

PAYMENT SYSTEMS REPORT 2020

EXECUTIVE SUMMARY

Domestic payment service developments

The improvement of the electronic payment infrastructure and the penetration of digitalisation continued in Hungary in 2019 as well. The number of payment accounts accessible online came close to 8.4 million, the number of payment cards issued in Hungary reached almost 9.4 million, while the number of cards registered in mobile wallet applications was close to 0.5 million. In addition, the number of virtual merchant outlets and POS terminals operating at physical merchant acceptance points also increased: the first came close to 13,000, while the latter to 150,000. In terms of the further development of the electronic payment infrastructure it should be emphasised that from 1 January 2021, the vendors that use online cash register on a mandatory basis will be obliged to provide the option of electronic payment, and thus cashless payment will be available also where it has not been offered before. This is also supported by the introduction of the instant payment service from 2 March 2020, which – by expanding the possibilities of using credit transfers – created the basis for the development of easily usable and innovative payment solutions.

In parallel with the improvement of the infrastructure, the number of electronic payment transactions also increased; the driver of the growth in 2019 was also provided by the increase in payment card purchases. The number of electronic payment transactions rose by 15 percent compared to 2018 and exceeded 1.4 billion, from which payment card purchase transactions accounted for almost 1 billion. Major growth was registered also in the area of card-based innovative payments and credit transfers: the number of payment card transactions executed through mobile wallet applications quadrupled, while the number of credit transfers rose by almost 7 percent. Although, based on the database of the online cash registers, the ratio of cash transactions within retail payments is still around 80 percent, electronic solutions gain increasing ground. Owing to this, in 2019, Hungary came closer to the EU average in the area of electronic payments of purchases.

Hungarian banks apply high prices in a complicated structure for their credit transfer services, even though the wide-ranging spread of package priced payment account products could significantly foster the penetration of electronic payments. The MNB examined the pricing of payment services in Hungary in 2019 and also at the beginning of 2020, and found that the costs related to payment services of Hungarian retail customers as a percentage of their income can be considered high in a European comparison, and the complexity of domestic pricing structures complicates the comparison of various payment account products. Since this hinders the dynamic growth in terms of the spread of electronic payment solutions, in 2019 and 2020 the MNB formulated several times the expectation towards Hungarian payment service providers to provide

their customers with credit transfers in unlimited number and amount for a low monthly account-management fee without charging separate transaction fees. The need for this measure is well illustrated by the fact that in 2019 the banking sector's revenues from payment services rose by 10.3 percent, and the payment card acceptance costs of small retailers remained at a high level.

In 2019, the MNB completed 9 regulatory payment inspections, and imposed payment penalties in the total amount of HUF 135.8 million. The general experience gained from the completed payment inspections is that the operation of the inspected payment service providers is essentially adequate, nevertheless, there are irregularities in all cases. The most frequent error is the failure to credit the payment transactions immediately, followed on the second place by the omissions linked to the rectification of payment transactions and by the omissions of providers related to the liability and compensation rules. The focus of the inspections in 2019 was on the audit of the rules of the new European payment services directive (PSD2), to which special attention will be paid in the future as well: in 2020, the MNB will inspect the proper functioning of the application programming interfaces (APIs) prescribed by PSD2.

The number of frauds and malfunctions in electronic payments remained low in 2019 as well. In the first three quarters of 2019 the ratio of payment card related frauds to the total number of card transactions was 0.006 percent, which represents a ratio of 0.012 percent in losses relative to the total turnover. Although the volume of card frauds is negligible, they typically emerge in the case of online purchases, and particularly cross-border transactions. The number of electronic payment frauds not related to cards was merely 52. In addition, the number of payment malfunctions may be also deemed low compared to the complexity of the infrastructure. In 2019, the MNB was informed of 442 incidents, the elimination of which took 12 hours on average. Almost 40 percent of the incidents were linked to the internet banking systems.

Domestic payment and securities infrastructures

VIBER (RTGS), the payment system operated by the MNB, operated with high reliability in 2019 as well, and it registered a growth of 11 percent in the number of transactions compared to 2018. In 2019, the VIBER turnover amounted to HUF 1,515 billion and the full outage of service occurred in the system was merely 192 minutes. Settlement risk proved to be low throughout the year, while liquidity was sufficient both at systemic level and on an individual bank basis. The total amount of forint transactions in the international CLS system, connected to VIBER, rose by 48 percent, which means that it was possible to process more foreign exchange transactions without settlement risk than in 2018.

The Interbank Clearing System (ICS), operated by GIRO Ltd, worked reliably in 2019, and the number of cleared transactions rose by 6.8 percent compared to 2018. In 2019 the ICS turnover amounted to HUF 127,000 billion. The availability ratio of overnight and intraday clearing was below the expected level in two months, and thus the service continuity risk rose at both clearing systems. On the other hand, it should be emphasised that the central infrastructure of instant payments went live on 1 July 2019, thereby providing the opportunity for the trial of the service, which lasted until the launch on 2 March 2020.

The securities settlement system, operated by KELER Ltd, worked with high reliability in 2019, and the number of settled transactions rose by 8 percent compared to 2018. In 2019, KELER Ltd. settled transactions in the total amount of HUF 230,000 billion, and the availability level exceeded the expected value every month. The settlement risk of transactions declined, and the amount of failed settlements fell compared to 2018. In addition, it should be emphasised that the company has taken significant steps to obtain the CSDR licence necessary for its operation as a central securities depository, and also in the area of IT modernisation, which commenced at the end of 2018.

KELER CCP Ltd, the Hungarian capital and energy market central counterparty, operated with high reliability in 2019; however, the number of capital market transactions cleared fell by almost 5 percent compared to 2018. In 2019, KELER CCP cleared transactions in the total amount of HUF 7,700 billion, and its availability level was below the expected value only in one month. The risk of late delivery decreased compared to 2018, and for the management of its general clearing membership risks the company introduced new procedures. It should be noted that KELER CCP has become a dominant actor in the energy market of the Central and Eastern European region in recent years, and thus energy market transactions also represented a substantial share in its portfolio in 2019. It is also due to this fact that in 2019 the company started to develop its settlement bank relations, as a result of which it plans to cooperate with further three institutions.

Special topics

On 2 March 2020, the Hungarian instant payment service was launched successfully, which is the start of a new era in domestic payments. Thanks to the cooperation of the MNB, the Hungarian ACH (GIRO) and the Hungarian banking sector, as well as the major, coordinated work performed in the past years, the instant payment service was launched smoothly. It is an outstanding result also by international standards that in Hungary, owing to the regulation by the MNB, all banks and other payment service providers introduced the service simultaneously, which is mandatory for electronically initiated credit transfers below HUF 10 million. As a result of this, credit transfers executed in a matter of seconds 24 hours a day on 365 days of the year has become the new norm for all customers with a domestic payment account, and already in the first three months HUF 3,800 billion was settled in the new regime. However, there is still plenty of room for the development of instant payments, and thus the MNB actively supports the introduction of interoperable innovative payment services, the use of secondary payment account identifiers and the development of market solutions based on the request-to-pay service. In addition, the MNB expects the banking sector to pay special attention to the prevention of fraud attempts also in respect of instant payments.

PSD2 contributes to the more efficient protection of customers and to the market entry of new payment service providers, and the banking sector must prepare for the application thereof. PSD2 prescribes the introduction of strong customer authentication, i.e. two-factor authentication, in order to enhance the security of electronic payments. This was already in place in the domestic credit transfers, but in the area of e-commerce payments carried out by cards the sector needs to

take further measures by the end of 2020. In addition, the provision of third party service providers with application programming interfaces (APIs) must be also improved, since the MNB experiences shortcomings in this area. The presence of new third party service providers in Hungary is negligible, but a competition has commenced among the Hungarian banks in this area.

From an international perspective it can be observed that the penetration of fintech service providers in the payments sector is unstoppable, and an increasing number of central banks examine the possibilities related to central bank digital currency. The new fintech service providers mostly appear in the area of payments, and thus it is a must for the traditional banking actors to focus on the enhancement of their competitiveness. The fact that the instant payment service is being launched in an increasing number of countries provides assistance in this. It can be observed in Hungary as well that an increasing number of innovative actors appear primarily in the area of cross-border payment services, mobile payment solutions and the issuance of electronic payment instruments, which generates fierce competition for the banking sector. In addition, due to – among other things – the payment aspects, and thus also in view of the pressure from the various fintech and bigtech actors, an increasing number of central banks assess the various forms of central bank digital currency and the possibilities of the potential introduction thereof.

The Hungarian financial market infrastructures are well-prepared for the management of the impact of the coronavirus on the payment and securities turnover, and for the growth in the diversion to electronic payment methods. On 20 March 2020, the MNB called upon the sector to raise the limit in terms of the mandatory PIN code entry in case of contactless payment card purchases from HUF 5,000 to HUF 15,000, which later on was also confirmed by a Government Decree, thereby reducing the risk of spreading the virus. In addition, the operators of the systems owned and overseen by the MNB took important measures to maintain their key role in the economy while preserving the health of their employees.