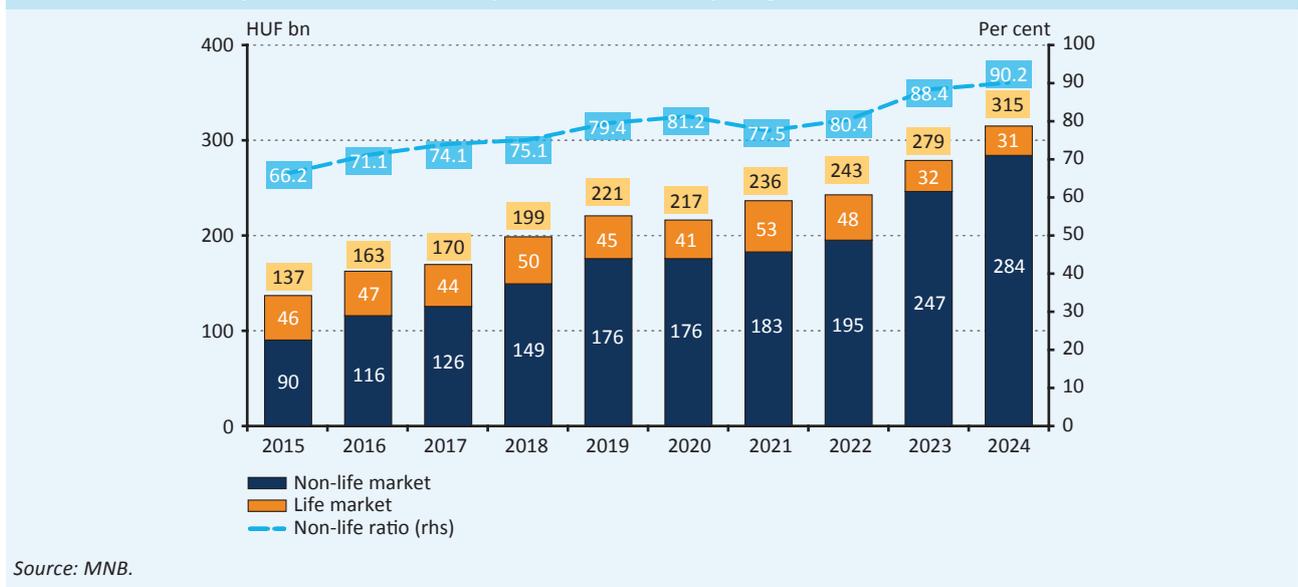
The intermediation of life insurance products continues to change in an unfavourable direction. In the case of unit-linked life insurance policies within the two main product categories, term life insurance and savings-type life insurance products, the drop in the number of contracts was the same, at 6 percent, and thus in the case of mediated term life insurance

products, the sharp decline in the number of contracts seen last year disappeared in the year under review. There was a 5-percent increase in the intermediated premium of term life insurance, another 13-percent increase in the average premium per contract and a 26-percent increase in the rate of premium income due after intermediation. The increase in the intermediated premium of unit-linked life insurance was barely measurable, and this increase was tangible in the amount paid as consideration for intermediation, at 9 percent.

5.1.4 Disappearing life segment sales, outstanding non-life segment sales

The total value of intermediated contracts continued to increase, reaching HUF 315 billion in the year under review, which was almost the same increase as in the previous year, at 12.9 percent higher than the 2023 result. The proportion of non-life insurance products also continued to rise, reaching over 90 percent in 2024. The increase in the shift towards the non-life segment in the year under review was also influenced by the now trend-like decline in results for the life segment: in the case of the latter, although the decline slowed down, it was still unable to offset the increase in the non-life segment. In the life segment, the amount of mediated contracts declined by 3.2 percent, which is almost negligible compared to the drastic fall measured in the previous year, while the increase in the amount of mediated non-life insurance contracts was nearly 15 percent. The decline in the life segment continues to be driven by a drop in savings-type life insurance, while the increase in non-life segment was induced by a 71-percent increase in home insurance and a nearly 20-percent increase in the mediated premium of casco insurance, travel insurance and other non-life insurance category products.

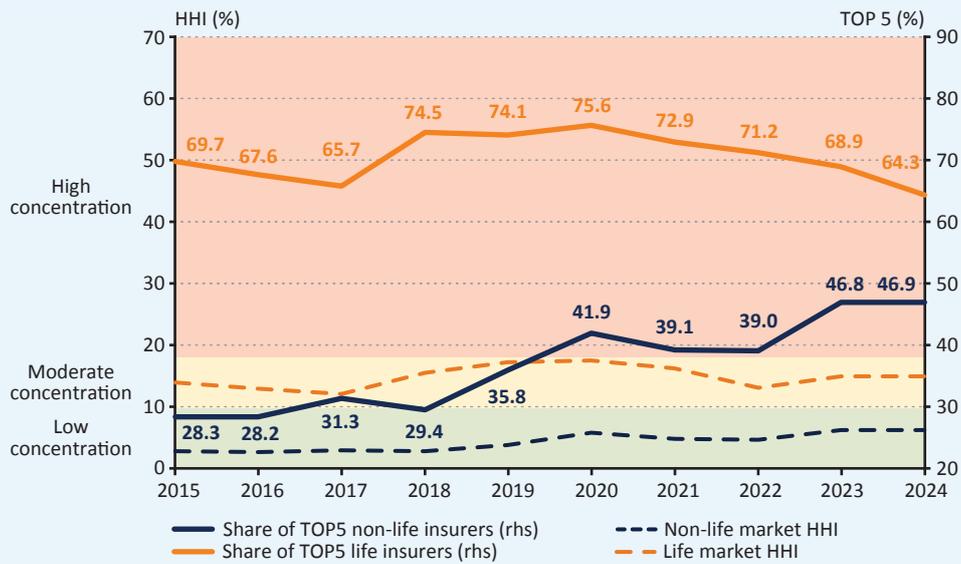
Chart 5.3
Trends of insurance premiums mediated by brokers and multiple agents



5.1.5 Concentration stagnates

In the year under review, market concentration calculated on the basis of mediated gross premium income and portfolio fees in the life and non-life segments almost stagnated, on the heels of the growth measured in 2023. In the life segment, the Herfindahl-Hirschman Index (HHI) was 14.8 percent, still reflecting moderate market concentration, while the proportion of the TOP5 changed by 4.6 percentage points to 64.3 percent, a concentration level that is still high. In the non-life segment, the HHI and TOP5 values remained almost unchanged. In the case of the former, the value was 6.1 percent, the same as in the previous year, while in the case of the latter, there was an increase of 0.1 percentage point.

Chart 5.4
TOP5 independent insurance intermediary shares and Herfindahl-Hirschman index based on gross premium income and portfolio premiums by segment



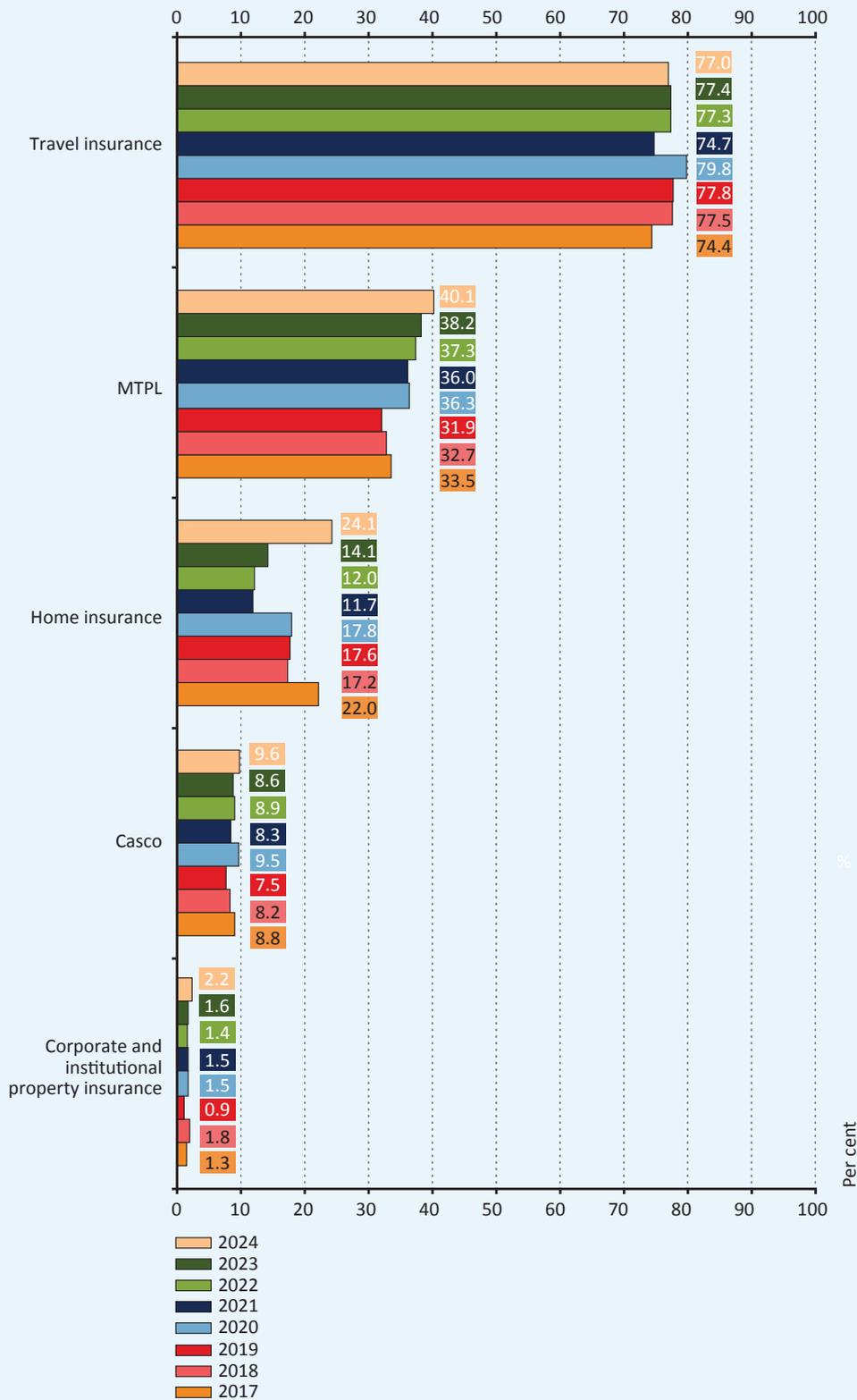
Source: MNB.

5.1.6 Digitally conscious, independent customers: growing online penetration

In terms of sales conducted electronically, i.e. without the help of a salesperson, the stagnation experienced in previous years was observed in almost all product categories in the year under review, but the impact of the home insurance campaign was also visible here. It has been a basic assumption for many years that online sales are typically significant for products that are transparent, so they can be easily compared, easily calculated, without any questions that typically arise, or products that are quite price-sensitive. In the year under review, home insurance demonstrated outstanding performance in all aspects, and this was no different in electronic sales: electronic sales grew by 10 percentage points, which was nearly five times higher than in the previous year. In the case of very popular products that can be sold electronically, such as travel insurance and compulsory motor third-party liability insurance, the changes in the ratios are not significant: travel insurances continue to perform at the maximum of online marketability at around 77 percent, while in the case of MTPL and casco insurance, there was an increase of 2 percentage points and 1 percentage point, respectively, as a result of which the electronic channel still accounts for roughly one-third of all sales.

The increase in the online penetration of home insurance showed that customers who may have been more cautious in the online space became more independent and braver, and consciously assessed their options and evaluated the information received even in the case of products in which price is not primarily decisive.

Chart 5.5
Proportion of electronically mediated non-life insurance contracts (by number, proportion within mediated contracts)



Source: MNB.

5.2 MONEY MARKET INTERMEDIARIES

5.2.1 Money market intermediaries concentrated according to material conditions

The concentration of institutions engaged in independent money market intermediary activities also increased in the year under review. The number of institutions fell by 10.4 percent, dropping by almost twice as much as in 2023. The reason for this is the MNB's deliberate market consolidation efforts, in line with the material conditions for independent intermediaries laid down by law, in the course of which the licences of inactive institutions that do not have a client financial institution, typically mediating trade credit and mortgages as multiple agents, were revoked, with the involvement of the institutions concerned. In the long term, as a result of measures that also serve the interests of active market participants, the number of multiple agents decreased by 4.3 percent and the number of trade credit intermediaries decreased by 27 percent in 2024. The number of natural persons increased by 74.4 percent compared to the previous period, which was a significant change caused by the re-entry of a key intermediary. In addition to the number of intermediaries, commission income also showed an outstanding increase of 56.4 percent in the year under review, which is undoubtedly due to the increase in the value and number of household loans and cash loans. While the results of the current year (also due to changes in economic conditions), reversing the negative trend experienced in previous years, point to positive development in 2025 as well, and it seems that the players of the brokerage market were truly crisis-resistant, we still consider it worthwhile to consider entering other brokerage markets within the scope of providing full service to clients (Table 5.3).

Table 5.3
Key data of independent money market intermediaries

	Money market intermediary	
	2023	2024
Number of institutions	452	405 📉
<i>Brokers</i>	17	16
<i>Multiple agents</i>	305	292
<i>Multiple special intermediaries</i>	4	5
<i>Hire purchase intermediaries</i>	126	92
Number of natural persons (persons)	5,968	10,412
Commission income (HUF bn)	17.2	26.9 📈

Note: The number of independent money market intermediaries includes institutions registered as money market intermediaries and those conducting money market intermediary activities as their main activity, as well as institutions registered under other main activities that also carry out money market intermediary activities. Trade credit money market intermediaries are not required to data reporting. There may be an overlap between natural persons acting as money market intermediaries and natural persons acting as insurance intermediaries.

Source: MNB.

5.2.2 200,000 intermediated loan agreements and surging revenue

2024 saw positive changes in the household lending sector. In the reference year, there was a significant increase in household loans and cash loans: the total value of contracts rose by 80.4 percent, the number of contracts increased by 37.3 percent, and total commission income grew by 63.5 percent compared to 2023. Among household loans, the most significant growth was observed in mortgage loans, where the total value of contracts more than doubled, increasing by 105.1 percent, the number of contracts rose by 41.2 percent and total commission income grew by 84.7 percent. The significant growth in mortgage loan sales can be attributed not only to changing economic conditions and a favourable interest rate environment, but also to the introduction of the HPS Plus scheme in January of the reference year, which resulted in the disbursement of subsidised home loans significantly boosting the income. It is also noteworthy that commission income from personal loans increased by 42.1 percent, accompanied by a 12.3-percent rise in the number of contracts and a 14.1-percent increase in their total value compared to 2023. The strong growth was also supported by increased contract sizes and rising real wages. Compared to the previous year, commission income in the corporate loans, cash loans, and financial leases categories increased by 17.2 percent in the reference year, while the number of contracts rose by 4.8 percent, accompanied by a marginal decrease in the total value of contracts (Table 5.4).

Table 5.4
Sales data of independent money market intermediaries

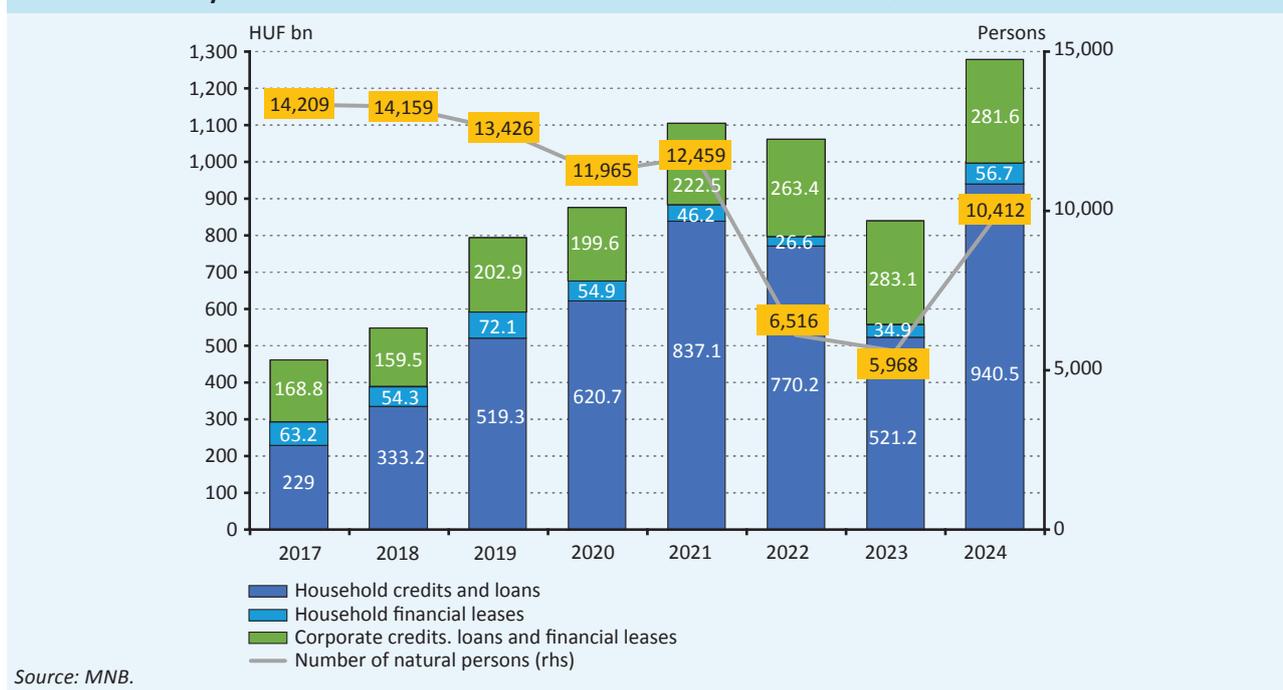
	Value of contracts (HUF bn)		Number of contracts		Commission income (HUF bn)	
	2023	2024	2023	2024	2023	2024
Corporate credits, loans and financial leases	283.1	281.6 ↓	18,797	19,705 ↑	2.9	3.4 ↑
Total household credits and loans	521.2	940.5 ↑	120,635	165,663 ↑	11.5	18.8 ↑
<i>of which: Mortgage</i>	375.4	769.8	24,009	33,900	7.2	13.3
<i>Motor vehicle</i>	0.3	0.1	93	14	0.01	0.0
<i>Personal loans</i>	85.6	97.7	13,894	15,603	1.9	2.7
<i>Credit card</i>	1.8	1.8	5,898	2,462	0.08	0.1
<i>Other</i>	59.8	71.1	82,639	113,684	2.4	2.7
Total household financial leases	34.9	56.7 ↑	7,429	11,411 ↑	0.4	0.4
<i>of which: Real property</i>	1.4	1.8	90	116	0.0	0.0
<i>Motor vehicle</i>	33.6	55.0	7,324	11,295	0.4	0.3
<i>Other</i>	0.0	0.0	15	0	0.0	0.0

Source: MNB.

5.2.3 Intermediation of household mortgage loans reached record highs

In 2024, the number of natural person intermediaries increased by 74.5 percent compared to 2023. The growth in household lending, which began in 2017 and continued after the interruptions in 2022–2023, outperformed all previous years, resulting in robust growth in 2024. Compared to the excellent performance in 2021, performance in the year under review even further increased, with the total value of contracts rising by 12.4 percent, bringing the value of loans and cash loans intermediated to households to unprecedented levels in 2024. From 2020, the value of contracts intermediated for corporate loans, cash loans, and financial leases experienced growth; however, during the year, these product categories were largely stagnant, as the 0.5-percent decline compared to 2023 was negligible. In the reference year, the value of intermediated household financial leases increased significantly, rising by 62.5 percent versus the previous year, a result that can be considered outstanding in the context of the past eight years, following the previous strong years in 2017 and 2019.

Chart 5.6
Number of money market intermediaries and the total value of intermediated loans and leases

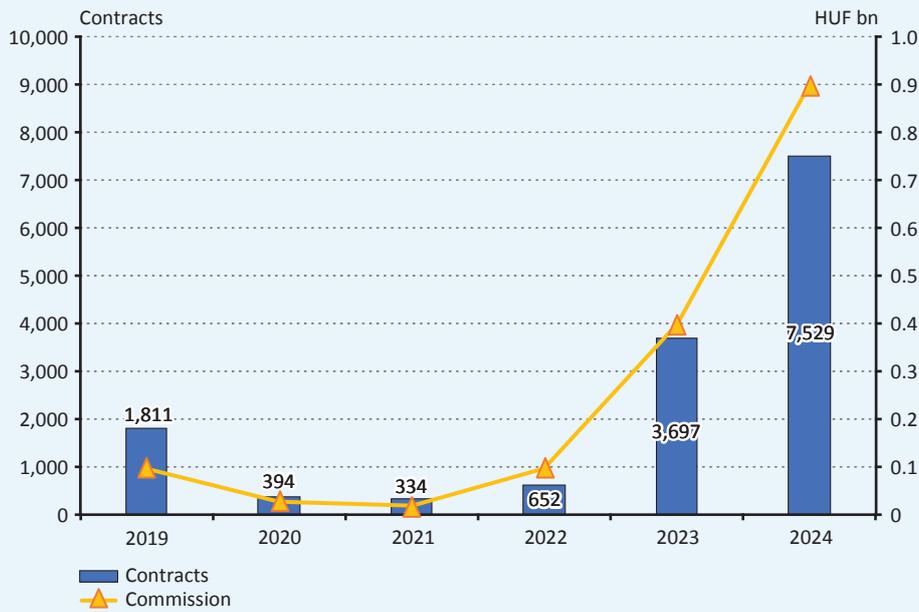


Source: MNB.

5.2.4 Resurgent home savings schemes

The upswing in household home savings bank products that began in the year preceding the reference year appears to have continued in 2024, and the products remained top-selling. The number of contracts sold more than doubled, in parallel with the commission income received for these contracts. Following the discontinuation of the state support for these products in 2018, it took nearly five years for the upswing to occur, which was clearly facilitated by the fact that by 2023 three providers had once again started offering such products on the market. Based on the number of home savings bank contracts sold by intermediaries, customers’ choices show a preference for liquidity and expected yield.

Chart 5.7
Trends in intermediated home savings bank contracts



Source: MNB.

6 Non-bank Financial Enterprises and Associated Risks

6.1 MARKET PRESENCE

In assessing the risks of financial enterprises not belonging to a banking group (in the following, we use the “financial enterprises not belonging to a banking group” and the “non-bank financial enterprises” designations as synonyms), data from the past five years were used: the 2020–2023 figures are based on annual audited reports, while the 2024 data are preliminary.²⁹ In order to avoid distortions and be able to assess the actual risks associated with the sector, the data of two financial enterprises engaged in specific activities not related to the general business operations of financial enterprises were excluded, except for the data presented in Table 6.1.

Table 6.1

Key data of non-bank financial enterprises

	2020	2021	2022	2023	2024
Balance sheet total of non-bank financial enterprises (HUF bn)	1,581	1,735	1,961	2,079	2,303
Number of financial enterprises not belonging to a banking group	225	226	223	222	215
Number of financial enterprises not belonging to a banking group that did not provide audited data in the examined period	2	2	3	1	1

Note: The table presents the current data of those financial enterprises that submitted reports to the MNB during the relevant period.

Source: MNB.

The number of non-bank financial enterprises remained roughly at the same level in 2020–2023, but a decline occurred in 2024, reducing the number of participants in the segment.

In 2024, the MNB issued an operating and business licence to one financial enterprise, and additionally, one financial enterprise, which had previously received a supervisory authorisation, was registered by the Company Registration Court in 2024, enabling it to commence operations from 2024. Two financial enterprises that were previously not under consolidated supervision were removed from the scope of institutions examined, while in the case of four financial enterprises, the operating and business licences were surrendered following owner decisions and initiatives. The MNB withdrew the operating and business licences from three financial enterprises due to the non-fulfilment of human and material resource requirements, failure to submit regular data reports to the MNB, lack of supervisory co-operation, and the emergence of risks and concerns identified in relation to prudent operation. In 2024, no sector-level risks were identified in connection with the decrease in the number of institutions within the sector.

Compared to the previous year, the total assets of non-bank financial enterprises were increased by 11 percent in 2024, with the total volume exceeding HUF 2,300 billion. The continuous expansion of the sector is reflected in the growth of total assets over the past five years, which continued in 2024.

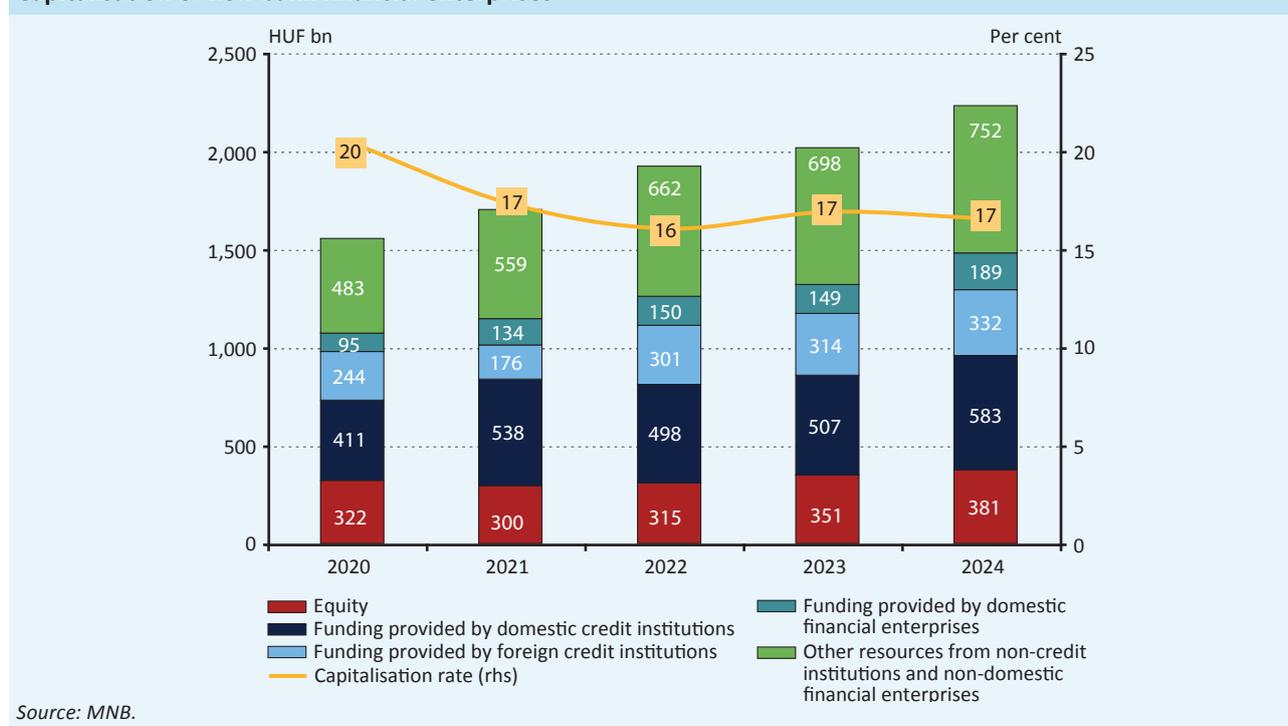
²⁹ A difference compared to the 2024 report arises from the fact that audited data as of 31 December 2023 were not available in 2024, whereas the current report includes the audited 2023 data.

6.2 GROWTH IN EQUITY AND EXTERNAL FINANCING

In 2024, the raising of external (non-equity) sources increased significantly compared to the previous year, from 4 percent to 11 percent. The share of funding from credit institutions (domestic and foreign) remained substantial at 40 percent, in which the domestic credit institution funding was increased to a greater extent. In terms of volume, domestic credit institution funding continued to dominate over other sources not originating from credit institutions or domestic financial enterprises, and its 15-percent increase compared to the previous year was significant. In terms of volume, foreign credit institution funding only amounted to 57 percent of domestic funding, having increased by 6 percent compared to 2023.

Intercompany financing among non-bank financial enterprises increased by 26 percent, which was also significant after the stagnation in 2023; however, this was extremely concentrated in only a few institutions under common ownership. The majority of the nearly 8-percent increase in other sources not originating from credit institutions or domestic financial enterprises was attributable to the intercompany financing of a single institution within a foreign corporate group, accounting for 85 percent of the increase.

Chart 6.1
Capitalisation of non-bank financial enterprises



Of the funding portfolio of domestic credit institutions, 65 percent was concentrated at two domestic banks, with MFB Magyar Fejlesztési Bank Zrt. remaining the largest domestic financier in the sector, followed by Eximbank Zrt. In terms of number of entities, MFB Magyar Fejlesztési Bank Zrt. refinanced 26 percent of non-bank financial enterprises and, following a minimal 1-percent increase in 2023, it increased its sectoral exposures by 18 percent. Eximbank Zrt., which is significantly smaller in terms of volume, increased its refinancing portfolio by a considerable 29 percent.

No significant change occurred in the activities of larger institutions which have a HUF 10 billion balance sheet total and receive domestic credit institution funding. They mainly continue to focus on lending activities. High concentration remains evident, with nearly 80 percent of domestic credit institution funding concentrated in just 8 percent of financial enterprises in 2024. Foreign credit institution funding, which has increased more sharply compared to 2023, remains concentrated among a few foreign-owned enterprises, typically engaged in vehicle leasing activities.

The capitalisation of non-bank-group financial enterprises (equity/balance sheet total) has remained unchanged since 2023, standing at 17 percent. The equity – even if the scales are different – has been showing a continuous increase nominally since 2021. In 2024, equity financing by owners increased by 8.5 percent. Considering the number of entities, 31 percent of non-bank financial enterprises have equity exceeding HUF 1 billion, whereas 3 percent have equity below HUF 100 million.

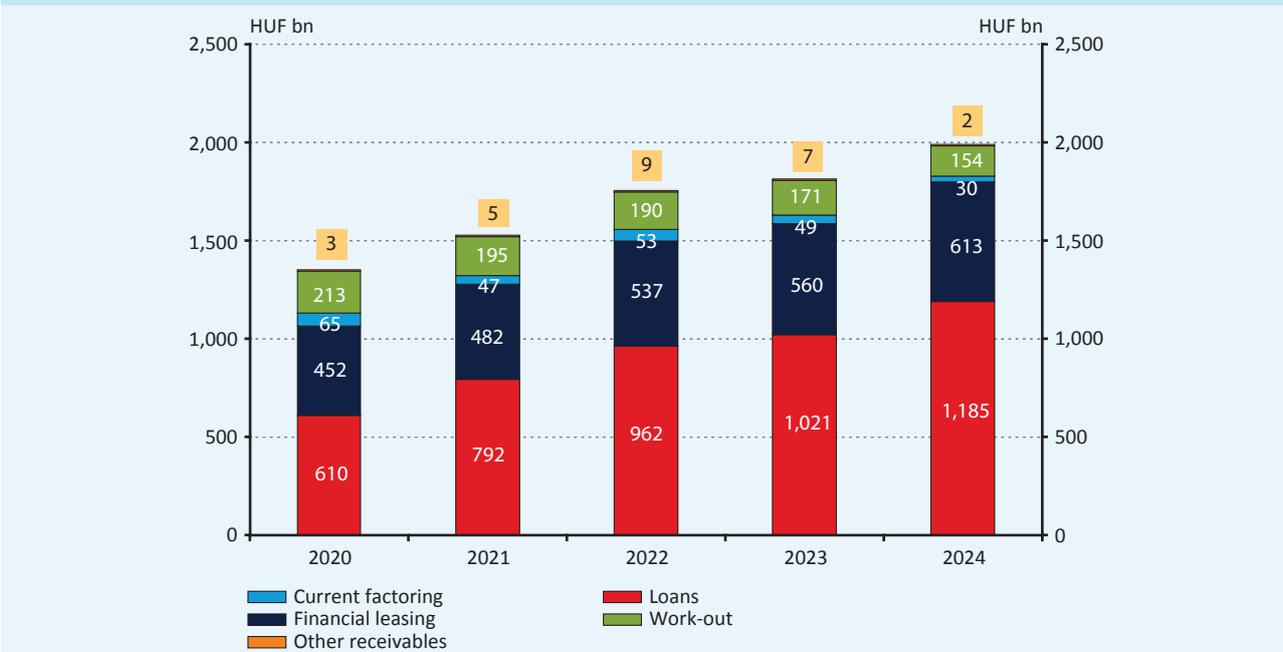
Approaching from another aspect (this type of categorisation is not presented in Chart 6.1), financing provided by affiliated undertakings increased by 24 percent in 2024, whereas owner loans remained broadly unchanged following a 4-percent increase in 2023.

The increase in external funding and in equity indicates that the investment in financial enterprises remains attractive.

6.3 MODERATELY INCREASING RECEIVABLES

In 2024, non-bank financial enterprises experienced a further increase in their receivables due from clients; compared to 2023, the gross receivables of the institutions under review rose by 10 percent, approaching HUF 2,000 billion.

Chart 6.2
Composition of the receivables of non-bank financial enterprises



Source: MNB.

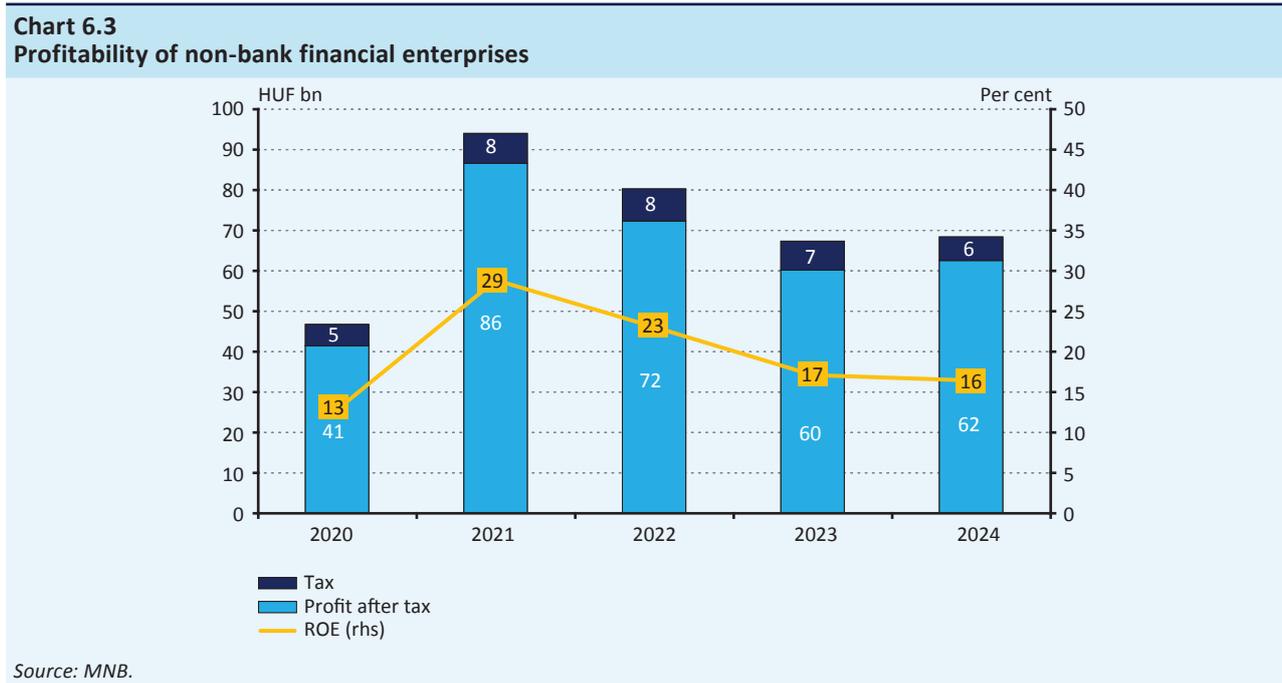
Examining the activities of entities in the sector, it can be concluded that lending and the extension of lending remained dominant, followed by financial leasing. Based on the 2024 data, nearly 60 percent of the gross receivables were related to lending, while around one-third (31 percent) was related to financial leasing. In 2024, the volume of lending exceeded HUF 1,100 billion, while the financial leasing portfolio amounted to HUF 600 billion.

In 2024, the expansion of the portfolio was driven by growth in lending activities (+16 percent) and financial leasing (+9 percent), while the volumes of factoring (both current and work-out) and other receivables contracted.

The work-out portfolio accounts for a steadily smaller share of the sector, with the volume under management declining by 10 percent compared to 2023 and representing only 8 percent of the gross receivables in 2024. Over the past five years, while work-out activities decreased by 28 percent, receivables from lending and cash loan activities increased by 94 percent.

6.4 STAGNANT PROFITABILITY

In 2024, more than 88 percent of the non-bank financial enterprise sector operated profitably. This year, sector-level annual after-tax profit remained below the levels of 2021 and 2022, showing only a minimal increase in absolute terms in 2024 compared to 2023, while return on equity declined to a small extent.



In 2024, financial enterprises achieving a positive result of HUF 1 billion or more were engaged in lending, leasing and receivables acquisition activities. All four of the largest financial enterprises, each of which experienced a profit after tax decline of over HUF 1 billion, remained profitable in 2024, but collectively they recorded over HUF 9.5 billion less in after-tax profit than in 2023.

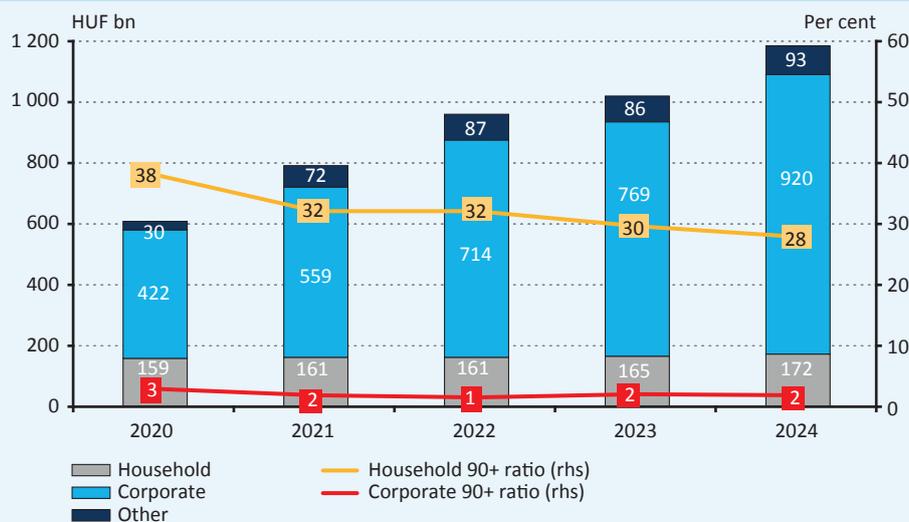
The favourable shift in profitability distribution is reflected in the fact that while 32 financial enterprises reported a negative after-tax profit in 2023, this number fell to 26 in 2024, and the number of enterprises reporting a positive after-tax profit only decreased by one, from 188 in 2023 to 187 in 2024.

The impact of the special tax on financial institutions and the extra profit tax continues to be felt in the sector, with most financial enterprises required to pay the 2024 amount of extra profit tax in two equal instalments, in June and December. Despite only a modest increase in profitability, the equity of financial enterprises continues to exhibit stable, strong growth. Due to modest profitability and stronger equity growth, ROE shows a declining trend.

6.5 RAPIDLY EXPANDING CORPORATE LOAN PORTFOLIO

Examining lending activity in 2024, it can be observed that the growth continued, with a significant increase of 16 percent compared to the 6-percent rise recorded in 2023. Corporate lending remains the primary driver of growth. The number of non-bank financial enterprises engaged in lending activity decreased compared to 2023. Although the number of institutions conducting lending activity decreased, the number of financial enterprises with a loan portfolio over HUF 10 billion remained almost unchanged in 2024. In 2023, 27 institutions reached a loan portfolio of HUF 10 billion or more, while in 2024, the number rose marginally to 28 institutions.

Chart 6.4
Composition of the loan portfolio of non-bank financial enterprises



Source: MNB.

Examining lending activities, the 90+ portfolio expanded in 2024 compared to 2023. Compared to 2023, 31 financial enterprises saw an increase in their portfolio of loans past due over 90 days, of which five enterprises had no portfolio of loans past due over 90 days reported in their 2023 audited data. The growth of the 90+ portfolio can largely be attributed to two financial enterprises: one institution holds a household loan portfolio, for which the ratio of loans past due over 90 days to total loans remained unchanged compared to 2023, while in case of the other financial enterprise, which holds a corporate loan portfolio, the increase in the portfolio of overdue loans was mainly due to transactions with a single client. At the sector level, relative to the total gross loan portfolio, the share of the portfolio of loans past due over 90 days amounted to 6 percent at the end of 2023 and decreased to 5 percent by the end of 2024.

The number of contracts in the loan portfolio managed by the institutions under review showed a moderate decrease, falling from 751,555 to 698,863. Household loan contracts continue to represent the vast majority of all loan contracts by number, reflecting a slight decrease: whereas in 2023, household loan contracts accounted for 97 percent of the total number of loan contracts, their share declined to 94 percent in 2024. The majority of loan contracts are held by two financial enterprises, which engage in activities related to quick loans or loans secured by pledged assets.

The corporate loan portfolio of non-bank financial enterprises showed a significant 20-percent increase relative to 2023. In 2024, three financial enterprises were able to expand their corporate loan portfolios by a significant amount, exceeding HUF 10 billion, with these three institutions accounting for the vast majority (64 percent) of the overall growth. The 20-percent increase was achieved despite the negative impact on the corporate loan portfolio caused by the exclusion of a financial enterprise, which had not been subject to consolidated supervision in previous years, from the institutions under review, resulting in its portfolio no longer being included in the 2024 figures. In 2024, the number of institutions with corporate loan portfolios exceeding HUF 10 billion remained unchanged at 23.

The corporate loan portfolio past due over 90 days has remained consistently low throughout the five-year period under review, with the overdue ratio still at 2 percent compared to 2023.

In 2024, the household loan portfolio of the institutions under review expanded in absolute terms. In the non-bank financial enterprise sector, the share of the household loan portfolio has clearly declined over the past five years. While in 2020 the share of the household loan portfolio accounted for 26 percent, by 2024 it decreased to 15 percent, confirming that the activities of the reviewed group of institutions have clearly shifted towards corporate lending. The household loan portfolio of non-bank financial enterprises continues to be dominated by two financial enterprises engaged in activities related to quick loans or loans secured by pledged assets, both of which expanded their portfolio size and share in 2024. In 2023, these two institutions accounted for 67 percent of the household loan portfolio, with this figure rising to 73 percent in 2024.

The household sector experienced an improvement in portfolio quality in 2024. At one financial enterprise, the amount of loans past due over 90 days decreased significantly, falling by over HUF 1 billion. In this case, the entire household loan portfolio at the enterprise was considered a portfolio of loans past due over 90 days. At one financial enterprise, the amount of loans past due over 90 days increased by more than HUF 1 billion. The household loan portfolio at this enterprise also grew significantly, expanding by 13 percent compared to 2023.

Within the household loan portfolio, outstanding loans secured by pledged assets decreased by nearly HUF 900 million in 2024. This was largely due to a reorganisation within the sector, as one financial enterprise providing loans secured by pledged assets was no longer included among the non-bank financial enterprises. The majority of financial enterprises engaged in providing loans secured by pledged assets saw their outstanding loans secured by pledged assets increase, in line with the overall growth in loans.

6.6 CONTINUED GROWTH IN THE LEASING MARKET

In 2024, the number of institutions engaged in financial leasing decreased by one compared to 2023. This was the result of one financial enterprise, which had not been subject to consolidated supervision in previous years, being removed from this group of institutions.

Compared to the previous year, the total leasing portfolio managed by the institutions under review increased by 9 percent in 2024. Within the total portfolio, the vehicle leasing portfolio grew by 12 percent and the asset leasing portfolio decreased by 2 percent, while the real estate and other leasing portfolios remained unchanged.

Chart 6.5
Composition of the leasing portfolio of non-bank financial enterprises



Source: MNB.

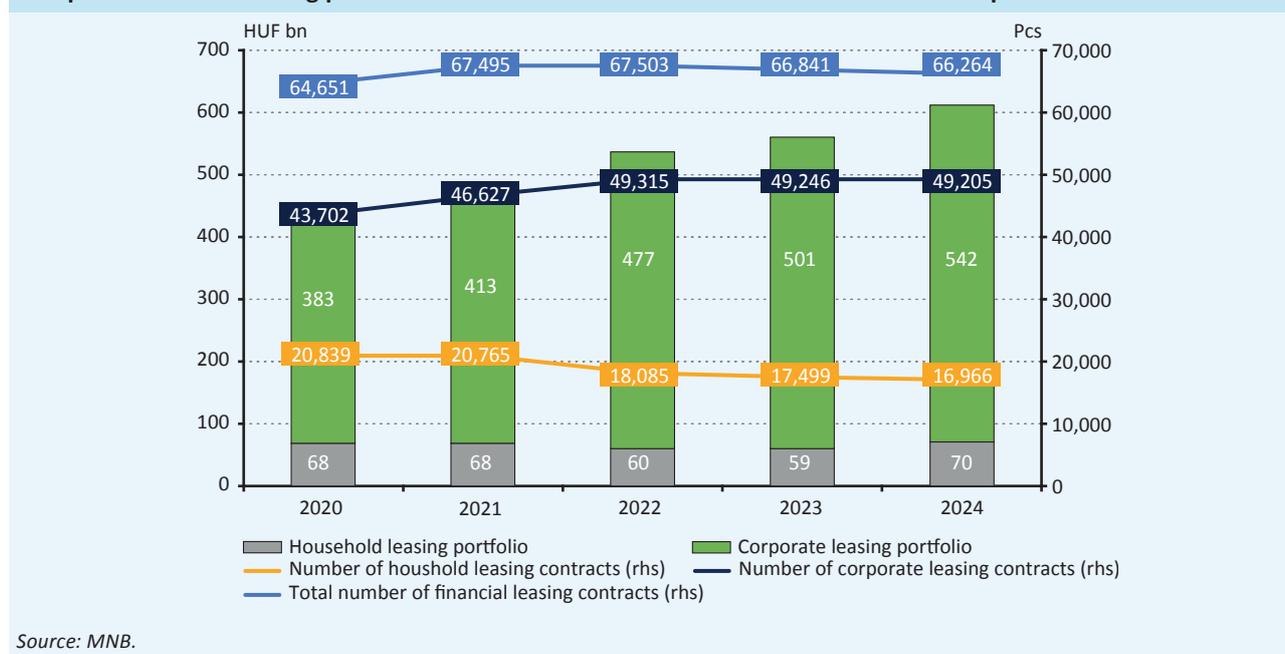
In terms of the composition of the portfolio, asset leasing accounted for 18 percent of the total managed portfolio in 2024, while vehicle leasing represented 81 percent of the total portfolio. In the period under review, the distribution of leasing types shows that the leasing activity of non-bank financial enterprises increasingly focused on vehicle leasing, whereas the leasing of production assets, machinery and equipment became less typical among the institutions under review, and the asset leasing portfolio declined within the overall portfolio.

In 2023, nine financial enterprises had a vehicle leasing portfolio which exceeded HUF 10 billion, representing 75 percent of the total financial leasing portfolio, while in 2024, eight financial enterprises had a vehicle leasing portfolio which exceeded HUF 10 billion, representing 78 percent of the total financial leasing portfolio.

In terms of asset leasing, in both 2023 and 2024, there were four institutions whose portfolios reached HUF 10 billion. Regarding institutions whose portfolios exceeded this threshold, the share of asset leasing in the total financial leasing portfolio was 19 percent in 2023 and 18 percent in 2024, showing a little change.

The quality of the financial leasing portfolio managed by non-bank financial enterprises remained good. Although the portfolio past due over 90 days increased overall by 14 percent in 2024 in the previous year, it still accounted for only 2 percent of the total portfolio, meaning that the risks arising from non-payment remained low at the sectoral level.

Chart 6.6
Composition of the leasing portfolio and number of leases of non-bank financial enterprises

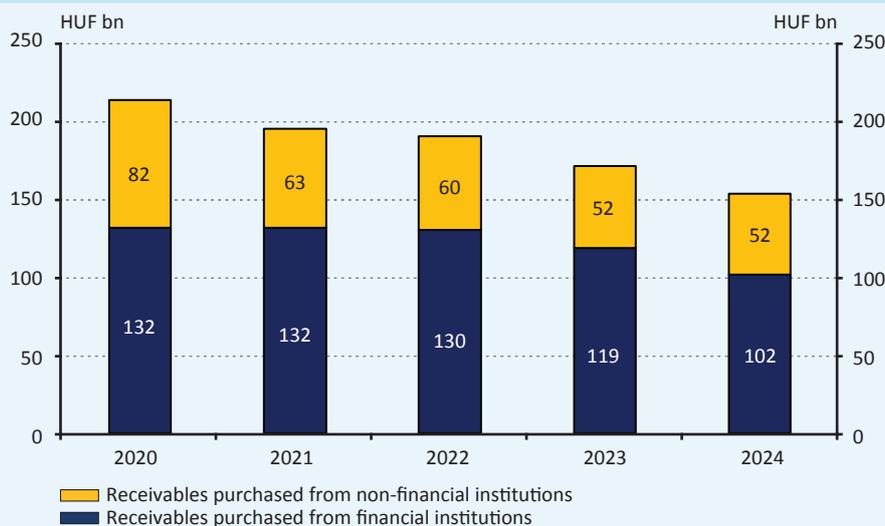


Compared to 2023, the number of leasing contracts managed by the institutions under review decreased moderately by 1 percent, further reinforcing the upward trend in the average value of leasing contracts. The average size of leasing transactions was HUF 6.9 million in 2020, HUF 7.1 million in 2021, HUF 7.9 million in 2022, HUF 8.3 million in 2023, and increased to HUF 9.2 million in 2024. Given that a significant portion (89 percent) of the financial leasing portfolio of non-bank financial enterprises is linked to the corporate sector and only 11 percent to the household segment, the average leasing transaction size is more reflective of corporate leasing transactions.

6.7 CONTINUED DECLINE IN FACTORING PORTFOLIOS ACQUIRED FOR RECEIVABLES MANAGEMENT

The book value of the work-out portfolio of non-bank financial enterprises has shown a continuous downward trend since 2020, with a decline of HUF 60 billion, or 28 percent, over four years. In 2024, the value of the work-out portfolio managed by the institutions under review decreased by 10 percent compared to 2023, despite a 6-percent increase in the number of factoring contracts acquired for receivables management.

Chart 6.7
Composition of receivables purchased by non-bank financial enterprises



Source: MNB.

In 2024, the value of receivables acquired from financial institutions fell by 15 percent compared to the previous year, while the value of receivables acquired from non-financial institutions remained stable. Within the total of acquired receivables, the receivables acquired from financial institutions still account for the largest share, almost double that of receivables from non-financial institutions.

While the number of work-out contracts rose in 2024 compared to 2023, managed receivables decreased, indicating that the average value of contracts acquired for receivables management continued to decline compared to 2023.

The portfolio of receivables arising from household mortgage loans with property as collateral, acquired from financial institutions, shrank by 20 percent, while the number of these loans fell by 11 percent compared to 2023.

In 2024, the amount spent on acquiring receivables increased by 28 percent in the sector relative to 2023, thus partially offsetting the decline in the portfolio resulting from receivables management activities. Following a decline in 2023 compared to 2022, repayment volumes rose by 3 percent in 2024 relative to 2023, possibly indicating that debtors are applying more attention and resources to settling their outstanding debts.

In 2023, there were two non-bank financial enterprises with work-out portfolios which managed portfolios reaching and exceeding HUF 10 billion, and the number of such institutions remained unchanged in 2024.

6.8 CONSUMER PROTECTION: CONTINUOUS SUPERVISORY ACTIVITIES REMAIN A KEY FOCUS

Following its established practices from previous periods, the MNB maintained a focus on prudent operations in 2024, while paying particular attention to the enforcement of consumer protection legislation, MNB recommendations, and closely monitoring domestic economic developments and the effects of regulatory changes.

As part of its continuous supervisory activities in 2024, the MNB devoted particular attention to the consumer-friendly conduct of non-bank financial enterprises by several means, including requests for statements, requests for information and analyses.

In 2024, small-loan financial enterprises, debt collection institutions and institutions engaged in lending secured by pledged assets generated the most work for the MNB during inspections focused on consumer protection.

The MNB aims to provide enhanced protection to consumers whose access to lending-related services provided by financial enterprises has been restricted for various reasons, such as repayment difficulties, and whose outstanding loan obligations have been assigned to debt collection institutions. The MNB promotes the implementation of fair provider conduct through the issuance of various recommendations and places particular emphasis on the sale of small loans combined with home services and loans secured by pledges, which are typically used by consumers facing liquidity problems or repayment difficulties.

In order to fulfil consumer protection-related tasks, as part of its continuous supervision, the MNB examines the advertisements, websites and other media appearances of the supervised institutions, in addition to reviewing documents provided during licencing procedures and conducting inspections; furthermore, based on incoming notifications, inquiries and information available from supervisory activities, the MNB takes the necessary measures, as it did in 2024.

Through its annual review of the Financial Navigator Booklets, the MNB assists, among others, clients of financial enterprises not belonging to a banking group in making informed decisions. In addition, the monthly review of the content of the Financial Product Information application assists clients in making decisions regarding taking out loans or obtaining financial leasing.

As part of its continuous supervisory activities, the MNB regularly applied management letters and consumer protection warnings in cases where it identified practices that could potentially harm consumer interests or contravene the recommendations set out by the MNB.

In the receivables management sector, continuing the practice of previous years, the MNB continues to focus on examining consumer complaints, primarily those concerning the handling of consumer grievances, related to the conduct of financial enterprises engaged in the purchase and management of overdue claims, and on licencing procedures for companies planning to commence activities in the sector.

Typically, the investigations initiated upon request concerned the complaint management and client information practices of financial enterprises; additionally, the MNB received several notifications from clients based on which it called on financial enterprises to comply with the principles set out in Recommendation No. 9/2020 (VII.14.) of the MNB to financial organisations on the application of consumer protection principles and Recommendation No. 2/2019 (II.13.) of the MNB on the workout activity performed vis-a-vis consumers.

As in previous years, the MNB conducted several prudential inspections incorporating consumer protection elements in 2024, in the course of which it examined, among other things, compliance with rules on the development of the APR calculation methodology and adherence to the maximum APR limits, practices related to the provision of information prior to entering into a loan agreement and practices concerning commercial communications on loans.

In 2024, the MNB continued to place particular emphasis on supporting the improvement of the quality of data reporting. The purpose of inspections conducted within the framework of continuous supervision is to resolve discrepancies between data reported under supervisory reporting requirements, and between data on complaints, data provided in submitted complaints that trigger consumer protection proceedings at the MNB and the individual complaint records of the institutions, so to ensure the cleansing of these data.

7 Capital Market and Associated Risks

In 2024, the volume of domestic capital market turnover, client securities portfolios managed by investment service providers and assets held in investment funds continued to grow. In 2024, the number of investment service providers operating in the domestic capital market decreased by one, bringing the total to 29. At the end of 2024, the client securities portfolio managed by investment service providers, amounting to HUF 73,372 billion, of which HUF 65,093 billion was held at credit institutions and HUF 8,279 billion at investment firms, exceeded the 2023 portfolio of HUF 62,654 billion by 17.1 percent. The number of client securities accounts managed by investment service providers registered a minimal decline of approximately 0.5 percent in 2024. In 2024, investment service providers, comprising credit institutions offering investment services and investment firms, executed a total capital market turnover of HUF 1,316.1 trillion, representing a 14.3-percent increase over the total capital market turnover recorded in 2023.

Table 7.1
Key data of investment service providers

Investment service sector	2023			2024		
	Credit institutions	Investment firms	Total	Credit institutions	Investment firms	Total
Number of institutions	17	13	30	17	12	29
Customer securities portfolio (HUF bn)	53,147	9,507	62,654	65,093	8,279	73,372
Number of securities accounts managed ('000)	1,620	466	2,087	1,741	335	2,076
Capital market turnover (HUF bn)	1,065,655	85,520	1,151,175	1,239,708	76,364	1,316,072
Profit after tax (HUF mn)		56,578			30,136	
Solvency capital/Capital adequacy ratio (percent)		1,484%			423%	

Note: The number of institutions also includes those subject to partial or other forms of prudential supervision, encompassing branches.

Source: MNB.

At the end of 2024, the 49 supervised investment fund managers oversaw assets totalling HUF 23,621 billion, which exceeded the 2023 level by 21.8 percent and reached a new historical high. The increase was primarily driven by a surge in the net asset value of investment funds, although the assets of other managed portfolios also grew. The net asset value of investment funds increased by 26 percent in 2024, reaching HUF 18,432 billion by the end of the year. In line with this, the total after-tax profit of investment fund managers also followed a dynamic trajectory, exceeding HUF 95 billion in 2024.

Table 7.2
Key data of investment fund managers

Investment fund management sector	2023	2024
Number of institutions	43	49
Number of funds managed	734	759
Volume of assets managed (HUF bn)	19,401	23,621
Profit after tax (HUF mn)	63,268	95,316

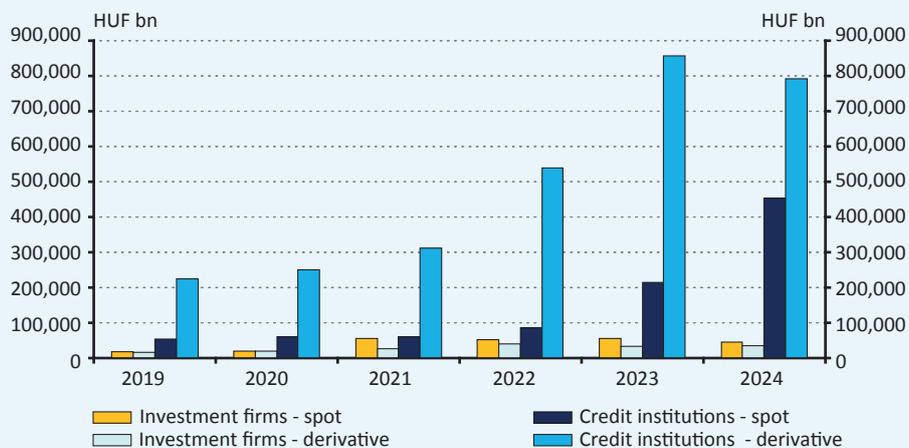
Source: MNB.

7.1 INVESTMENT SERVICES MARKET: TURNOVER AND ASSETS UNDER MANAGEMENT

7.1.1 Capital market turnover continued to increase in 2024

Investment service providers, comprising credit institutions offering investment services and investment firms, executed total capital market turnover of HUF 1,316.1 trillion in 2024, 14.3 percent higher than the total turnover of HUF 1,151.2 trillion recorded in 2023. Growth was observed in all segments – exchange-traded spot, exchange-traded derivatives and over-the-counter spot – with the exception of over-the-counter derivatives. In 2024, the dynamics of capital market turnover by sector were mixed: while the capital market turnover of credit institutions rose by 16.3 percent to HUF 1,239.7 trillion, the capital market turnover of investment firms, at HUF 76.4 trillion, fell 10.7 percent short of the HUF 85.5 trillion recorded in 2023, but still remained significantly above the levels seen in 2020 and earlier years (Chart 7.1).

Chart 7.1
Capital market turnover dynamics



Source: MNB.

In 2024, the expansion of credit institutions' capital market turnover was driven by growth in over-the-counter spot transactions, which more than doubled in 2024 to reach HUF 448.8 trillion. The exchange-traded turnover of credit institutions moved in opposite directions: while their exchange-traded spot turnover fell by 17.7 percent to HUF 2.7 trillion, their exchange-traded derivatives turnover rose by 35.6 percent to HUF 6 trillion. It is noteworthy that the exchange-traded turnover of credit institutions accounts for only a negligible share of their total turnover, amounting to approximately 0.7 percent. The over-the-counter derivatives turnover of credit institutions fell by 7.8 percent in year-on-year terms to HUF 782.2 trillion, but still exceeded the 2022 turnover of HUF 529.5 trillion by 47.7 percent and was several times higher than in previous years.

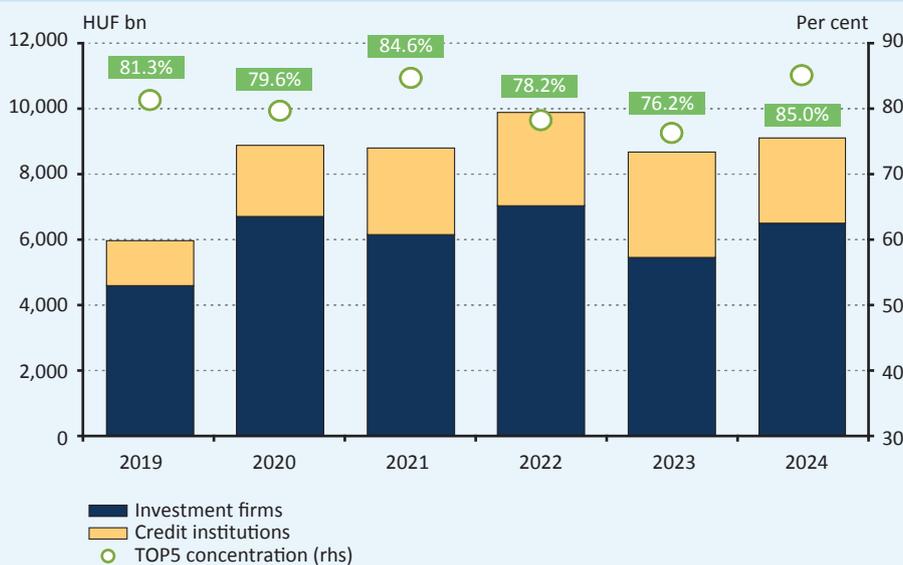
Investment firms' capital market turnover declined in all segments in 2024, except for the over-the-counter derivatives segment. Their exchange-traded spot turnover fell by 25.4 percent, from HUF 25.5 trillion in 2023 to HUF 19 trillion. Over-the-counter spot turnover declined at a slower pace, falling by 17 percent from HUF 28.9 trillion in 2023 to HUF 24 trillion in 2024. The exchange-traded derivatives turnover of investment firms showed a steeper decline, dropping by 32.4 percent to HUF 6.6 trillion in 2024. By contrast, investment firms' over-the-counter derivatives turnover rose sharply, by approximately 25.1 percent, to HUF 26.7 trillion in 2024. The dynamics of the executed and transmitted turnover³⁰ of investment firms moved in opposite directions in 2024: executed turnover increased by 21.1 percent to HUF 50.1 trillion, while transmitted turnover fell by 40.5 percent to HUF 26.3 trillion – the latter decline being explained by the withdrawal of a large, internationally-backed investment firm from the domestic capital market.

³⁰ 'Transmitted turnover' includes those transactions where the client order received by the investment service provider is not executed by the provider itself, but is forwarded to another investment service provider which carries out the execution.

7.1.2 Growth in exchange-traded turnover

Exchange-traded spot turnover grew by³¹ 5.1 percent to HUF 9,108 billion in 2024, exceeding the levels recorded in all previous years except for 2022. The increase was primarily driven by investment firms, whose exchange-traded spot turnover rose by 19 percent to HUF 6,492 billion, while credit institutions' exchange-traded spot turnover shrank by 18.6 percent to HUF 2,616 billion. In 2024, investment firms' share in exchange-traded spot turnover increased significantly, rising by approximately 8.4 percentage points, to 71.3 percent. As in previous years, the five largest investment service providers in terms of exchange-traded spot turnover included three investment firms and two credit institutions in 2024, with the composition of the credit institutions remaining unchanged, while one of the investment firms was replaced. In 2024, the concentration of exchange-traded spot turnover rose significantly: the share of the five largest investment service providers in terms of exchange-traded spot turnover rose by 8.8 percentage points to 85 percent, from 76.2 percent in 2023 (Chart 7.2).

Chart 7.2
Exchange-traded spot market: turnover and concentration

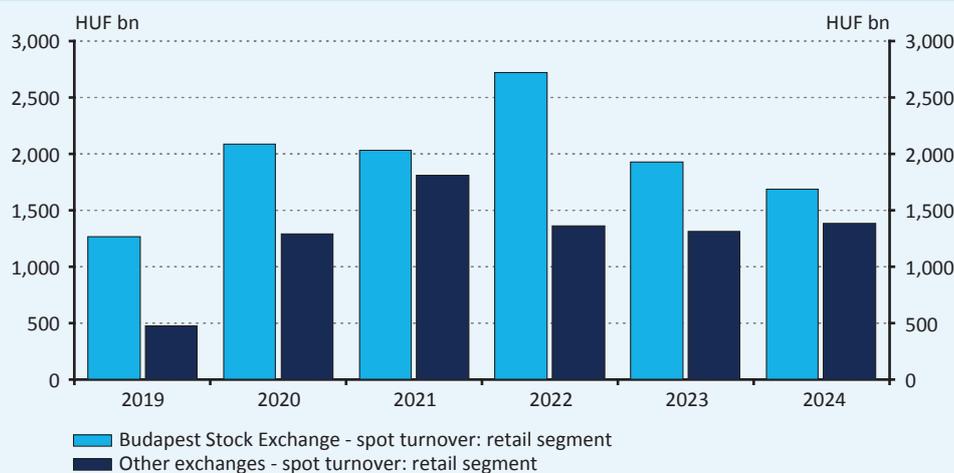


Source: MNB.

In 2024, exchange-traded spot turnover showed different trends for corporate and household clients: turnover generated by corporate clients increased by 11.4 percent to HUF 6,015 billion, following a decline of 6.6 percent in 2023, while turnover generated by household clients fell by 5.4 percent to HUF 3,093 billion, after a decline of 20.4 percent in 2023. On the domestic stock exchange, exchange-traded spot turnover generated by household clients dropped by 12.6 percent to HUF 1,689 billion in 2024, down from HUF 1,932 billion in 2023, while on foreign exchanges, exchange-traded spot turnover generated by household clients increased, amounting to HUF 1,387 billion in 2024, which was 5.6 percent higher than the previous year's figure of HUF 1,313 billion. In 2024, exchange-traded spot turnover on the domestic stock exchange generated by foreign household clients through domestically supervised institutions continued to decline: turnover amounted to HUF 7 billion, 41.1 percent below the HUF 12 billion recorded in 2023 and far short of the HUF 294 billion and HUF 171 billion recorded in 2021 and 2022, respectively. In the case of exchange-traded spot market turnover generated by household clients, turnover generated on foreign exchanges has shown a rising trend over the past three years, reaching a 45-percent share by the end of 2024 (Chart 7.3).

³¹ Executed exchange-traded spot turnover.

Chart 7.3
Exchange-traded spot market turnover: household segment



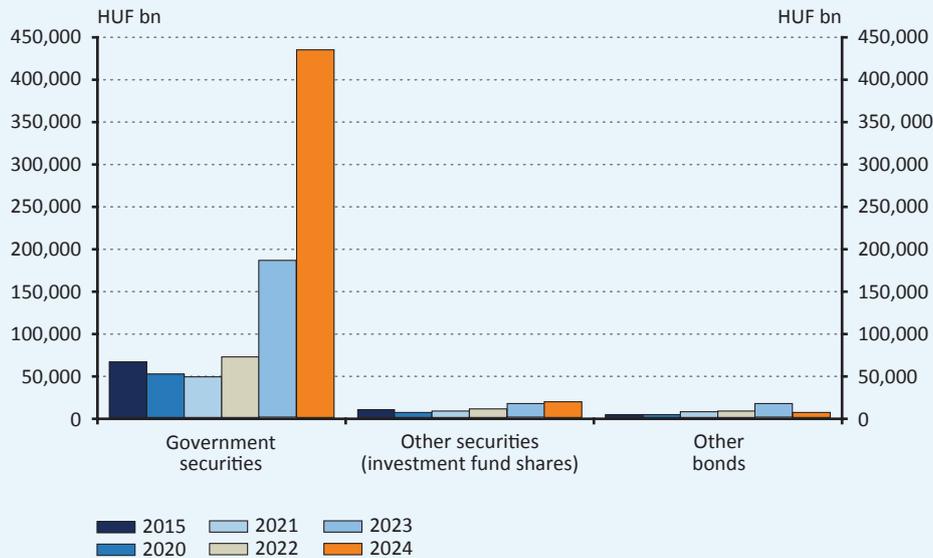
Source: MNB.

In 2024, executed exchange-traded derivatives turnover rose by 22.3 percent, i.e. by approximately HUF 1,886 billion, to HUF 10,349 billion, following a 21.4-percent decline in the previous year, and came close to the historical peak of HUF 10,768 billion recorded in 2022. The concentration of executed exchange-traded derivatives turnover increased further in 2024: the share of the five largest investment service providers in executed exchange-traded derivatives turnover rose from 77.7 percent in 2023 to 86.8 percent in 2024 (72.7 percent in 2020; 72.3 percent in 2021; and 73.8 percent in 2022). The increase in concentration was primarily driven by turnover generated by the three largest market participants. The executed exchange-traded derivatives turnover of credit institutions providing investment services rose by 34.2 percent to HUF 5,587 billion in 2024, from HUF 4,163 billion in the previous year, with the increase primarily attributable to a single institution, while the executed exchange-traded derivatives turnover of investment firms rose by 10.7 percent in year-on-year terms, to HUF 4,762 billion. Accordingly, the share of credit institutions in executed exchange-traded derivatives turnover expanded by approximately 4.8 percentage points to 54 percent in 2024, from 49.2 percent in 2023. As in previous years, changes occurred among the five largest investment service providers in terms of executed exchange-traded derivatives turnover in 2024, with one investment firm exiting the top five and another taking its place. Transmitted exchange-traded derivatives turnover dropped by one-half again in 2024, falling from HUF 5,697 billion in 2023 to HUF 2,213 billion in 2024, primarily due to the exit of a large, foreign-backed investment firm in mid-2024.

7.1.3 Over-the-counter spot market turnover of credit institutions – dynamic growth

Executed over-the-counter spot market turnover generated by investment service providers surged by 110.1 percent, rising from HUF 218,852 billion in 2023 to HUF 460,156 billion in 2024. The dynamic growth in turnover was primarily driven by the strong increase in the over-the-counter spot market turnover of credit institutions, as their turnover rose by 114.6 percent to HUF 447,992 billion, while the over-the-counter spot turnover of investment firms, at HUF 12,164 billion, exceeded the previous year's level by 18.4 percent. Accordingly, the dominance of credit institutions in over-the-counter spot market turnover strengthened further, with their share rising from 95.3 percent in 2023 to 97.4 percent in 2024. The significant surge observed among credit institutions is attributable to government bond trading. The number of credit institutions active in the over-the-counter spot market segment declined from 14 in 2023 to 13 in 2024, while the number of active investment firms (a total of eight) remained unchanged. Over-the-counter spot market turnover in government bonds saw another sharp increase in 2024: at HUF 435,650 billion, OTC government bond turnover exceeded the previous year's level by 133.8 percent in 2024, and the growth was evident across the sector. Over-the-counter spot turnover of investment fund shares also increased significantly, rising by 11.6 percent from HUF 16,342 billion in 2023 to HUF 18,230 billion in 2024. Concentration in over-the-counter spot market turnover continued to increase in 2024: the top five market participants accounted for 85.3 percent of over-the-counter spot turnover, exceeding the 77.5-percent share recorded in 2023 by approximately 7.8 percentage points. As in previous years, all of the five largest investment service providers in terms of over-the-counter spot turnover were credit institutions in 2024, with one change in the top five (Chart 7.4)

Chart 7.4
Over-the-counter spot turnover by type of security



Note: Shares are not shown in the chart due to their negligible over-the-counter turnover.

Source: MNB.

7.1.4 Client securities holdings continued to grow strongly

Client securities holdings continued to grow dynamically in 2024, as the market value of client securities managed by investment service providers increased by 17.1 percent, or approximately HUF 10,718 billion, to reach HUF 73,372 billion by year-end. Client securities holdings managed by credit institutions amounted to HUF 65,093 billion at the end of 2024, up 22.5 percent on the HUF 53,147 billion recorded at the end of 2023, with growth observed throughout the sector. Client securities holdings managed by investment firms declined by 12.9 percent: the HUF 8,279 billion recorded at end-2024 was HUF 1,227 billion lower than the HUF 9,507 billion recorded at the end of 2023; this decrease was driven by the exit of a large, foreign-backed investment firm from the domestic capital market.

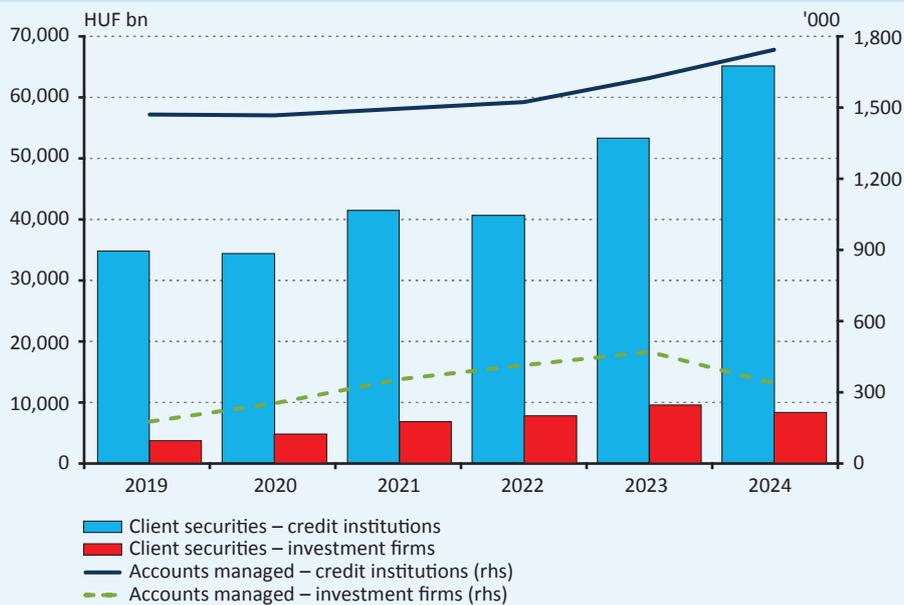
Client securities holdings of credit institutions increased in all asset classes in 2024. In line with the overall capital market trends, the highest growth – both in relative and absolute terms – was observed for equities: holdings at the end of 2024 amounted to HUF 21,107 billion, 30.3 percent higher than the previous year. This increase was also supported by growing holdings of investment fund shares at credit institutions: at the end of 2024, these holdings amounted to HUF 19,364 billion, up 28.3 percent relative to the figure of HUF 15,090 billion recorded at the previous year-end. Holdings of government securities increased from HUF 17,222 billion at the end of 2023 to HUF 19,403 billion at the end of 2024, representing a 12.7 percent rise. Bonds also saw strong growth, with holdings expanding by 15 percent to HUF 4,678 billion in 2024.

For investment firms, changes in holdings by asset category varied in 2024, with equities and government securities declining, while bonds and investment fund shares increased. Equities holdings fell from HUF 4,010 billion in 2023 to HUF 2,179 billion at the end of 2024, reflecting a decline of 45.7 percent or approximately HUF 1,831 billion; this decrease was driven by the exit of a large, foreign-backed investment firm from the domestic capital market. Holdings of government securities at investment firms dropped from HUF 873 billion in 2023 to HUF 734 billion in 2024, falling by 15.9 percent; this was also driven by the aforementioned exit of the foreign-backed investment firm from Hungary's capital market.

Investment fund share holdings increased from HUF 3,859 billion in 2023 to HUF 4,525 billion at the end of 2024, a rise of 17.3 percent, with growth observed across the sector. Bond holdings expanded from HUF 532 billion in 2023 to HUF 562 billion in 2024, a rise of 5.6 percent: this growth was mainly attributable to the second-largest market participant in the segment.

In 2024, the number of client securities accounts managed by investment service providers fell by a small margin of approximately 0.5 percent to 2.076 million. The number of client securities accounts at credit institutions increased by 7.5 percent to 1.741 million, while investment firms saw a decline of 131,000 accounts; this decrease was driven by the aforementioned exit of the foreign-backed investment firm from the domestic capital market, leaving the final number of accounts at 335,000, 28.2 percent below the level recorded for the same prior-year period (Chart 7.5).

Chart 7.5
Client securities holdings

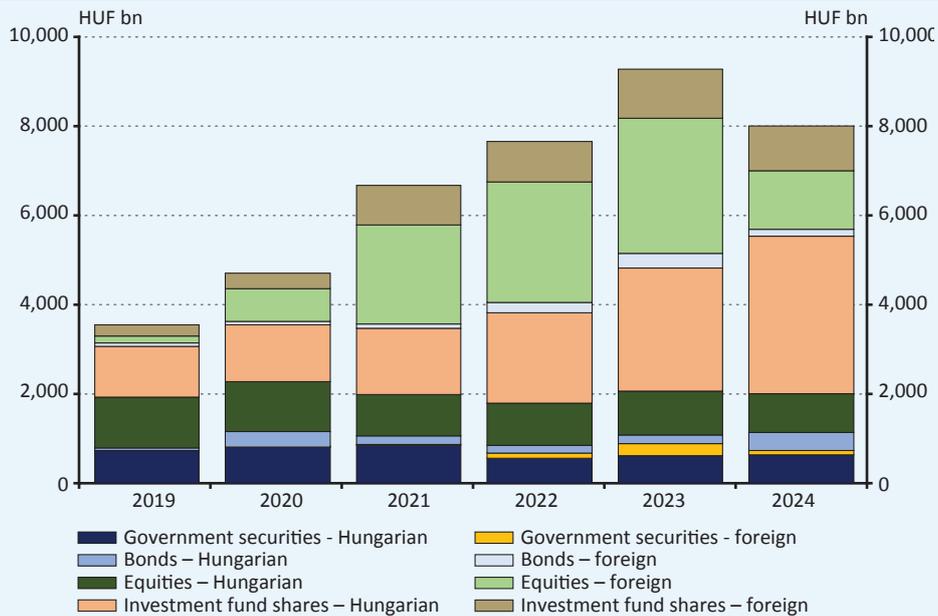


Source: MNB.

7.1.5 Sharp decline in the share of foreign issuers in the client securities holdings of investment firms

In terms of the proportions of the various asset classes within investment firms' client securities holdings, the asset class investment fund shares took the leading position, surpassing the previously top-ranked asset class of equities: the proportion of investment fund shares increased by 14.1 percentage points to 54.7 percent in 2024 (2023: 40.6 percent), while the proportion of equities shrank by 15.9 percentage points to 26.3 percent (2023: 42.2 percent). The asset class of government securities, ranking third, saw its proportion fall marginally, by approximately 0.3 percentage point, to 8.9 percent in 2024. The asset class of corporate bonds, ranking fourth, grew, with its share rising by 1.2 percentage points to 6.8 percent in 2024 versus the previous year. Examining the domestic versus foreign breakdown of asset classes, the share of foreign-issued securities fell by 17.5 percentage points to 34.4 percent in 2024, this decline also explained by the exit of the large, foreign-backed investment firm from the domestic capital market (Chart 7.6).

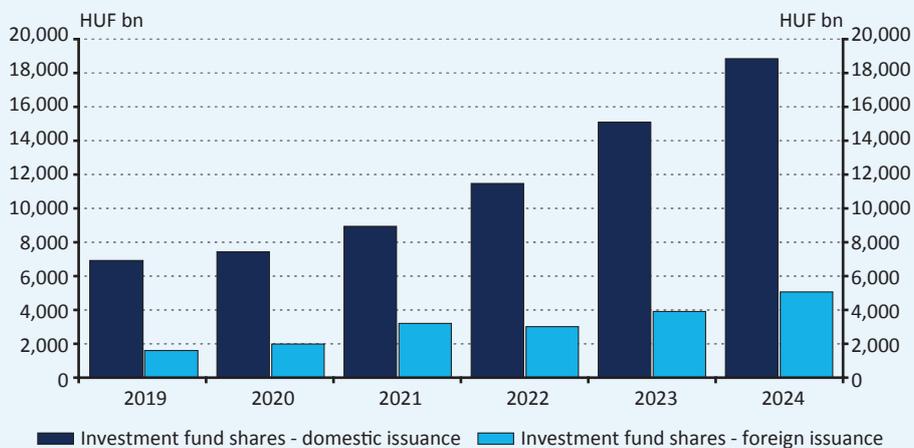
Chart 7.6
Client securities holdings by asset class



Source: MNB.

Examining the holdings of domestic and foreign investment fund shares recorded within client securities by investment service providers, it is evident that foreign investment fund shares experienced a higher growth rate in 2024: holdings of foreign-issued investment fund shares rose by 29.6 percent, from HUF 3,897 billion in 2023 to HUF 5,050 billion in 2024, while domestically issued investment fund shares increased by 24.8 percent, from HUF 15,094 billion in 2023 to HUF 18,839 billion by the end of 2024; in both cases, growth was essentially observed throughout the sector. For investment firms, holdings of domestically issued investment fund shares rose by 27.5 percent in 2024, following a 36.9-percent increase in 2023, to reach HUF 3,530 billion, while the holdings of foreign-issued investment fund shares, at HUF 994 billion, remained 12.2 percent below the 2023 level of HUF 1,132 billion; here again, the decline was due to the exit of the large, foreign-backed investment firm from the domestic capital market. For credit institutions, holdings of domestically issued investment fund shares increased by 24.2 percent in 2024, reaching HUF 15,308 billion. Holdings of foreign-issued investment fund shares at credit institutions exhibited even stronger growth, rising 46.7 percent to HUF 4,056 billion in 2024. The proportion of the holdings of foreign- and domestically-issued investment fund shares was 26.8 percent in 2024, almost unchanged from 25.8 percent in 2023 (Chart 7.7).

Chart 7.7
Distribution of investment funds by domestic and foreign issuance



Source: MNB.

Box 7.1**Monitoring activities concerning cross-border service providers**

Currently, nearly 600 cross-border investment service providers are registered in Hungary exercising the freedom to provide services, although only a small proportion actually serve Hungarian clients. This can be explained by the fact that many service providers prefer not to undergo multiple cross-border registrations and register in Member States where they do not (yet) necessarily intend to establish an actual presence. Consequently, identifying capital market service providers which are registered in another Member State, but are also active in Hungary is not a straightforward task, which complicates the MNB's monitoring activities somewhat. At the same time, as a significant proportion of these service providers offer high-risk instruments, such as contracts for difference (CFDs), futures and options, to Hungarian clients in the course of their cross-border activities, the MNB considers it important to monitor their activities in addition to overseeing the institutions directly under its supervision.

As these service providers are not directly supervised by the MNB and only limited information is available on their activities, the MNB focuses on the more popular cross-border service providers that advertise in Hungarian on social media or other online platforms, and within the framework of its capital market supervisory activities, it continuously monitors the advertisements and websites of these firms. The MNB primarily monitors compliance with the requirements established under the CFD product intervention measures introduced by itself and other EU Member States, with particular emphasis on the presence and balance of disclosure elements and risk warnings, while keeping track of general marketing and information practices as well.

During its continuous monitoring, the MNB has not identified any serious breaches of legislation in recent periods; nevertheless, on numerous occasions it has contacted the foreign supervisory authorities responsible for overseeing these institutions in connection with risks of varying significance. One common issue is that these service providers often use online translation tools to translate their websites, which frequently results in unnatural, unprofessional or inaccurate formulations; moreover, in several cases, Hungarian and English are mixed within the content, which may make it difficult for an average client to understand the information provided. Many service providers offer English-language contractual documentation alongside their Hungarian website content, which is reported to the relevant foreign supervisory authorities by the MNB. Another recurring issue is that the websites of the service providers often contain incomplete descriptions and disclosures, with several important pieces of information, such as tradable instruments and trading hours, frequently missing.

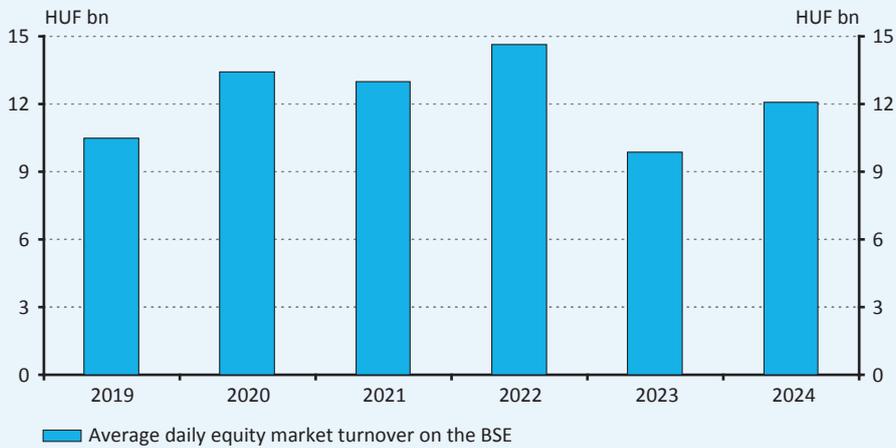
7.2 REGULATED MARKET**7.2.1 Higher trading activity on the Budapest Stock Exchange in both markets**

In 2024, trading activity on the Budapest Stock Exchange was characterised by growth: the total turnover of HUF 5,565 billion in 2024 was 24.6 percent higher than the 2023 total turnover of HUF 4,466 billion, which represented a relatively low base. It is noteworthy that, following several years of growth, the Budapest Stock Exchange experienced a significant drop in turnover in 2023, as turnover essentially fell back to levels seen ten years earlier. Growth in 2024 was balanced in terms of spot and derivatives turnover: the 2024 spot turnover of HUF 3,100 billion was up 21.4 percent versus the 2023 figure, while the 2024 derivatives turnover of HUF 2,465 billion was 28.9 percent higher than the previous year.

In 2024, the increase of HUF 546 billion in spot market turnover was mainly due to a HUF 475 billion (19.1 percent) rise in domestic equity turnover and a HUF 51 billion (77.6 percent) rise in certificates turnover (Chart 7.8). The concentration of trading turnover in the spot market significantly increased in 2024: turnover generated by the top five exchange members covered 89.5 percent of total spot market turnover, which translates into an increase of around 5.3 percentage points relative to 2023. In terms of spot turnover, the composition of the top five exchange members did not change from 2023 to 2024. Derivatives turnover increased in all three relevant sub-sectors: the foreign exchange futures turnover of HUF 2,119 billion in 2024 grew 22.6 percent over the previous year's HUF 1,728 billion, and index-based futures turnover increased by 21.8 percent to HUF 79 billion, while equity futures turnover expanded by 132.9 percent to HUF 208 billion.

Concentration in the derivatives market declined in 2024, but it is still outstanding: the turnover generated by the top five exchange members covered 93.6 percent of total derivatives market turnover, down by around 3.1 percentage points from 96.7 percent in 2023. In terms of derivatives turnover, the composition of the top five exchange members changed from 2023 to 2024, in relation to one investment service provider.

Chart 7.8
Average daily stock market turnover of the Budapest Stock Exchange

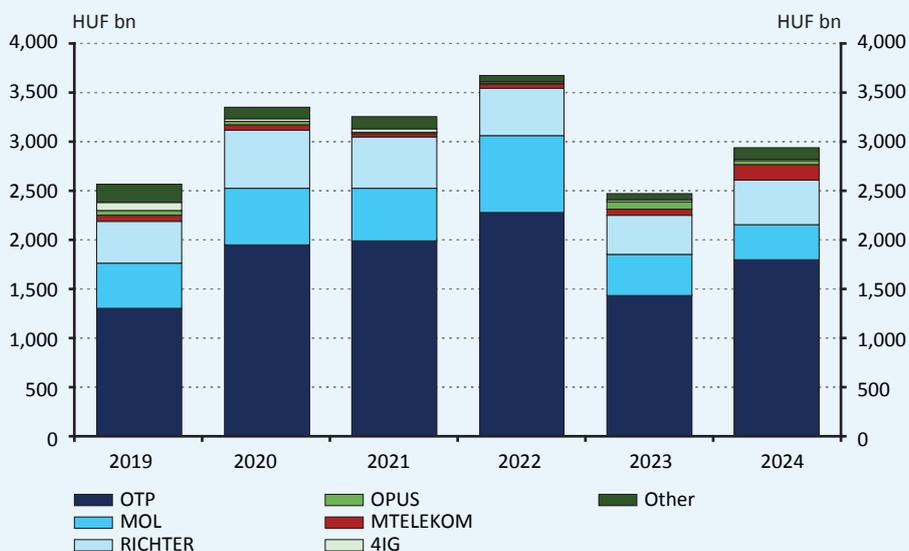


Source: MNB, BSE.

7.2.2 Concentration of turnover on the Budapest Stock Exchange decreased

In terms of issuers' equities market turnover, the composition of the top three most traded equities remained unchanged in 2024 in terms of composition and also order: OTP remains at the top, followed by Richter, with MOL taking third place. The high concentration of the equities market decreased further in 2024: the share of the top three most traded issuers of the total equities market turnover amounted to 88.8 percent in 2024, down by around 2.2 percentage points from 91 percent in 2023 (2022: 96.8 percent). The lower concentration was partly the result of the increase in the turnover of small cap equities, as well as the 156.1-percent jump in the turnover of Mtelekom shares (2023: HUF 61 billion; 2024: HUF 157 billion) (Chart 7.9).

Chart 7.9
Issuers' annual stock exchange turnover



Source: MNB, BSE.

After posting a gain of 38.4 percent in 2023, the BUX index continued to rise in 2024 from 60,620 at the end of December 2023 to 79,327 at the end of December 2024, amid optimistic capital market sentiment, amounting to an increase of 30.9 percent. The BUX index reached its annual high on 12 December 2024, with a closing value of 80,540 (Chart 7.10).

Chart 7.10
The performance of the BUX and CETOP indices



Note: CETOP Central Europe Blue Chip Index comprises the 25 largest Central European stocks by market capitalisation and trading volume. The content of the index is reviewed twice a year, in March and in September.

Source: MNB, BSE.

Box 7.2

Shortening the EU securities settlement cycle

One key element of this is improving the efficiency of securities settlement, including a review of securities settlement deadlines. As part of the review of the CSDR regime, ESMA was mandated to prepare a report assessing the benefits and risks of shortening securities settlement cycles – similarly to the US markets – which was published in November 2024. In the report, ESMA proposed transition from the current T+2 settlement deadline to a T+1 settlement deadline for securities transactions under the CSDR regime, and this intention was confirmed by the European Commission, the European Central Bank and ESMA – the coordinating bodies of the transition project – in a joint statement. According to the current roadmap, transition to a T+1 settlement deadline – in coordination with UK and Swiss markets where possible – would take place in October 2027, until which time the market participants affected, i.e. investment service providers, trading venues and professional customers (such as fund managers), would have to prepare for the transition in terms of technology. According to the roadmap, the Commission and ESMA have begun preparing amendments to the CSDR and its related implementing rules, pursuant to which all transactions executed on EU trading venues would be settled on a T+1 basis. To develop detailed rules related to the shortened settlement cycle, ESMA launched a market consultation in the first half of 2025.

In Hungary, the settlement deadlines of securities – under the currently known regulatory concept – would affect equities trading on the Budapest Stock Exchange as well as transactions executed by investment firms carried out on other EU trading venues.

For this reason, the MNB, as part of the prudential supervision of capital markets, closely monitors regulatory developments from the beginning and consults investment service providers – through direct queries in its ongoing

supervision – to encourage participation in the market consultation initiated by ESMA and, in connection with the consultation, the identification and planning of information technology developments and other measures enhancing the efficiency of the settlement process necessary for the transition to the T+1 settlement cycle.

7.2.3 In 2024, shares in two new issuers were listed on BSE trading venues

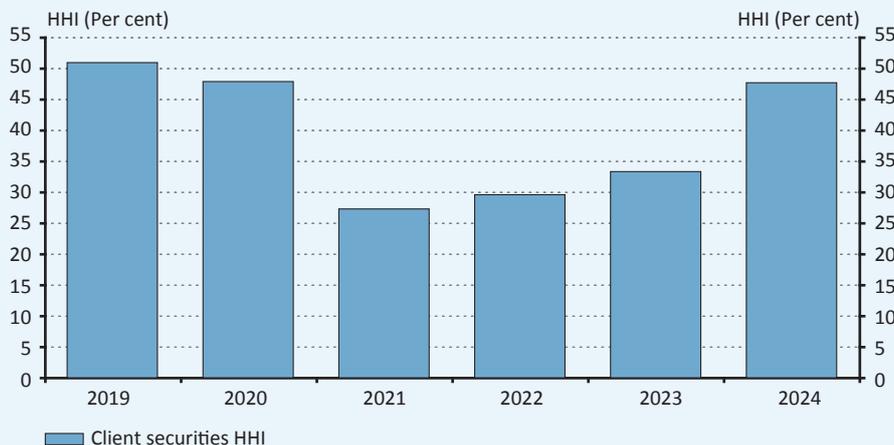
In 2024, shares in Gloster Infokommunikációs Nyrt. and Gránit Bank Nyrt. were admitted to trading on the main market of the Budapest Stock Exchange (i.e. Xbud), whereas the shares of Kulcs-Soft Nyrt. were delisted. In 2024, the shares of two issuers – Delta Technologies Nyrt. (with stocks on Xbud as well) and Kermann IT Solutions Nyrt. – were admitted to trading on the Xtend market of the Budapest Stock Exchange’s multilateral trading system for small and medium-sized companies, and the shares of one issuer (Gloster Infokommunikációs Nyrt.) on the Xtend market were reclassified to the regulated market.

7.3 RISKS AFFECTING INVESTMENT FIRMS

7.3.1 Higher market concentration in the investment firm sector

The concentration of investment firms’ holdings of client securities, as calculated in accordance with the Herfindahl-Hirschman Index (HHI), was 47.7 percent at the end of 2024, up 14.3 percentage points from the figure of 33.4 percent recorded in the previous year. The growth is explained by the exit of one large, foreign-backed investment firm from the domestic capital market as well as by the dynamic increase of the assets of the top three investment firms with the largest holdings of client securities. The market share of small investment firms increased in 2024, as the market share of the three investment firms with the smallest holdings of client securities expanded from 0.6 percent in 2023 to 1.5 percent (Chart 7.11.).

Chart 7.11
Market concentration of holdings of client securities



Source: MNB.

Box 7.3

Thematic inspections on sustainability at investment service providers

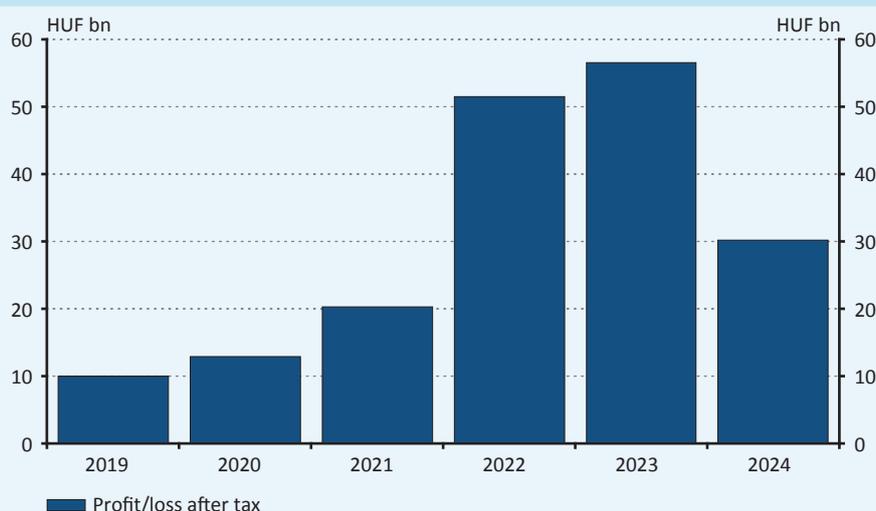
In 2024, the MNB continued the process of thematic inspections on capital market which started in 2019, covering the activities of investment service providers. Following the inspections on compliance (2019), suitability assessment (2020), product governance (2021) and preliminary cost information (2022) practices and the marketing activities of market participants (2023), in 2024, the MNB started the examination of a relatively newer,

complex theme: incorporating sustainability requirements into suitability assessment and product governance practice. These obligations of the investment service providers expanded in 2022 after the review of the MiFID II Directive: as part of the suitability assessment, firms are required to collect information on and evaluate the clients' sustainability preferences, and incorporate the results into their target market analysis and distribution practices in connection with advisory and portfolio management services. The MNB consulted market participants on numerous occasions regarding the interpretation and practical implementation of these new requirements, and supplemented its recommendations related to suitability assessment and product governance requirements, taking into consideration the ESMA guidelines on the same topic. Eleven investment service providers were involved in the MNB's examination, which extended into 2025. The review of the market practices takes place as part of a contribution within the common supervisory action (CSA) coordinated by the European Securities and Markets Authority (ESMA); accordingly, the MNB will report on the findings to ESMA as well. Based on the MNB's preliminary experience, most institutions successfully reviewed/redesigned their relevant processes, but there will likely be institutions for which the MNB is expected to formulate recommendations for action.

7.3.2 Decline in the sector's profit after tax

The profitability of the investment firm sector, including branch offices, fell sharply in 2024, mostly due to the exit of one large, foreign-backed investment firm: the sector's profit after tax amounted to HUF 30.1 billion in 2024, 46.7 percent lower than the all-time high of HUF 56.6 billion recorded in 2023 (year-on-year profit after tax grew by 9.9 percent in 2023, 155.4 percent in 2022, 57.8 percent in 2021 and 29.5 percent in 2020). One investment firm involved in derivative emissions trading also contributed to the decline in the after-tax profit, as its results turned negative for the first time since it started operations. At the same time, the profit after tax of smaller investment firms increased. Of the 13 investment firms operating at the end of 2024, six recorded an increase in profit after tax, another six saw a decrease in profit after tax, and one showed no change. In 2024, the sector's earnings concentration increased further: the combined after-tax profit of HUF 27.4 billion earned by the top three market participants with the highest after-tax profit increased to 90.9 percent of the total sector's after-tax profit, up from 84.1 percent in 2023 (Chart 7.12).

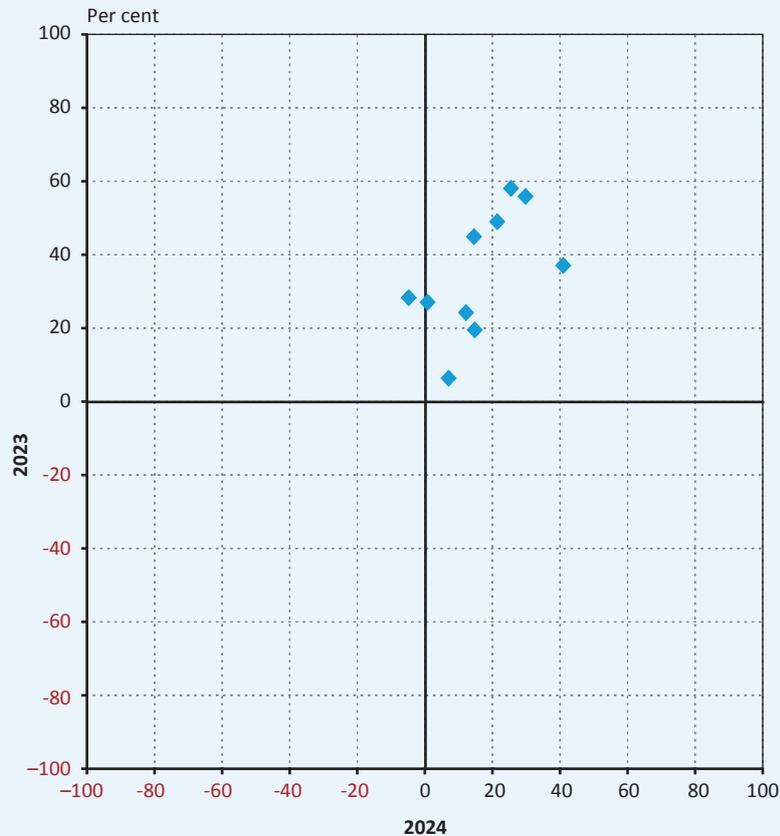
Chart 7.12
Profitability of investment firms



Source: MNB.

The number of loss-making investment firms did not change in 2024 – there is still only one: the investment firm that posted a loss in 2023 turned profitable, but another firm took its place and reported a loss. The improvement in sector-level income is also reflected in the indicator for after-tax return on equity (ROE): as shown in Chart 7.13, investment firms were clustered to the right of the vertical zero axis.

Chart 7.13
ROE (%) of investment firms



Source: MNB.

Box 7.4
Management circular – Sales of derivatives to household investors

ESMA's heatmap for 2023 – which forms the basis for the supervisory work coordinated by ESMA and the union-wide supervisory priorities (USSP) – defined investment by household customers without the necessary capital market trading experience in derivatives and other complex financial instruments as a high-risk area and a supervisory priority. ESMA's risk classification proved to be valid for the domestic capital market investment environment, since – based on aggregated data provided daily by domestic market participants to the MNB – in some cases household customers incurred significant individual losses on leveraged derivative positions with a notional total value of tens of thousands of billions of forints (forward and futures transactions, stock market and OTC options, CFDs). The restrictions that the MNB introduced concerning the sale of CFDs to household customers are an efficient instrument for preventing extreme losses suffered by investors, but based on loss ratio analysis of forward and option positions, and also taking into account the ESMA Heatmap, the MNB launched a thematic inspection at eight investment service providers in mid-2023, in order to investigate the sale of leveraged derivative instruments to household customers.

The review of daily risk management procedures and methodology related to leveraged products was given special emphasis in this thematic inspection.

The MNB closed the thematic inspection in September 2024. According to the findings, the practices applied by the investment service provider sector were, on the whole, prudent in terms of risk management mechanisms and methodology, investment consulting communication, as well as reporting to customers.

In a resolution, the MNB prescribed the implementation of prudent solutions in relation to unique risks and cases of regulatory non-compliance identified in the practices of certain institutions.

The results of the thematic inspection, however, highlighted the fact that there are certain aspects of client-side counterparty risk management in connection with leveraged transactions – affecting how efficiently risk management functions – that, due to their special nature, are not defined in sufficient detail either by capital market regulations or the relevant MNB recommendation on the establishment and functioning of internal lines of defence. Therefore, following the inspection, the MNB issued a management circular in addition to the individual requirements addressed to the institutions in September 2024 for the unification of market practice and for further enhancing the efficiency of the risk management activity. In the management circular, the MNB – among other things – defined its expectations concerning the allocation of responsibility in connection with leveraged derivative transactions for collateral evaluation, verification and settlement procedures aimed at managing market and counterparty risks to the risk management function, the management of market and counterparty risks attached to open positions on a daily basis based on policy-level procedures and the application of a stricter procedure depending on the duration of under-collateralisation, and also highlighted good practices for the back-testing of risk management procedures and for the mitigation of potential risks resulting from the concentration of financial instruments and cash accepted as collateral.

7.3.3 Good capitalisation at sector level

Investment firms' equity dropped from HUF 253.4 billion in 2023 to HUF 80.1 billion at the end of 2024, falling by HUF 173.3 billion: this drop of 68.4 percent was primarily due to one foreign-backed investment firm exiting the domestic capital market. Disregarding this case, investment firms' equity increased by HUF 4.7 billion in comparison to 2023, which corresponds to an annual increase of 6.2 percent. The sector's solvency capital requirement fell by 68.5 percent from HUF 12.7 billion in 2023 to 4 HUF billion in 2024, which is also attributable to the exit of the foreign-backed investment firm from the domestic capital market. The solvency capital of HUF 17.2 billion available at the end of 2024 is 90.9 percent lower than in the previous year, and the sector-level capital adequacy of investment firms decreased accordingly, as the ratio of solvency capital and the solvency capital requirement decreased from 1,484 percent in 2023 to 423 percent in 2024, which is still an outstanding value (Chart 7.14).

Chart 7.14
Capital and capital adequacy ratio of investment firms



Source: MNB.

Box 7.5**Inspection of investment advisory activities in continuous supervision**

Among the investment services offered, providing investment advice is probably the one of the riskiest and carries the greatest responsibility for institutions. Although the client makes the final decision about the investment advice, the investment service providers play an extremely important role in the process, in terms of the assessment, evaluation of the suitability of product or the transaction for the client, providing the necessary information or the consultancy itself. For this reason, in addition to examining this area in the course of comprehensive inspections, the MNB also continuously monitors sales trends, including investment advisory trends at the market level and individual institutional level, and regularly inspects the documentation of actual advice provided to clients. The advantage of conducting inspections in relation to actual advice provided is that it offers an opportunity to test 'in real life' the procedures and requirements stipulated in legislation and in the internal policies of institutions and it allows for monitoring of the recommendations and the management circulars issued by the MNB (suitability assessment, product governance). At several institutions, the MNB found that certain sub-tasks, sub-procedures or the documentation of actual advisory activities were not in compliance with the requirements set forth in the approved policies of the given institution. There were instances where the selected transaction – mostly because of individual administrative errors – was not included in the advisory records. In certain cases, it only affected the records, but in other instances the institution, because of the above or the way its IT systems were structured, did not treat the transaction as consultancy and failed to prepare a suitability report to summarise and underpin the advice provided. The MNB identified – predominantly personal – advisory interactions where the communication with the client was not sufficiently traceable. In other cases, the MNB identified advisory interactions which resulted in a switch between investments, i.e. the sale of one or more products, and the purchase of another product or products financed in part or in whole from the proceeds of the sale, but the institution in question failed to prepare a so-called cost-benefit analysis used to justify the advice to switch between investments, taking into consideration the costs of the old and the new product(s). Although justification is not explicitly required by law, the MNB expects it in order to provide the broadest possible scope of information to the clients and to reduce the informational asymmetry towards the service provider; nonetheless, such shortcomings were found at certain institutions.

In general, the MNB finds that there are no critical deficiencies in the investment service provider sector, and that the sector applies prudent advisory practice. Nevertheless, depending on the risks associated with the products offered and the risk tolerance of the clients, it is necessary to improve advisory processes at an institutional level to ensure that clients are provided the best possible solutions.

Table 7.3 Sector risks of investment firms				
Risk category	Risk groups	Risk rating	Risk prospects	Evaluation
Market risk	Global geopolitical and financial market events			"Global geopolitical tensions increase the volatility of capital market trading and investment, which requires institutions to have strict and effective risk management practices, both from a prudential and consumer protection perspective. At the end of 2024, the MNB issued a management circular – supplementing the legal requirements – on supervisory expectations related to risk management practices for clients' leveraged transactions."
Profitability	Interest rate environment, inflation			The business model and profitability of investment firms are stable at the sector level, ensuring long-term capital adequacy. However, EU regulatory developments affecting the capital market may impact business models in the medium and long term.
"Capital adequacy"	Risks related to proprietary trading book positions Partner risk			The capital adequacy ratio of the investment firm sector is favourable and stable. Trading book exposure and counterparty risk are affected by changes in the yield environment and exchange rate volatility, for which investment firms apply the risk management controls set out in the IFR/IFD proportionately. Specific liquidity and capital adequacy risks related to the business model may arise, which require the imposition of additional requirements. The EBA launched a review of the IFR/IFD regime in summer 2024.
Regulatory risk	Continuous review of EU capital market regulations, emergence of new regimes			The evolution of the international capital market regulatory environment poses a continuous implementation challenge for domestic investment firms, both from an IT development and administrative perspective. Currently, compliance with the requirements of the DORA Regulation on the management of information and communication technology (ICT) risks is a significant adaptation task for investment firms. In the medium term, following revision of the CSDR regime and the shortening of securities transaction settlement deadlines from T+2 days to T+1 days from October 2027, the development of solutions that increase the efficiency of settlement processes is expected to require additional capacities.
<p>Legend:</p> <p>Degree of risks high  significant  moderate  low </p> <p>Direction of risks increasing  stagnant  decreasing </p>				
Source: MNB.				

The profitability and capital position of investment firms remained stable in 2024. Geopolitical tensions and international macroeconomic risks increase the volatility of capital market trading and investment, which require institutions to adopt rigorous and effective risk management practices, from both a prudential and consumer protection perspective. It can still be said that ongoing compliance with international regulatory requirements and preparation for their application require significant organisational resources for investment firms, and this trend will continue in the future.

Box 7.6**Consumer protection procedures initiated upon request**

In 2024, the MNB closed a total of 14 capital market consumer protection target tests at nine different investment service providers, which were conducted at the specific request of consumers (three tests were launched in 2023). In the course of these target tests, a consumer protection fine of HUF 1,650,000 was imposed. In 2024, at the requests of consumers, a total of 16 consumer protection procedures were initiated, at eight different investment service providers; 11 of these procedures were closed in the subject year and five investigations extended into 2025. Consumer protection procedures initiated upon request typically focused on how service providers handled a complaint raised by a specific consumer, or the information provided regarding the terms and conditions of the service used. These consumer protection procedures identified individual consumer protection shortcomings at the investment service providers concerned, linked to the initiating consumer; nevertheless, no issues were found regarding the service providers' practices concerning the provision of information in general or the management of complaints, or sector-level consumer protection risks. In general, it has been observed that, in many cases, consumers raised complaints in their applications submitted to the MNB about the quality of services, or the circumstances regarded as contractual disputes; nevertheless, these complaints cannot be investigated in an administrative procedure on the basis of capital market consumer protection rules.

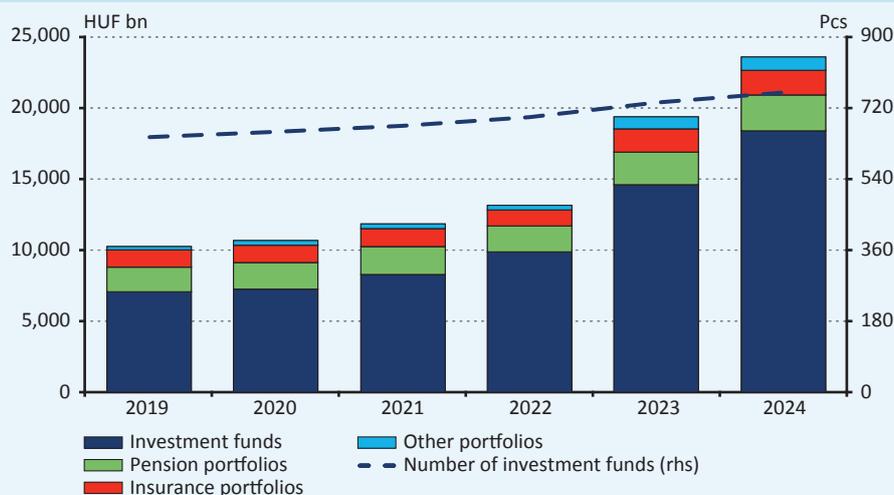
7.4 FUND MANAGEMENT MARKET AND RISKS IN RELATION TO INVESTMENT FUND MANAGERS

7.4.1 Further trend growth in assets managed by investment fund managers

The number of investment funds managed by the 49 supervised investment fund managers at the end of 2024 increased by 25 to 759 in 2024. Based on the regulatory classification of investment funds, at the end of 2024 there were 544 securities funds, 48 mixed funds and 167 real estate funds.

In 2024, amid generally positive capital market sentiment, the assets under management by domestic investment fund managers increased by HUF 4,220 billion from HUF 19,401 billion at the end of 2023 to HUF 23,621 billion at the end of 2024, reaching a new historic high. The growth rate of 21.8 percent in 2024 was lower than the historic peak of 47.5 percent recorded in 2023, but significantly higher than the rates of 10.8 percent in 2022, 11.3 percent in 2021, 4 percent in 2020 and 7.5 percent in 2019. The increase in total assets managed by fund managers – including investment funds, pension funds, insurance and other portfolios – was predominantly (90 percent) due to a rise in the net asset value of investment funds. At the end of December 2024, the net asset value of investment funds was HUF 18,432 billion, up by around HUF 3,800 billion (26 percent) from HUF 14,632 billion one year earlier. The assets of pension funds managed by investment fund managers increased by 10.9 percent in 2024 to HUF 2,523 billion at the end of the year, with all three types of pension funds – private pension funds, voluntary pension funds and healthcare funds – seeing an increase in assets under management. Assets managed in insurance portfolios rose by 4.2 percent from HUF 1,662 billion in 2023 to HUF 1,732 billion, while assets managed in other portfolios increased by 12.3 percent to HUF 935 billion, with this growth primarily associated with a single investment fund manager (Chart 7.15).

Chart 7.15
Assets and the number of investment funds managed by investment fund managers



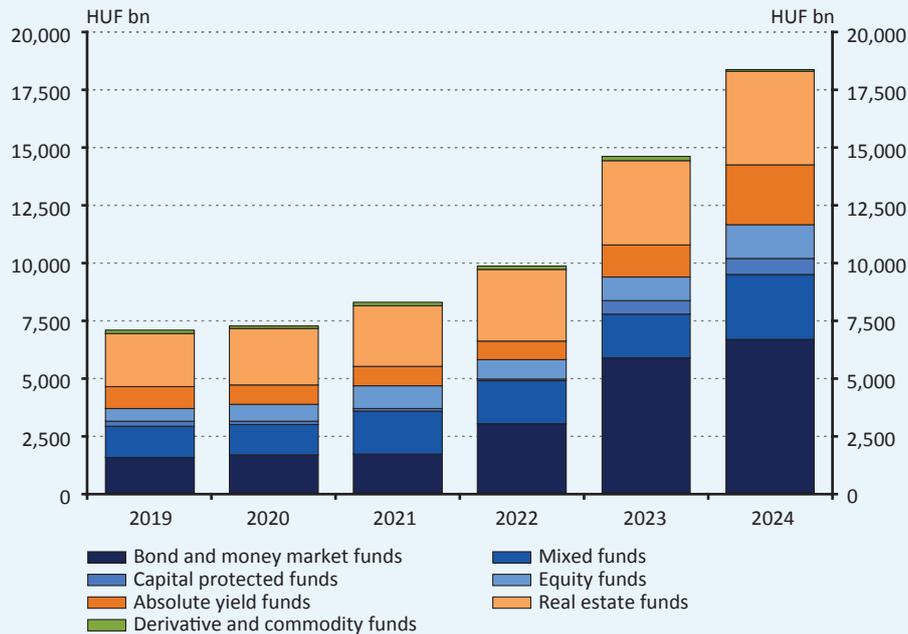
Source: MNB.

7.4.2 New historic high in assets under management at investment funds, thanks to capital inflows

Strong household demand led to a 26-percent increase in the net asset value of investment funds to HUF 18,432 billion in 2024. The increase in the net asset value of investment funds in 2024 was also mainly driven by net capital inflows: accordingly, of the HUF 3,800 billion increase in net asset value, HUF 2,538 billion was due to net capital inflows, while the remaining HUF 1,262 billion was related to returns on investment.

The assets of bond and money market funds increased further, rising from HUF 5,863 billion in 2023 to HUF 6,692 billion at the end of 2024: the HUF 829 billion increase in holdings corresponds to a growth rate of 14.1 percent. The assets managed in mixed funds increased by a factor of nearly 1.5 in 2024 (HUF 1,900 billion in 2023 versus HUF 2,819 billion in 2024). The net asset value of equity funds followed a similar trend: at HUF 1,464 billion in 2024, the figure was HUF 433 billion, i.e. nearly 42 percent, higher than the closing value of HUF 1,031 billion in 2023. Of the increase, HUF 226 billion was predominantly attributable to the return on investments. The assets managed in capital protected funds also continued to increase: the net asset value of HUF 688 billion in 2024 exceeded the value in the previous year by 17 percent. At the top of the list was the increase in the net asset value of absolute return funds, both in absolute and relative terms: the assets managed in absolute return funds grew from HUF 1,388 billion in 2023 to HUF 2,597 billion by the end of 2024, expanding by HUF 1,208 billion, i.e. their assets nearly doubled (+87.1 percent). In line with market trends in the previous years, the amount of assets managed by real estate funds – funds investing directly and indirectly in real estate – continued to grow in 2024: their net asset value increased by 10.3 percent to HUF 4,072 billion (Chart 7.16).

Chart 7.16
Distribution of investment funds based on investment policy



Source: MNB.

Box 7.7

Classification of investment funds – changes in the Government Decree

In 2024, Government Decree 78/2014 (III. 14.) on the investment and borrowing policies of collective investment trusts was amended. The deadline for compliance with regulatory requirements was 1 September 2024, i.e. investment fund managers were required to ensure the conformity of all affected funds with the new rules by that time. The amended legal regulation distinguishes 14 different types in total, including some that are new. The legal regulation does not apply to private investment funds, property funds not open to the public and securities funds that invest at least 80 percent of their assets in instruments issued and traded outside Hungary. Compliance with the newly defined limits ensures that the funds are assigned to a specific category, allowing the funds' names to better reflect their portfolio composition and thus increasing transparency for investors.

By autumn 2024, the alignment of funds was completed and fund types were recorded within the primary asset categories in the management policies. Among the public funds falling under the Government Decree, the most popular types are the bond, fund of funds and absolute return fund categories. Three-quarters of the public funds covered by the new regulations were listed under the three types above. Real estate funds is another significant category, containing nearly 17 percent of the funds.

7.4.3 Net capital inflow into investment funds remains strong

In 2024, investment funds continued to record large positive net capital inflows: although the net capital inflow of HUF 2,538 billion in 2024 was lower than the record-high net capital inflow of HUF 3,266 billion in 2023, it still significantly exceeded the levels seen in the previous years. This strong growth in net capital inflow was based on increased household demand for absolute return funds and mixed funds. The largest net capital inflow in 2024 was observed for absolute return funds, reaching HUF 968 billion (in 2023 it was HUF 424 billion, while in the preceding years this figure was negative). Following the capital outflows seen in previous years, in 2024 mixed funds experienced a strong net capital inflow of HUF

696 billion. In 2024, on the heels of very robust household demand in the two preceding years, bond and money market funds registered a slow-down: the net capital inflow of HUF 455 billion was significantly lower than in the two preceding years (2022: HUF 1,272 billion; 2023: 2,261 billion). Demand for real estate funds also dropped in 2024, as the net capital inflow of real estate funds fell from HUF 306 billion in 2023 to HUF 146 billion (Chart 7.17).

Chart 7.17
Net capital inflow into investment funds



Source: MNB.

Box 7.8

Liquidity of public real estate funds

One key priority for the MNB is to reduce the market vulnerability of domestic, public, open-end real estate funds and to minimise liquidity risks. Therefore, the MNB closely follows the liquidity profile of public open-ended real estate funds and monitors whether the redeemability of the investment units is in line with the redeemability of the underlying instruments. The MNB's recommendations, amended domestic legislation and economic development programmes all reinforced the role of investment units with long redemption periods in the case of public, open-ended real estate funds. This is necessary because real estate can be difficult and slow to sell, i.e. in the case of open-ended funds, the redemption period offered by the fund does not always align with the time required to liquidate the underlying asset.

Public real estate funds maintained an adequate liquidity ratio, also shown by the fact that recently there has been no need to suspend the trading of real estate funds. By contrast, several developments have emerged in Europe that entail risks and have resulted in the suspension of certain real estate funds. European supervisory authorities have therefore introduced various measures, including for example imposing a 12–24 month holding period for real estate funds, requiring prior notice before redemption, and, in some countries, only closed-ended funds are allowed to acquire real estate. These measures can help mitigate potential financial stability risks in the event of a liquidity shock.

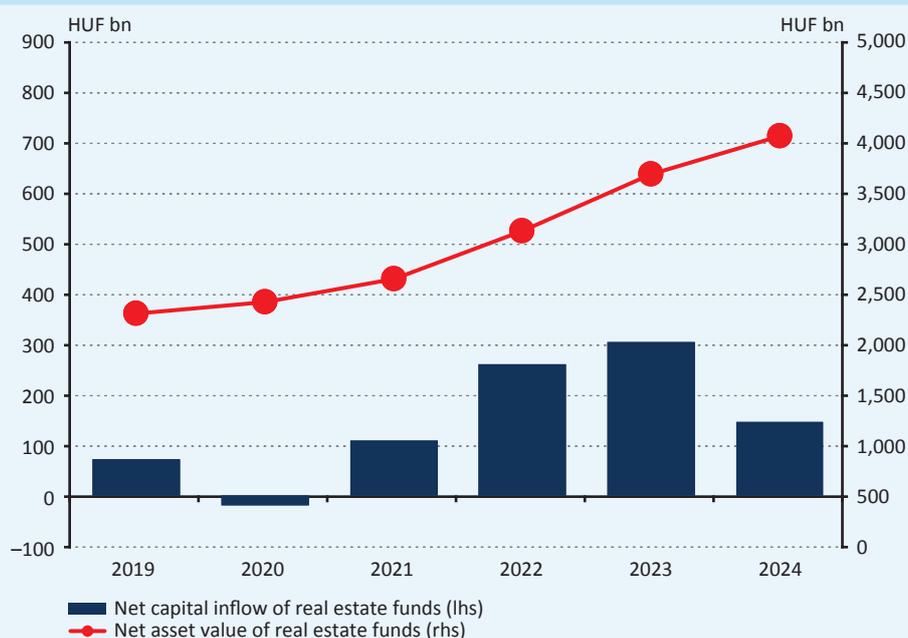
In the spirit of supervisory convergence, the European Union aims to harmonise the measures to be applied in the event of liquidity shocks at a regulatory level. Based on the new regulations, investment fund managers may apply at least nine standard liquidity management tools (LMT) in the European Union. ESMA prepared regulatory technical standards (RTS) detailing the LMTs, which the legislator officially submitted to the European Commission on 15 April 2025.

The legal text contained the detailed rules describing the characteristics of LMTs, while the supplementary guidelines assist market participants in selecting and appropriately calibrating LMTs. The texts are publicly available. Essentially, based on the new regulatory instruments, open-ended funds, in addition to the suspension of trading as a last resort, are required to select at least two of the LMTs listed (for funds licensed as a money market funds, only one LMT). The European Commission has three months to formulate an opinion on the recommendations. This period may be extended by an additional month, and the European Commission may further amend the text of the regulation if necessary. After finalisation, the text of the RTS will be published in the Official Journal of the European Union and will enter into force 20 days later. Based on this, the regulatory text may be published in the latter half of 2025, and the ESMA Guideline including the details will be issued alongside the regulation on the LMTs. Existing funds will likely have a 12-month preparation period to implement the new regulations. From a Hungarian perspective, implementation of both the RTS and the ESMA Guideline in the domestic framework will be a task for the coming period.

7.4.4 Growth in real estate funds' net asset value

In 2024, the net asset value of real estate funds increased from HUF 3,693 billion in 2023 to HUF 4,072 billion, at a rate of 10.3 percent. Of this change of HUF 379 billion in net asset value, HUF 146 billion was attributable to net capital inflow and HUF 233 billion to returns (Chart 7.18).

Chart 7.18
Assets and net capital inflow of real estate funds



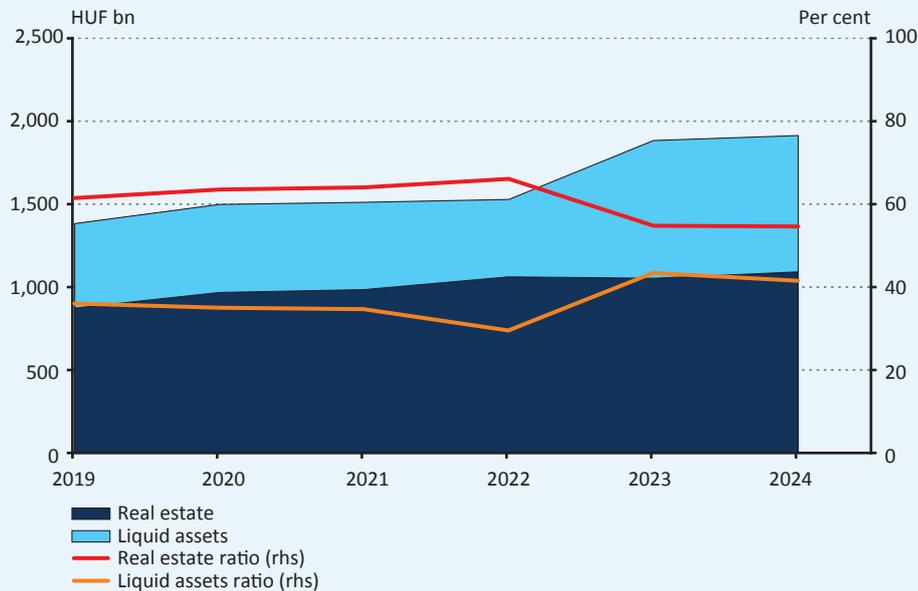
Source: MNB.

7.4.5 Growing volume of assets managed in public real estate funds

The net asset value of public real estate funds increased in 2024, albeit at a slower pace, growing by 3.8 percent from HUF 1,921 billion at the end of 2023 to HUF 1,994 billion at the end of 2024 (growth amounted to 20.1 percent in 2023, 4.3 percent in 2022, 0.6 percent in 2021, 6.9 percent in 2020 and 0.4 percent in 2019). The HUF 73 billion increase in the net asset value of public real estate funds in 2024 was attributable to two opposing effects: investment returns of HUF 118 billion boosted net asset value, while the net asset outflow of HUF 45 billion had a negative effect, i.e. in 2024, there was a trend reversal in household demand for public real estate funds. In 2024, the proportion of real estate investments by public real estate funds did not change in comparison to 2023 figure of 55 percent (Chart 7.19). The high market

concentration typical of public real estate funds remained largely unchanged in 2024: the top three public real estate funds with the largest net asset values accounted for 80.4 percent of the total net asset value of public real estate funds, which is 0.5 percentage point lower than the figure of 80.9 percent seen in 2023.

Chart 7.19
The amount and proportion of real estate investments by public real estate funds relative to net asset value

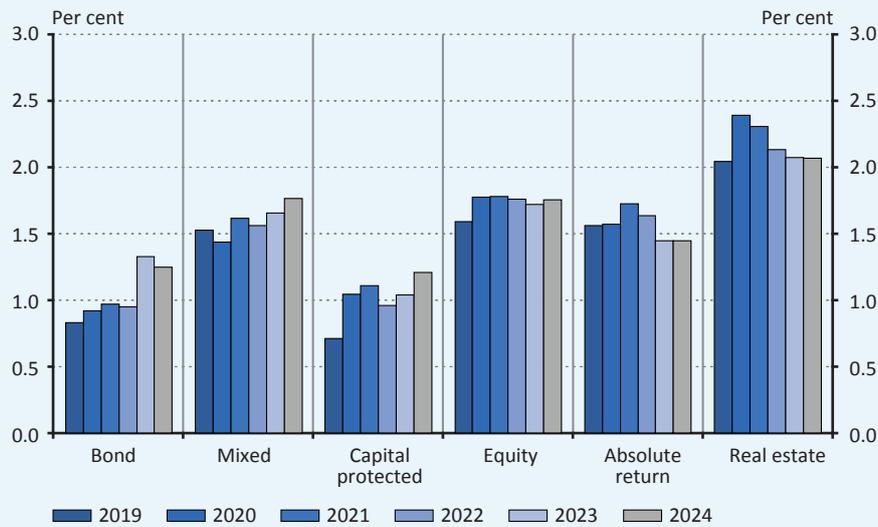


Source: MNB.

7.4.6 Costs of public investment funds in 2024

Examining the total expense ratio (TER) – based on preliminary, unaudited, individual data submissions – it is apparent that funds with low average expense ratios include bond funds with a preference for interest-bearing, bond-like instruments (including liquidity, money market, short-term, long-term and flexible bond funds). The cost burden of these funds decreased in 2024, following a more prominent increase in 2023. As a result – following the trend in previous years – bond funds and capital protected funds have the lowest expense ratios among funds categorised by investment policy. In 2024, the TER indicator increased in the case of capital protected funds, but they still have the lowest average fee burden. Funds with higher risk profiles – such as equity funds, absolute return funds and mixed funds – the higher-than-average TER indicator may be attributable to the investment activities requiring higher expertise. Among the three categories, the costs of mixed funds and equity funds increased in 2024, while the costs of absolute return funds remained unchanged compared with 2023. A moderate downward trend has been observed in the case of real estate funds since 2020, which continued into 2024, although at a lower rate; nonetheless, real estate funds still have the highest costs. Overall, investors encountered a moderately increasing average TER indicator in 2024 when purchasing investment units compared to the previous year. After the receipt of the audited data – in line with previous practice – the MNB will publish TER indicators broken down for the individual funds (Chart 7.20).

Chart 7.20
Changes in the TER indicator of domestic public investment funds

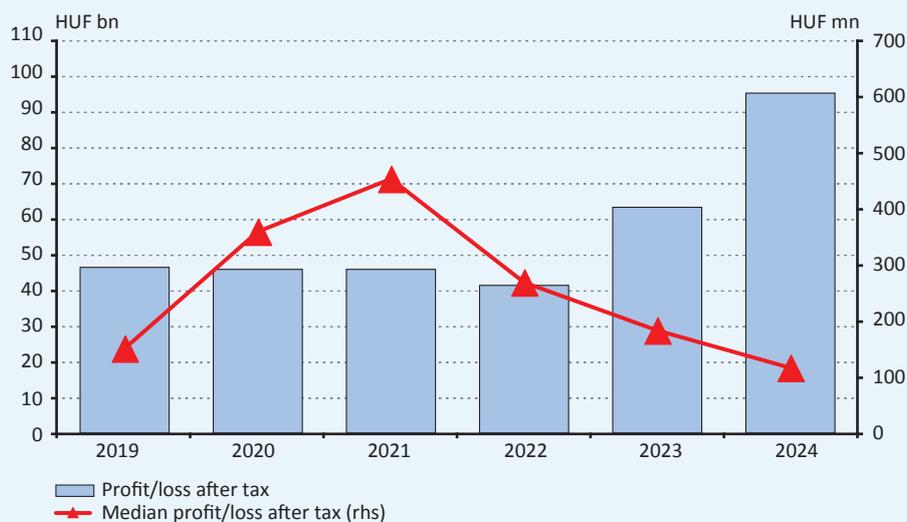


Source: MNB.

7.4.7 Dynamic increase in the profitability of the fund management sector

The after-tax profit of investment fund managers increased further, in line with the growth in assets under management, as the sector-wide after-tax profit of HUF 95.3 billion in 2024 was almost one and a half times higher than in the previous year. The profitability of 22 investment fund managers increased, while 19 fund managers experienced a decline in profitability, and the increase in the after-tax profit of the market-leading fund manager was noteworthy. The number of loss-making fund managers increased from seven in the previous year to eleven in 2024, although six of these became supervised institutions in the previous year. The after-tax profit of loss-making fund managers amounted to HUF -602 million in 2024 (Chart 7.21).

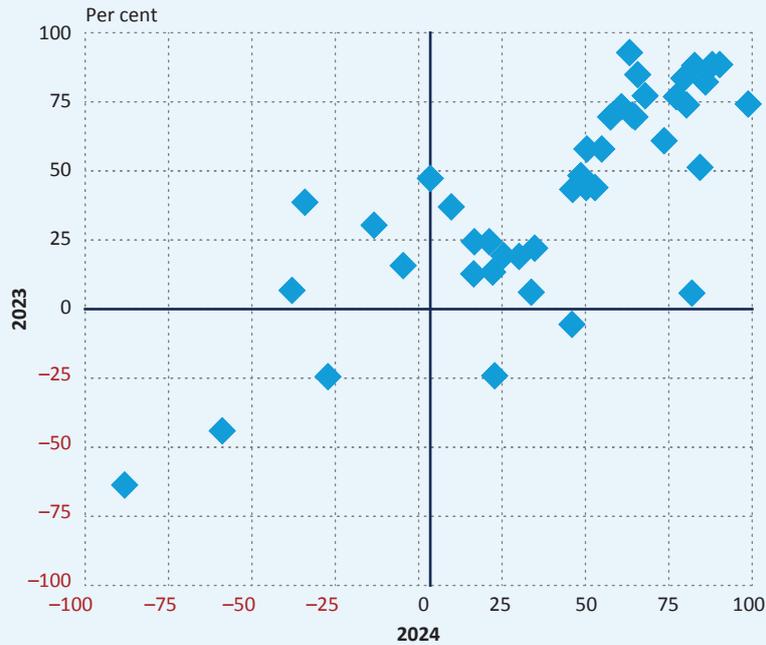
Chart 7.21
The profitability of investment fund managers



Source: MNB.

In 2024, income concentration in the investment fund management sector continued to increase: the after-tax profits of the five largest market players with the highest after-tax profit accounted for 67.6 percent of the sector’s total after-tax profit, up 3.8 percentage points versus 2023 – this significant increase is attributable to the dynamic profit growth of the market-leading fund manager. Overall, investment fund managers were characterised by outstanding profitability in 2024, which is also reflected in the high level of ROE, the after-tax profit relative to own funds: Chart 7.22 shows investment fund managers that operated both in 2023 and 2024, and whose operating licence was not revoked in 2024.

Chart 7.22
The ROE value (%) of investment fund managers



Source: MNB.

Table 7.4 Sector risks of fund managers					
Risk category	Risk groups	Risk rating	"Risk prospects"	Evaluation	
Market risk	Liquidity, foreign exchange market turbulence, operation of real estate funds in a stressed environment			Fund managers continued to experience capital inflows into various funds in 2024, i.e. the trend did not break after 2023. However, there was a decline in consumer demand for public real estate funds.	
Corporate governance	Sustainability related aspects, digitalisation, use of artificial intelligence			In 2024, the rise of ESG considerations in the corporate governance system of fund managers continued. The use of artificial intelligence is not yet typical. The direction of development is more towards greening operations, foreign expansion and online solutions.	
Profitability	Market yield environment			The profitability of the fund management sector grew dynamically in 2024. However, the sector is characterised by increasing concentration, while a large number of new players are entering the supervised fund management market.	
Operational risk	Risk management systems			At the sector level, the expansion of activities among small fund managers into real estate fund management and the emergence of several new small supervised fund managers pose increasing operational risk.	
Capital adequacy	Profitability			As the profitability of the fund management sector remained high in 2024, capital adequacy was only threatened by compliance with the capital requirement fixed in euros. The increased capital requirement due to the exchange rate change typically caused problems for small fund managers.	
Legend:					
Degree of risks		high 	significant 	moderate 	low 
Direction of risks		increasing 	stagnant 	decreasing 	
Source: MNB.					

In 2024, the growth of assets managed in funds continued, and performance did not decline even after the exceptional year seen in 2023. The uncertainty of the inflationary environment and foreign exchange market risks, however, cast a shadow over the investment market. The capital influx into investment funds continued. Due to the large retail government security maturities and interest payments expected in 2025, the outlook remains largely positive. Investments may receive a significant boost from resolution of the Russian-Ukrainian conflict, the restoration of supply channels and the increased confidence in the investment market.

Hungarian economic development objectives include stimulation of the supply-side of the residential real estate market, in which domestic real estate funds actively participate via multiple channels. In 2024, investment fund managers continued to invest grant funds awarded in the Baross Gábor Capital Programme, and more investment fund managers indicated their interest in the Hungarian Golden Visa programme. As a result of the programmes, the number of participating investment fund managers is increasing and an upturn is expected in the residential real estate market. The real estate-focused sub-programme of the Baross Gábor Capital Programme reinforces sustainability considerations in real estate investment projects by prioritising green development.

At the sector level, however, the expansion of smaller fund managers into real estate fund management, together with the emergence of several new small supervised investment fund managers, represents an increasing operational risk. These challenges necessitate the strengthening of the internal lines of defence, in particular in risk management.

Overall, it can be said that the profitability of the fund management sector increased dynamically in 2024. The sector was characterised by rising concentration, with a large number of new entrants in the market of supervised fund managers. In addition to market consolidation, there was tangible demand for international expansion. Large market players allocated a part of their income to regional expansion which – after an initial investment requirement – may generate further revenue growth.

7.5 SUPERVISION OF ISSUERS AND MARKET OVERSIGHT

7.5.1 Investigation of market abuse

In 2024, the MNB launched 20 market oversight procedures into market abuse and closed 19 such procedures. Of the procedures related to market abuse that were closed in 2024, the Bank initiated criminal proceedings in nine cases. The MNB imposed measures and sanctions on eleven private individuals and three legal persons, and levied a total market supervisory fine of HUF 443.1 million.

In one market supervisory procedure, the MNB examined whether provisions of the market abuse regulation of the European Union (MAR) on the prohibition of insider trading were violated in connection with stock exchange orders placed by a private individual. The procedure was related to the unlawful use of inside information in connection with the share repurchase announcement of OPUS GLOBAL Nyrt. (OPUS) in July 2023. The MNB found that the private individual became aware of the inside information before the OPUS announcement and placed the stock exchange orders based on such information, which constitutes insider trading. In the investigation, the MNB also found that the private individual placed some of the orders in connection with the OPUS shares not for their own benefit, but for the benefit, and utilising finances, of third parties. The financial supervisory authority also discovered that the private individual had demonstrably passed on the inside information to several other persons without authorisation. As a result, the MNB prohibited the individual from repeatedly violating the provisions prohibiting insider trading, and imposed a market supervision fine of HUF 11 million for trading with inside information, and a further HUF 10 million fine for the unauthorised disclosure of inside information. As a result of the events, the supervisory body filed a police report to the competent authority, based on the suspicion of insider trading and unauthorised disclosure of inside information.

In a market supervision procedure completed in 2024, the MNB investigated whether the conduct of Banus Port Vagyonkezelő Zrt. (Banus Port Zrt.) on the stock exchange with 4iG shares violated the provisions of MAR prohibiting the manipulation of the market. The investigation found that Banus Port Zrt. entered into transactions with a total value of several billion forints in the period from September 2023 to mid-May 2024, giving false or misleading indications about the daily turnover and transaction volumes of 4iG shares. According to the relevant EU legislation, market manipulation involves entering into trading orders or transactions (series of transactions) with the aim of creating a false or misleading impression of the market activity or price movements associated with the share (*'painting the tape'*). Due to the detected violation, the MNB prohibited Banus Port Zrt. from repeatedly violating the MAR provisions prohibiting market manipulation, imposing a market supervision fine of HUF 250 million, and filed a police report for suspected illegal market manipulation.

As part of a market supervision procedure, the MNB examined whether certain stock exchange orders and the resulting transactions of Forrás Vagyonkezelési és Befektetési nyRt. (Forrás nyRt.) violated the provisions of MAR prohibiting market manipulation. In a general meeting held in April 2022, the stock exchange issuer authorised its board of directors to purchase its own Forrás/T and Forrás/OE shares. Forrás nyRt. did not initiate a share buy-back programme as defined under Article 5 of MAR for the purchase of its own shares. Subsequently, in December 2022 and March 2023, Forrás nyRt. submitted buy orders for a significant number of Forrás/T shares on the Budapest Stock Exchange; the volume of shares in these buy orders exceeded the average turnover of the security over the preceding 20 trading days multiple times, even by one hundredfold. However, only a fraction of these buy orders were ultimately executed. These buy orders may have acted as a deceptive, misleading signal regarding the turnover, supply of and demand for the shares in question. Furthermore, on several trading days in December 2022 and March 2023 (during which the completed transactions of the issuer accounted for a high proportion of the total turnover of the securities), certain transactions completed by Forrás nyRt. involving the two shares significantly altered share prices compared to the price of the last transaction preceding

the deals concerned. All in all, some of the buy orders submitted by Forrás nyRt. practically disregarded market conditions when determining the volume and pricing recorded in them. Accordingly, the signals created were suitable for misleading and deceiving, and thus violated the ethics and transparency of financial instrument trading, and thereby the integrity of the capital market. Due to the problems detected, the MNB issued a decision prohibiting Forrás nyRt. from repeatedly violating the MAR provisions prohibiting market manipulation, imposing a market supervision fine of HUF 15 million.

In connection with this infringement, the MNB issued a press release informing the market of the exemption provided for share buy-back programmes and regulated in Article 5 of MAR. Full compliance with the rules specified therein and in the relevant EU regulation means that a given issuer is exempt from the prohibitions on insider trading and market manipulation when performing a buy-back of its own shares. Naturally, if an issuer buys back its own shares outside the framework of a share buy-back programme under Article 5 of MAR, it does not automatically constitute market manipulation. However, unless there is full compliance with the aforementioned EU regulations, issuers buying back their own shares are no longer legally exempt from the prohibition on market abuse; their stock exchange activity must therefore be evaluated according to general rules. It is therefore of paramount importance that, in the course of transactions involving their own shares and not covered by a share buy-back programme as defined by Article 5 of MAR, issuers proceed with increased caution, taking into account any legal provisions generally prohibiting market manipulation.

Box 7.9

Share buy-back programmes with regard to MAR

It is a widespread practice among both domestic and international public share issuers to repurchase their own shares on the market within the framework of share buy-back programmes. In most cases, these programmes are aimed at reducing the capital of the company or at facilitating the implementation of employee ownership programmes; additionally, companies are increasingly using them as an alternative to dividend payments, as a kind of payment instrument targeting share owners.

Stock exchange issuers must proceed with particular caution when buying back their own shares, as both domestic and EU regulations impose strict requirements on the implementation of such programmes. In the case of share buy-back programmes, domestic regulation always requires that a general meeting of the issuer entity give prior authorisation to the board of directors to acquire the issuer's own shares; such authorisations must declare the number of shares that may be acquired, as well as minimum and maximum consideration.

The authorisation issued by the general meeting does not legally constitute an obligation to buy back the issuer's own shares, it merely creates a legal framework for the board of directors. Accordingly, authorisation alone does not grant exemption from compliance with the Market Abuse Regulation (MAR) of the EU; therefore, issuers must also ensure that share transactions are completed in a lawful manner.

It is particularly important that the obligation of equal treatment towards shareholders in a similar situation is not violated in the course of own share purchases, and that the provisions on the prohibition of market manipulation and insider trading are also complied with. However, the regulation also allows for issuers to be exempted from these provisions.

The fundamental rules governing exemptions applicable to the above share buy-back programmes are set out in Article 5 of MAR and in Commission Delegated Regulation (EU) 2016/1052. If the trading conditions outlined therein are not complied with, issuers are not entitled to the exemption, and their transactions concerning their own shares are judged according to general rules.

One fundamental condition for exemption under Article 5 of MAR is that issuers are obligated to publicly disclose the details of the share buy-back programme before commencing trading. Such disclosures must include the purpose of the programme (e.g. capital reduction or bond conversion, or fulfilling company obligations arising from stock option programmes), the buy-back period, the total sum allocated for the purchase and the volume of shares to be

acquired. Furthermore, issuers must notify the competent supervisory authority with jurisdiction over the trading venue of all transactions executed under the programme, in detailed and aggregated form.

Pursuant to the conditions of the exemption for trading in the issuer's own shares, an issuer may only buy back its shares on trading venues where the shares have been admitted or are traded. Orders submitted on a trading venue conducting continuous trading may not be submitted during an auction phase, and orders submitted before an auction phase may not be modified during said phase. On trading venues conducting only auction trading, issuers may submit and modify orders during auctions.

From a supervisory perspective, one key execution requirement is that issuers may not purchase a volume of their own shares exceeding 25 percent of the average daily share turnover on any single trading day. The regulation outlines two options for calculating average daily turnover. Accordingly, the volume of shares that may be purchased must not exceed either 25 percent of the daily average turnover calculated on the basis of the monthly share turnover in the month preceding the mandatory disclosure – said volume must be declared in advance in the share buy-back programme – or 25 percent of average turnover in the 20 trading days preceding the day of purchase.

Furthermore, when recording buy offers, issuers must also consider that they are not entitled to purchase shares at a price higher than either the price of the last independent transaction (trade) or the price of the current highest independent buy offer (whichever is higher); also, as a general rule, they are not entitled to conduct sell transactions. A further requirement for meeting the exemption conditions is that in the course of the share buy-back programme, the issuer must not conduct transactions in the 30-day prohibition period prior to the announcement of an interim financial report or an end-of-year report, and must not conduct trades during the delay of inside information.

Regulations concerning periods preceding company reports and periods affected by the delay of inside information – similar to restrictions on share sales – need not be applied by issuers if they have a scheduled buy-back programme, or if the principal organiser of the buy-back programme is an investment firm or credit institution that makes trading decisions concerning the timing of purchases of the shares of the issuer independently of the issuer.

It must be emphasised that if an issuer buys back its own shares outside the framework of a share buy-back programme under Article 5 of MAR, the trades completed by the company do not, in and of themselves, constitute market manipulation. In such cases, however, issuers must pay particular attention to compliance with general legal provisions prohibiting market manipulation and insider trading, primarily focusing on the impacts of the transactions concluded by the issuer on other market participants and, in a broader sense, on supply and demand conditions for the shares concerned.

The legislator established the detailed rules and the current conditions of the exemption system with the specific intention that the possibility of committing market abuse and trading conduct constituting prohibited market manipulation should not only be minimised, but should also guarantee the prevention of infringements. Neither the Market Abuse Regulation nor the associated detailed rules, recommendations and guidelines supporting the application of EU law prescribe provisions specifying such detailed and specific trading reference points as those found in the context of the exemption system.

In light of the detailed rules governing share buy-back programmes under Article 5 of MAR, it is apparent that if issuers choose to execute their share buy-back programmes in compliance with exemption conditions for the prohibition of market manipulation and insider trading, although doing so also entails administrative obligations for the companies, and within the framework of a well-thought-out programme monitored by corporate governance, they are able to implement their programme under more favourable trading conditions compared to general requirements.

In a market supervision procedure initiated ex officio, which included an on-site inspection without prior notice, the MNB examined whether the provisions of MAR on the prohibition of insider trading were violated in connection with stock exchange orders placed by a private individual. In the course of the procedure, the MNB established that the private individual had access to data and information prior to the submission of the orders in question and the conclusion of the relevant transactions, based on which said individual was able to deduce certain information related to the issuer not available to the public, including inside information. According to the findings of the MNB, the client in the procedure traded four times during the period under review, possessing and using inside information not available to the public, thereby committing prohibited insider trading. The company itself, WABERER'S INTERNATIONAL Nyrt., correctly classified and automatically treated this information – which was not disclosed before publication and was deemed suitable for influencing pricing – as inside information. Inside information is defined as any accurate information not made public, relating directly or indirectly to one or more issuers, or to one or more financial instruments, which, if made public, would likely have a significant effect on the price of the financial instrument concerned. The Capital Market Act and MAR prohibit transactions conducted based on such information, and deem them to be insider trading. A person does not need to have deep, detailed knowledge of inside information for their transactions to be considered insider trading. Insider trading also arises if the individual in question is not aware of all details concerning such inside information, and has knowledge only of the general outlines, i.e. a few major, price sensitive data points not available to the public. Based on the foregoing, in its decision on the market supervision procedure, the MNB prohibited the individual from repeatedly violating the provisions prohibiting insider trading, and imposed a market supervision fine of HUF 15 million. A key characteristic of insider trading is the unfair advantage gained by the person possessing inside information at the expense of third parties, which might undermine investor confidence in the capital market.

7.5.2 Investigation of illicit activities

In 2024, the MNB initiated 16 market supervision procedures on the suspicion of unauthorised activities, i.e. activities conducted without a license or without registration. The MNB completed 20 market supervision procedures, based on which it imposed market supervision fines totalling HUF 994.5 million. Similarly to previous years, the MNB performed wide-ranging investigations in 2024, with market supervision procedures covering various suspicious financial, investment, and insurance activities. However, one significant segment of the investigations focused on examining unauthorised financial services in the categories of 'deposit taking and acceptance of other repayable funds from the public', as well as 'receivables purchases'.

As part of these activities, in March 2024, the MNB imposed a market supervision fine of HUF 160 million on the Budapest-based Car Service Partner Kft. and the Prague-based Car Service Partner s.r.o., for unauthorised cash loan activities, and permanently banned them from providing unauthorised cash loan activities in Hungary on a commercial basis. The companies in question were engaged in the purchase of used motor vehicles. The companies taking ownership then lent out the purchased motor vehicles to be used by their former sellers, acting as operators. Simultaneously, repurchase rights for the vehicle in favour of the former sellers were established for an indefinite period, and a monthly 'reservation fee' was claimed as consideration for such rights. Based on data obtained during the market supervision procedure, the Bank established that the real economic objective of these companies was not to acquire ownership over the motor vehicles, but rather to provide a specific sum of money to the individuals selling them. The companies, therefore, were in fact providing financing to the sellers on a commercial basis, i.e. providing a cash loan against a fee, with an interest rate. Within the framework of the structure outlined above, the vehicle served as collateral, and the 'reservation fee' served, among other things, as consideration for use of the money. The MNB's investigation revealed that after March 2021, the companies collectively granted loans to natural and legal persons in over 300 cases, with a value exceeding several hundred million forints.

The MNB conducted a market supervision procedure to investigate the circumstances of the placement of bonds issued by Sun Contracting AG in Hungary, against Sun Contracting AG, Green Finance Broker AG and the natural persons involved in their activities in Hungary. The investigation conducted by the MNB found that Sun Contracting AG – as an issuer of bonds with a prospectus approved by the Liechtenstein Supervisory Authority (FMA) with a passport to Hungary – had performed an investment service activity subject to an MNB licence in an unauthorised manner, namely 'placing financial assets without a commitment to purchase them', well above its capacity as the issuer. Pursuant to the regulation, in order to ensure that securities reach investors under regulated conditions and with adequate guarantees, a public offering of

securities in Hungary primarily requires commissioning a professional investment service provider, a so-called distributor. However, Sun Contracting AG distributed its bonds on its own, without commissioning an investment service provider, despite the MNB having previously and explicitly notified it of the legal conditions applicable to the public offering of its issued bonds in Hungary. According to the information obtained, nearly 300 Hungarian investors consequently subscribed to Sun Contracting AG's bonds – totalling several million euros in volume – via its Hungarian-language website. The market supervision procedure also established that Green Finance Broker AG itself conducted – without registration with the MNB – dependent brokerage activities related to Sun Contracting AG's distribution activities. Based on the evidence thus gathered, this company relayed 200 Hungarian investors to the issuer. The investigation found that the individual in question, working on the basis of a business brokerage contract concluded with Green Finance Broker AG – and overreaching – established a hierarchical, MLM-like structure promoting the investment service activities of Sun Contracting AG, and received a commission as consideration. There was no record of said individual in the relevant records of the MNB, meaning that the relevant activities were carried out without the appropriate authorisation and registration. In its decision from March 2024, the MNB imposed a market supervision fine of HUF 400 million on Sun Contracting AG for unauthorised investment service activities, and HUF 250 million on Green Finance Broker AG for unregistered dependent brokerage activities. The private individual involved in the activities of the companies was fined HUF 17 million by the MNB for brokerage activities carried out without registration. In addition, the MNB also banned the unauthorised activities with immediate effect.

The MNB conducted a market supervision procedure to clarify whether Trust Komarno s.r.o., a company with its registered seat in Révkomárom (Komárno, Slovakia), had conducted debt purchasing constituting financial services as a business without financial supervisory authorisation. The investigation found that the company carried out financial service activities as a business – i.e. systematically, for profit, and by concluding transactions not individually determined in advance – by purchasing, selling and assigning receivables. However, Trust Komarno s.r.o. did not possess the supervisory authorisation required to perform such activities. According to the position of the supervisor and standard practice regarding the business nature of debt purchasing activities, even the purchase of a single receivables portfolio may qualify as a business activity. When establishing whether activities were carried out as a business, i.e. in a necessarily systematic manner, the determining factor is not the number of contracts but the number of claims involved, provided that such claims collectively constitute the company's exclusive business activity. The MNB found that while the company concluded two agreements related to debt purchasing during the period examined (one for assignment, the other for transfer of contract), the portfolios of receivables thus acquired collectively comprised more than 800 claims and affected nearly six hundred natural and legal persons. Debt purchasing in itself does not qualify as an unlawful activity; however, a company that conducts debt purchasing as a business activity must have authorisation from the MNB. Based on the foregoing, in its decision from April 2024, the MNB imposed a market supervision fine of HUF 45 million on Trust Komarno s.r.o. for unauthorised financial service activities and prohibited the company from continuing its unauthorised activities with immediate effect. When determining what measures to take, the MNB took into account as one of the main aggravating circumstances that the company concluded the agreements with knowledge of the fact that they may be categorised as business-like debt purchasing activities, and that the company falsely declared that it possessed the required authorisation to carry out such activities. The MNB continuously monitors companies engaged in debt purchasing activities and, if necessary, will take the required measures in further individual cases. The MNB had previously issued a management circular to warn market participants: when dealing with unauthorised debt purchasers with whom they have contracts, and depending on the specific circumstances, even the purchase of a single portfolio of receivables, or the purchase of one claim per calendar year over several years, or even two claims in a single year, may constitute a financial service activity carried out as a business.

In a resolution issued in November 2024, the MNB imposed a market supervision fine of HUF 55 million on Noro Financial Investments Zrt. for providing cash loans and credit without supervisory authorisation and immediately prohibited continuation of the unauthorised activity. The company not only provided loans to businesses, but also maintained continuously available credit lines for them. The market supervision procedure established that Noro Financial Investments Zrt. had granted loans to several business entities, for total combined value of several hundred million forints. Furthermore, under the contracts it had concluded, the company also maintained significant credit lines for several companies, based on which the enterprises concerned – through unilateral drawdown letters – likewise utilised several hundred million forints. These transactions did not constitute group financing (which may be carried out without MNB authorisation).

In the course of the market supervision procedure, the MNB found that Noro Financial Investments Zrt. had carried out these activities as a business – that is, regularly, for profit (charging interest), and within a clientele not individually determined in advance. However, the company did not possess MNB authorisation for said activities. The financial supervisor therefore established that the company had unlawfully granted cash loans and maintained lines of credit. When determining the market supervision fine, the MNB took into account the financial gain made by the company, and the fact that Noro Financial Investments Zrt. had been operating without a licence for a longer period of time was considered an aggravating circumstance.

7.5.3 Supervision of issuers

By the end of 2024, the regulated market (Xbud) operated by the BSE had 45 companies, the Xtend multilateral trading system had 21 companies, and the Xbond multilateral trading system had an additional 91 companies with securities in circulation. As part of its supervision of issuers, the MNB issued 13 decisions in 2024, including six fines totalling HUF 22.9 million in penalties. There were an additional 137 cases of inquiries and requests for statements made to issuers, shareholders and auditors. Additionally, in 2024, the MNB launched three targeted investigations concerning public issuers and closed four targeted investigations in the IFRS category; in one of these cases, the MNB issued a fine of HUF 1.6 million and initiated one additional targeted investigation concerning regular and special notifications.

In December 2024, based on the notice of withdrawal submitted by Kulcs-Soft, the Budapest Stock Exchange (BSE) removed from its list of financial products the dematerialised registered shares of Kulcs-Soft. The issuer decided to withdraw its stock from the regulated stock market at an extraordinary general meeting held in September 2024.

Box 7.10

What regulations govern listed companies?

The Market Abuse Regulation (MAR) was promulgated on 12 June 2014 and, after a two-year preparation period, became mandatory and directly applicable in the Member States of the European Union on 3 July 2016. The regulation serves as a fundamental determining factor for the operation of listed companies. At the same time, the MNB reiterated the concept of issuer supervision, which it continues to follow to this day. Based on this approach, supervision of listed issuers is conducted in a supportive and preventive manner, with consistent and strict action where necessary. The preventive policy framework, a more proactive approach to continuous supervision, and strengthening the service role and visibility of the MNB have made the supervision of listed companies more effective. But what rules must listed companies actually follow in the course of their operations?

The provisions of MAR must be applied, among others, to financial instruments (such as equities, bonds and related derivative transactions) traded on a regulated market or a multilateral trading system. The regulation covers all financial instruments traded on any and all trading venues operated by the Budapest Stock Exchange (including the Xtend and Xbond markets), regardless of whether the transaction in question took place on the exchange or outside it (so-called OTC transactions). All listed companies are expected to have a comprehensive understanding of MAR regulations and to consistently comply with said regulations (level playing field concept).

Inside information

Information is considered to be inside information, if it (i) has not yet been made public; (ii) relates to a listed company or a relevant financial instrument; (iii) is sufficiently accurate and specific to allow conclusions to be drawn about its potential effect on the pricing of financial instruments; and (iv) is price sensitive. Essentially, it is information that a reasonably prudent investor would likely utilise when making investment decisions (so-called reasonable investor test). There is no need for all details of the information to be revealed, exact or final. For information to be considered inside information it is sufficient that possession of it reduces the level of inherent risk associated with an investment decision for those aware of such information.

As a general rule, a listed company should publicly disclose, as soon as feasible, any inside information that directly or even indirectly concerns the company or the financial instruments it has issued, thereby avoiding insider trading and the misleading of investors. In exceptional cases, MAR allows listed issuers to delay the public disclosure of inside information under their own responsibility. This is permitted, if (i) immediate disclosure would likely negatively impact the legitimate interests of the company; (ii) the delay will likely not mislead the public; and (iii) the company can maintain the confidentiality of the information.

Insider list

Listed companies are obligated to keep a record of persons who, due to the scope of their work, have access to inside information on an occasional (transaction-specific insider list) or a permanent basis (permanent insider list). Issuers must update such insider lists in real time, and the MNB may request access at any time. From time to time, it does actually need access, as insider lists serve as an important tool in investigations of capital market violations. Persons representing listed companies or acting on their behalf are also obligated to maintain such records (external insider list). If, for example, a listed company discloses information legally constituting inside information to a law firm, accounting firm or other consultant it has commissioned, such entities are obligated to keep updated and, on request, present to the MNB a list of people within their work organisation with access to the inside information, including the specific reason for sharing such information with them.

Obligations of managers

Person Discharging Managerial Responsibilities (PDMR) include the executive board, or, where no executive board exists, members of the board of directors and the supervisory board. Even if they hold no formal position within a company, a person with access to the inside information of the listed company and an authorisation to make decisions that may impact the future or business outlook of that company can be considered the same as a senior executive. The scope of Persons Closely Associated (PCA) with such executives includes, among others, the spouse (registered partner), dependent child of the individual, and any relative who has lived in the same household for at least one year before the time of the transaction in question. Listed companies are obligated to maintain up-to-date records of persons performing executive duties and those closely associated with them. PDMRs and those closely associated with them must notify the listed company and the MNB without delay, but no later than within three working days, of any transaction conducted in the financial instruments of the listed company. This obligation applies to all transactions if the total value of transactions within one calendar year – without netting – is at least EUR 5,000. Listed companies are obligated to disclose information on these transactions within two working days after such notification. Transparency in such transactions serves as a preventive measure against market abuse and provides valuable information for investors. Persons performing executive duties at a listed company are prohibited from conducting any transactions, whether direct or indirect, and whether for their own benefit or the benefit of a third party, involving any financial instruments related to the listed company during the 30 days preceding the publication of the annual or half-year reports (prohibition period).

Capital market abuse

MAR prohibits, and the MNB actively prosecutes, by all available means, every form of market abuse, as such practices endanger the integrity and efficiency of the capital market and can undermine investor confidence in it. A person in possession of inside information may gain unfair advantage from its use, potentially causing harm to others. Insider trading occurs when a person in possession of inside information uses that information to carry out a transaction related to the financial instrument concerned, whether in a direct or indirect manner, and whether for their own benefit or the benefit of a third party. Even the withdrawal or modification of an order that has not yet been executed may qualify as insider trading if the person concerned received inside information after placing the order. If someone in possession of inside information discloses it outside the normal course of their

employment, work or duties, their disclosure of inside information is illegal. The scope of behaviours constituting market manipulation is particularly broad.

The most common form of market manipulation involves entering into a transaction, placing a buy or sell order, or engaging in any other conduct that gives (or may give) false or misleading signals regarding the supply, demand, or price of a financial instrument, or anchors the price at an abnormal or artificial value. Market manipulation can also include the dissemination of false or misleading information, the deliberate withholding of material facts, and the sharing of false information, provided that the party disclosing such information is aware that it is false. Market manipulation is especially harmful to investors, as it may cause them to base investment decisions on false or distorted information.

Role of the MNB

In Hungary, the MNB performs the supervisory duties associated with the implementation of MAR, including the ex officio initiation of a market supervision procedure in case of a suspicion of capital market abuse. In the case of a violation, the MNB may impose a substantial fine, prohibit any repetition of the unlawful activity, or, if there have been apparent profits derived from the infringement, obligate the offender to forfeit such profits. All such violations are also punishable under criminal law. Serious cases of insider trading and unlawful market manipulation may result in imprisonment for up to five years. In addition to the supervisory approach utilising various tools to prevent infringements on the issuers' side, the results of strict and consistent enforcement have become evident. Despite its supportive stance as supervisor of the issuers, the MNB's attitude toward those engaging in capital market abuse remains unchanged: zero tolerance and the application of sanctions serving as deterrence.

7.5.4 Continuous supervision of issuers

In the course of its supervision of listed issuers, the MNB places particular emphasis on safeguarding confidence in the capital market and therefore continuously monitors and reviews the disclosures made by listed issuers. Legislation, including Act CXX of 2001 on the Capital Market (Capital Market Act) and Decree 24/2008 (VIII. 15.) of the Minister of Finance on the Detailed Rules of Disclosure Obligations related to Publicly Traded Securities (Decree of the Minister of Finance), imposes strict disclosure requirements on issuers. Their provisions apply to all issuers listed on the regulated market of the BSE, regardless of market capitalisation, free float, or volume of revenue. Under the Capital Market Act, issuers are obliged to submit regulated information to the officially designated information storage system operated by the MNB, making such information accessible to market investors.

The foundation of the continuous supervision of issuers is monitoring compliance with both regular and extraordinary disclosure obligations. Primary regular disclosure obligations are the publication of annual and half-year reports. Furthermore, on the last day of each calendar month, issuers are obligated to publish the number of voting rights associated with each series of their shares, including any treasury shares and the amount of capital stock, without delay, but no later than the following working day. As part of the extraordinary disclosure obligations, an issuer of securities admitted to a regulated market must inform the public of any information that directly or indirectly affects the value or yield of the securities or the issuer's assessment, without delay, but no later than one working day. Detailed rules on extraordinary disclosure are also outlined in the Decree of the Minister of Finance (for example, significant changes in the issuer's plans or strategy following the most recent disclosure, large orders, new investments by the issuer, substantial increases or decreases in its assets, changes of auditor and the justification of such changes, etc.).

The objectives of the MNB include encouraging public securities issuers to act in voluntary compliance with the law, rather than relying on ex post sanctions, and providing comprehensive information on its requirements and the best practices prescribed by relevant legislation. To this end, in June 2024, the MNB issued a management circular entitled '*Management Circular on Simplifications under the Market Abuse Regulation Relating to Issuers of Financial Instruments Admitted to the SME Capital Financing Market*'. The primary target group of this circular are issuers listed on the Xtend market.

Box 7.11**Information provided and omitted by listed issuers**

Using social media, listed companies can now disclose information important to investors more quickly than ever. But is the use of these platforms sufficient, and what data or information are they required to publish via official channels, either regularly or on a case-by-case basis?

The Capital Market Act distinguishes between regular and extraordinary disclosure obligations. As part of their regular disclosures, issuers are obligated to report key data on their financial position, income situation and operations at specified intervals. One of their most important obligations is the publication of annual and half-year reports; an annual report must be published no later than four months after the end of each financial year, and a half-year report no later than three months after the first six months of the financial year. An annual report must include at least an annual financial statement approved by the highest governing body of the issuer, a management report, an independent auditor's report, an assurance opinion (if applicable), and a statement by the issuer. The issuer is liable for ensuring that the information provided is both complete and accurate. The MNB pays particular attention to whether an independent auditor's opinion is included in the annual report, and to the content of the opinion. The Decree of the Minister of Finance does not make distinctions with regard to the content of the independent auditor's report, meaning that publishing the annual report with any type of auditor's opinion (unqualified, limited, adverse) or even with just a disclaimer attached meets the legal requirements. For this reason, the MNB – supporting investors in making informed decisions – makes auditors' opinions on annual financial statements by listed issuers continuously available on its website.

Another important regular disclosure obligation is the end-of-month report, which must be published on the last day of each calendar month without delay, but no later than the following working day. Such reports must include the number of voting rights associated with each series of the issuer's shares, the number of treasury shares held and the volume of capital stock. In certain cases, the issuer's securities may already be included on the product list of the stock exchange, before actual trading has commenced. In such situations, issuers already have an obligation to make all due regular and extraordinary disclosures. The MNB employs a policy of zero tolerance in cases where annual or half-year reports are not published in accordance with legal requirements, and immediately suspends stock exchange trading until the issuer fully complies with its statutory obligations.

The Capital Market Act also imposes extraordinary disclosure obligations on issuers. Issuers must inform the public of any information that directly or indirectly affects the value or yield of the securities or the issuer's assessment, without delay, but no later than one working day. This obligation applies regardless of whether the information falling under the extraordinary disclosure requirement actually affects the share price, or in what way it does so. The Decree of the Minister of Finance provides a list of example cases in which extraordinary disclosure is mandatory. In one of its circulars, the MNB reminded issuers that it considers it good practice 'not to exercise their discretion, or to exercise it only in a very limited manner, in the cases expressly specified in the Decree of the Minister of Finance'. Experience from recent years indicate that the following situations may serve as noteworthy examples, demonstrating issuers that have failed to provide extraordinary disclosures despite legal requirements.

Issuers are generally eager to issue extraordinary disclosures concerning planned major development projects and business agreements with partners of particular significance, since they themselves consider these events capable of influencing the value or yield of securities, or the assessment of the issuer. However, in certain cases such projects or their expected results do not materialise, or the actual results substantially differ from previously communicated values. The MNB has encountered several cases where issuers either failed to make extraordinary disclosures to report such negative developments or did so only with significant delay. Circumstances may arise during economic processes or the operation of a company that prevent the achievement of previously announced goals; however, this does not exempt the issuer from communicating the changes to the public. Investors can follow developments and obtain up-to-date information through the information storage system. Failure to provide information, however, can

mislead investors. If any deficiencies are detected in the course of its continuous supervision, the MNB may launch a targeted inspection and thoroughly examine the actual economic events behind published and omitted disclosures.

Another frequent problem is that issuers publish information not through proper, official channels, but on various social media platforms or websites. Although such platforms may play an important role in corporate communication, they are not a substitute for official disclosure. In some cases, significant news is relayed on social media or other forums by a person acting on behalf of the issuer, without first disclosing the news via the information storage system. If such a statement may influence the share price or affect perception of the listed company on the market, it must first be published in the form of an extraordinary disclosure in the information storage system, and then communicated via other channels only once this disclosure has been made. All measures and sanctions applied by the MNB in connection with disclosure obligations aim to ensure that up-to-date information is available, promoting transparency, fairness, and orderly market operation, thereby safeguarding the interests of investors.

**REPORT ON INSURANCE, FUNDS, CAPITAL MARKET RISKS
AND CONSUMER PROTECTION**

2025

Print: Prospektus Kft.

H-8200 Veszprém, Tartu u. 6.

mnb.hu

©MAGYAR NEMZETI BANK

H-1054 BUDAPEST, SZABADSÁG TÉR 8-9.