

PAYMENT SYSTEMS REPORT

2024



KEY MESSAGES



2,3 billion

is the total number of electronic transactions



38%

of all transactions in the economy is electronic



49%

of customers transacting electronically actively



205 million

additional card payments in 2023

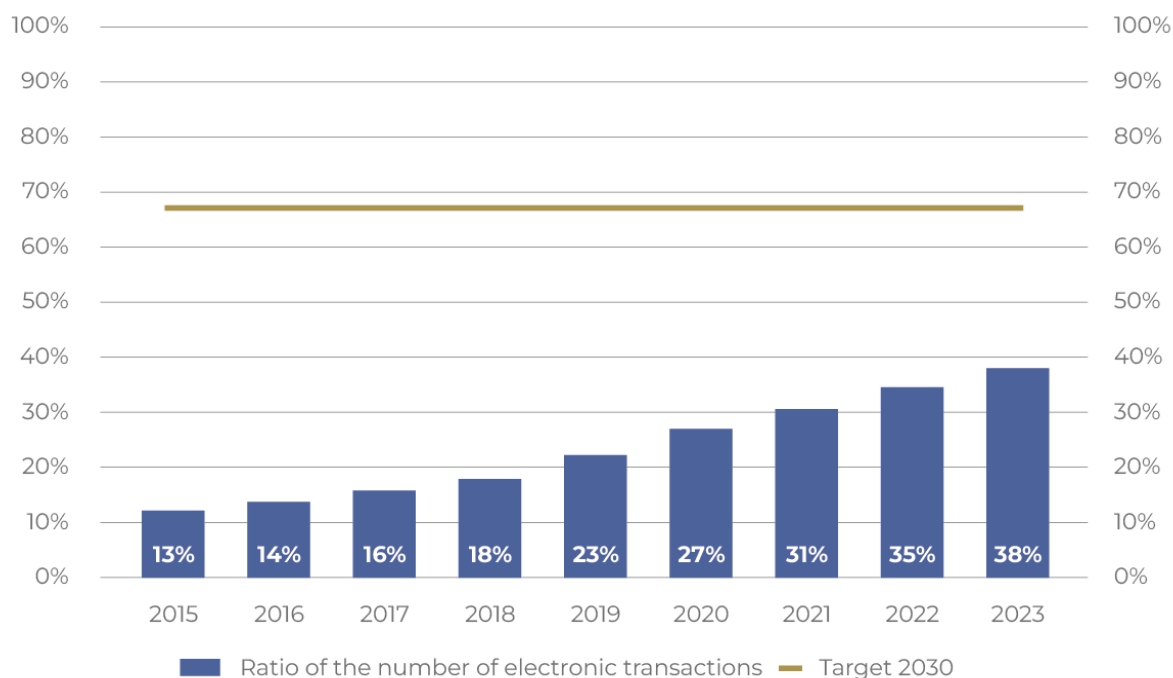
Payment service developments

In 2023, the efficiency of payments in Hungary continued to increase, with electronic payments developing significantly, so that the ratio of the number of electronic transactions in the whole economy rose by 3 percentage points to 38 percent.

In all sectors of the economy, the share of electronic transactions rose sharply, with the share of electronic transactions on online cash registers up 5 percentage points to over 39 per cent and the share of electronic bill payments up more than 3 percentage points to 76 per cent. In addition, the volume of credit transfers

increased and the use of electronic payment solutions in online commerce also expanded. The main goal set by the MNB in its electronic payments strategy published in 2023 is that by 2030 at least two thirds of transactions in the whole economy should be electronic. The MNB will monitor the achievement of the main target and the additional targets set for the sub-areas to be developed through the Payments Development Indicator Set (PDIS) and will publish its developments and current values in the Payment System Report every year from 2024.

Chart 1: The ratio of the number of electronic transactions in the whole economy

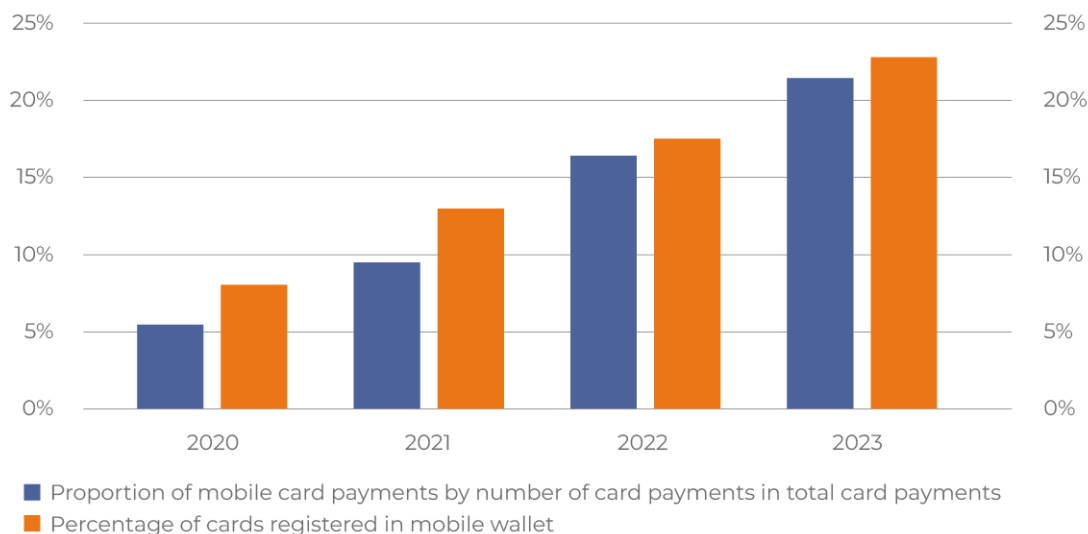


In 2023, the growth in the number of payment accounts and cards continued, and the proportion of customers actively transacting also increased, making electronic payments a common practice for an ever wider range of customers.

The number of accounts increased by 2.2 per cent in the span of a year, almost reaching 11 million. Within this, the number of foreign currency accounts increased significantly, by 5.6%. Although the number of cards only increased slightly, the number of cards actually used for purchases (at least one purchase in the quarter) exceeded 7.1 million by the end of 2023, reaching 71.2 per cent of the total card stock. The popularity of mobile wallets continued to grow, with the number of cards registered in

mobile wallets rising by 32 per cent to more than 2.3 million, a fifth of all cards. In 2023, 89 per cent of retail customers initiated at least one electronic transaction from their account, and the share of customers actively transacting electronically increased to 49 per cent. Over the past year, the number of POS terminals operated by domestic service providers increased by 11.4 per cent to 255,000, making electronic payment more widely available at 152,000 points of sale. The number of online places of acceptance increased even more, by 20.7 per cent, to more than 50,000. In a third of stores, buyers are now paying more often electronically than in cash, thanks to a 7 percentage point annual increase in the share of stores with an electronic transaction surplus.

Chart 2: The spread of mobile wallet card payment services

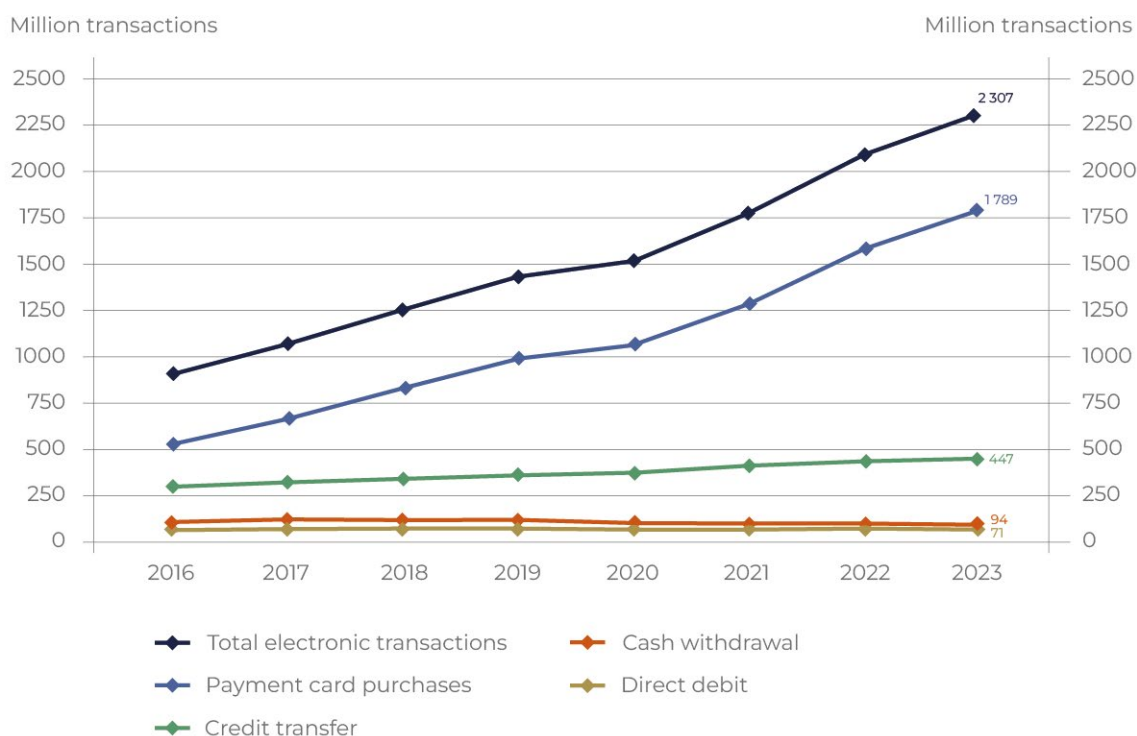


The rapid growth in the use of electronic payment services continued in 2023.

During the year, the number of credit transfers increased by 2.3 per cent and their value increased by 20.8 per cent, above inflation. Within this, the number of instant credit transfers increased by 7.9 per cent to more than HUF 200 million, while their total value increased by 13.2 per cent to HUF 50.9 thousand billion, partly due to the increase in the instant credit transfer threshold in September. The growth in payment card traffic was even higher. In 2023,

more than 200 million more payment card purchases were made with domestic debit cards than in 2022, an increase of 12.9 per cent to almost 1.8 billion, while the total value of these purchases rose by 20.4 per cent. Mobile wallet purchases continue to grow at a rapid pace, their number increasing by 47.8 per cent in 2023, with customers using mobile wallets for 21.6 per cent of all card purchases. Meanwhile, cash withdrawals fell by 2.3 per cent in number and 5.1 per cent in value.

Chart 3: Evolution of the number of main payment transactions related to the payment account



In recent years, foreign-based service providers have also become major players in domestic payments, with a combined size equivalent to that of a medium-sized domestic bank in terms of the number of customers, but with customers using their services in significantly different ways.

By the end of 2023, the number of physical bank cards issued by foreign operators to domestic customers reached 700,000, which represents 7 per cent of the cards issued by domestic operators. In this context, it is important to note that the presence of foreign providers does not significantly improve the coverage of electronic payment infrastructure, i.e. the number of retail customers with an account or card, because their business and operating model means that their customers typically use these services in addition to the services already provided by domestic banks. The volume of purchases made with cards issued by foreign operators exceeded HUF 1,000 billion in 2023, which is 6 per cent of the purchase turnover of cards issued by domestic operators. Customers use their cards in a significantly different way at foreign providers than at domestic banks, with a

nearly four times higher share of foreign transactions and one and a half times higher share of online purchases than at domestic banks.

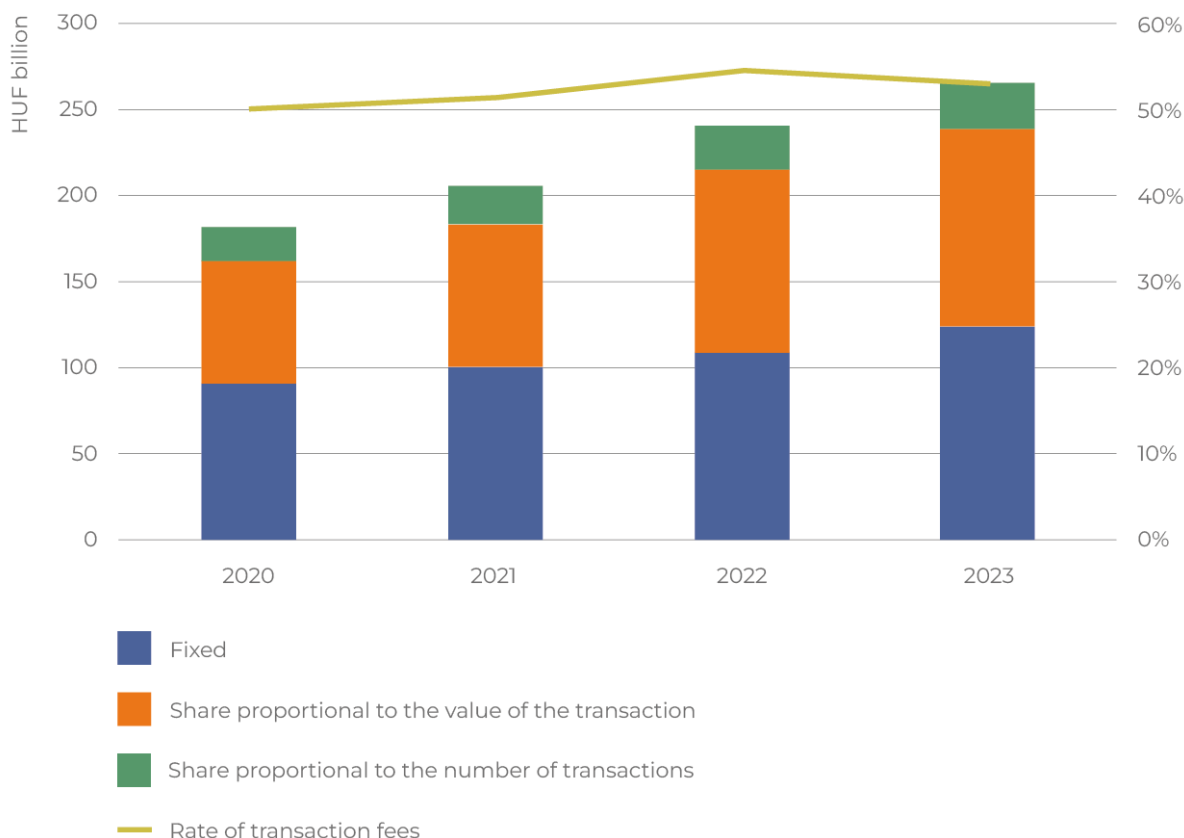
Bank payment revenues increased strongly in 2023, and the high share of transaction fees in household costs may continue to discourage more frequent use of electronic payments.

Banks' revenues from payment services in 2023 was HUF 843 billion, which is 12.5 per cent increase in one year. 31 per cent of the revenue came from household customers, of which 53 per cent was transaction fees. The high rate of these may discourage the more frequent use of electronic payments, and the increase in electronic payment turnover and higher transaction values due to inflation will impose significant additional costs on customers even without bank fee increases. In 2024, banks continued to increase their household charges, resulting in 5-18 per cent higher costs for account packages with the largest number of customers. New solutions based on Instant Payments (request to pay, QR code, NFC, deeplink), which will be available to all

customers in 2024 with qvik brand name, will be mandatorily free of charge and can make a significant contribution to reducing costs for

the households, and therefore the MNB will actively promote their widespread adoption.

Chart 4: Breakdown of payments revenues from households by main categories in 2023 (HUF billion)



In 2023, the number and value of fraudulent payment transactions increased significantly compared to the previous year, banks have indispensable role in fraud prevention by improving their systems and providing their customers with easy-to-understand information.

Despite of the increase in the number and value of fraudulent payments, it is also positive that the number of fraudulent credit transfers already decreased significantly in the last quarter. The most common fraud types are phishing by deceiving customers and persuading them to initiate transactions. Based on the fraud data it is clear that using real-time fraud

detection systems, enabling to set transaction limits for payment accounts and applying strict customer identification could prevent a significant part of fraudulent transactions. As a result of repeated calls and active communication of the MNB, banks made notable efforts for fraud prevention in the second half of 2023 and the activity of the Hungarian Police also played a role in reducing the number of cases. In case of instant credit transfers, at those banks which were using real-time fraud detection systems, only 7 percent of the fraud attempts were successful, compared to the 82 percent successful fraud-rate of those institutions which were not using such systems.

Chart 5: Share of successful fraudulent payments over total payments by card payments and credit transfers

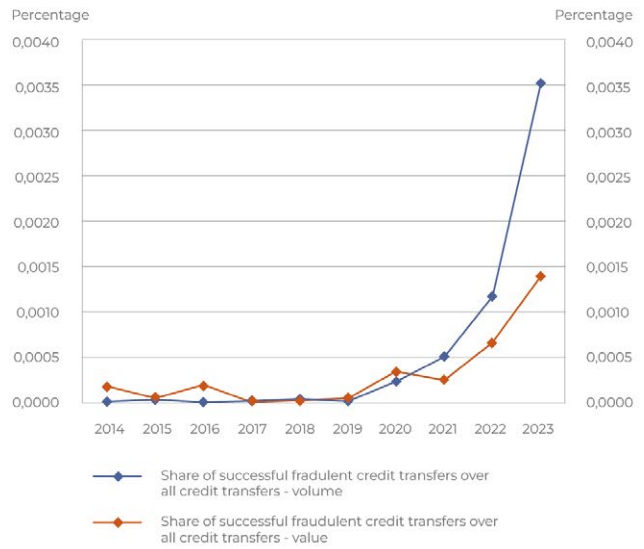
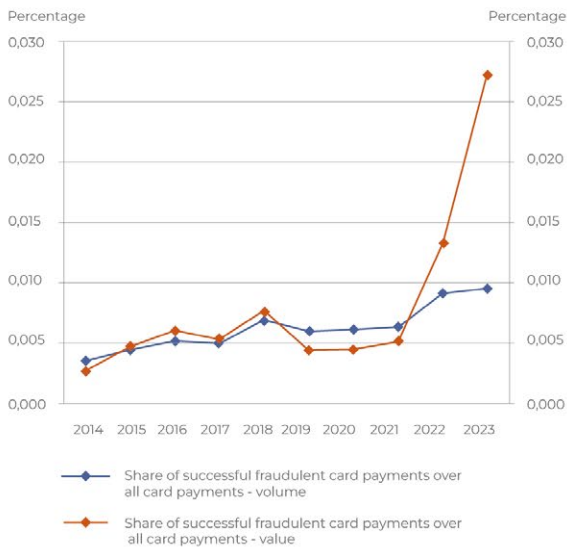
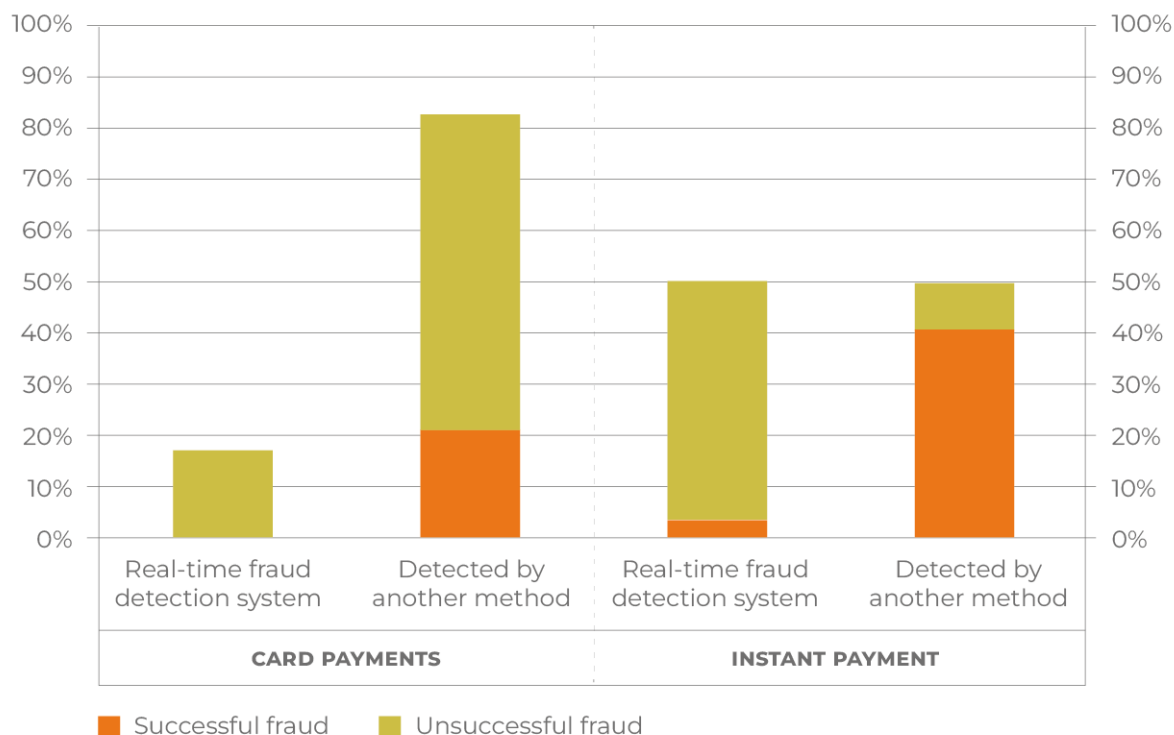


Chart 6: Share of fraudulent payments by fraud detection type and payment method (2023 H2)



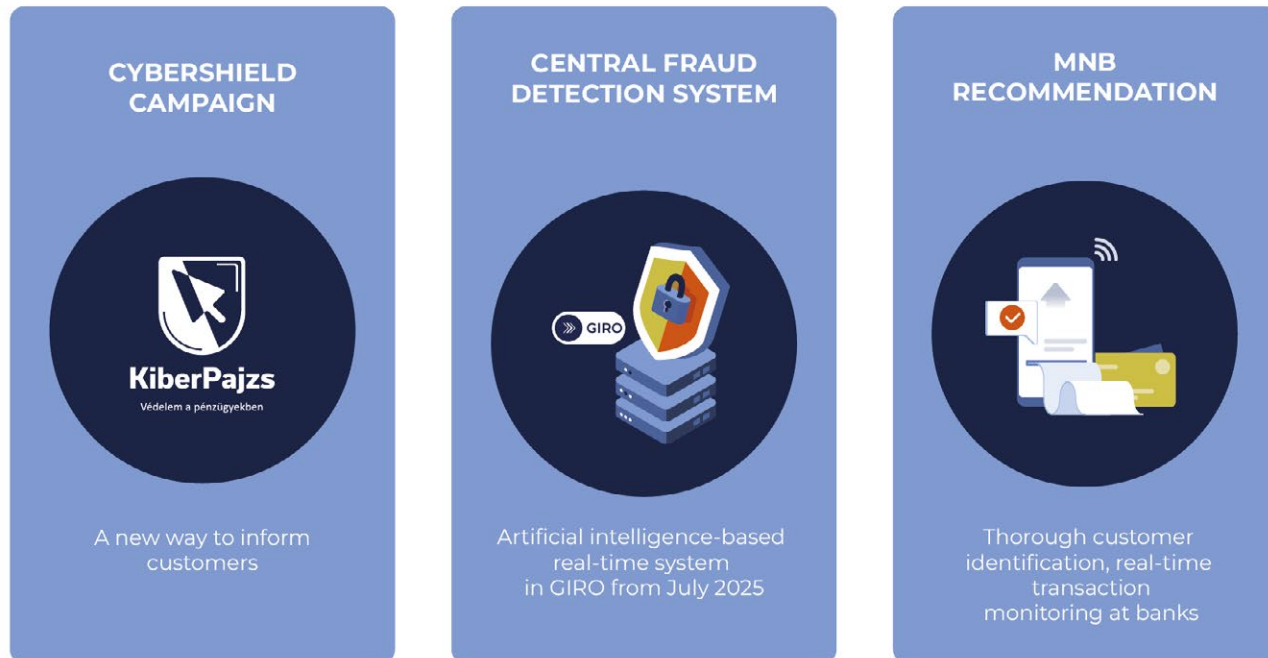
The MNB will continue to actively work to prevent fraud and maintain the security of electronic payments in the long term.

In the middle of last year, the MNB issued a guideline setting out its expectations for the prevention, detection, avoidance and management of fraud through payment services and will monitor compliance with these expectations. On this basis, banks will be required in the future, among other things, to use real-time fraud monitoring systems, to provide information to customers on a continuous basis and to apply transaction limits. In 2023, the CyberShield cooperation continued and was extended for the next three years with new participants. The aim of the programme is to inform a wide range of customers in an easy-to-understand,

clear way about the risks of fraud and how to prevent it. This included several television, radio, online and social media campaigns in 2023. Given the broad cooperation of the participating organisations, the project also puts a strong emphasis on creating the legal environment necessary to curb fraud in a sustainable way. In addition, the establishment of the Central Fraud Monitoring System was launched as a national inter-bank project. Following the development of a detailed concept and specification, GIRO conducted the procurement process and, following the selection of the supplier, development was started to result a live system from mid-2025, supporting the banks' own fraud screening systems.

Chart 7: Measures taken by the MNB to tackle fraud

MEASURES TO PREVENT FRAUD

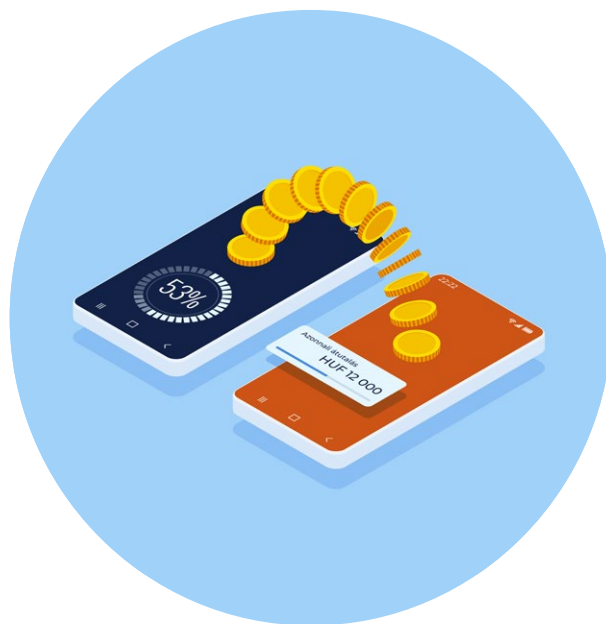
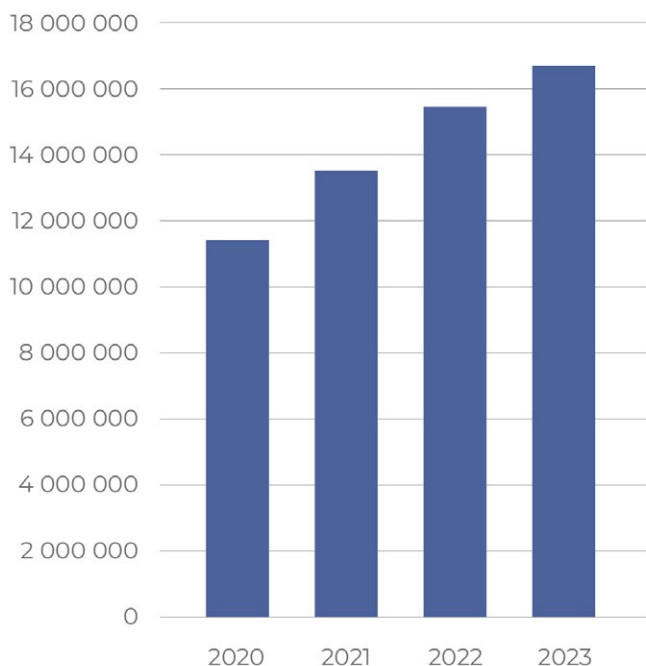


In 2024, new services based on Instant Payments will be available to all retail customers under **qvik** name.

The use of instant payments has been growing steadily since its introduction in 2020, but its use was moderate in case of retail purchases, bill payments and private-to-private payments, i.e. outside of traditional credit transfer situations. The MNB has taken further measures to address the barriers to wider uptake. From September 2023, the instant payment threshold was raised to HUF 20 million, from April this year all retail customers will be able to accept pay-

ment requests, and from September it will be possible to initiate transfers using a single data entry solution (e.g. QR code, NFC, deeplink). In addition, the MNB has published the Instant Payments Brandbook in 2023, so that all customers will be presented with standard, easily recognisable customer information elements in all payment situations. Building on these, the MNB will begin intensive information provision to the retail and service sectors in order to introduce the new services and to inform customers through them.

Chart 8: Average monthly number of instant credit transfers



In order to ensure that qvik services can be widely used as soon as possible, the MNB expects banks to introduce acquiring services at low cost for merchants and issuers.

With qvik services, it is possible to create low-cost services that make it easy for merchants and issuers to accept instant payments. The low cost of acquiring electronic payments could be particularly beneficial for the smallest-size merchants, where the cost of processing card pay-

ments remains significant. Importantly, in addition to reducing costs on the merchant side, qvik services will be free of charge for customers and free of transaction taxes for banks. Accordingly, all actors may have an interest in their use. In order to ensure the rapid uptake of cheap, fast and secure instant payments, the MNB actively supports merchants and issuers in the introduction of these services and related customer information activities.

Chart 9: Logo of qvik services



Following the example of the Hungarian regulation, the introduction of an instant payment service will become mandatory at EU level, enabling any customer of any European bank, including Hungarian bank customers, to receive and initiate instant transfers in euro.

Preparing for this will also require improvements at domestic banks, but banks outside the euro area have a longer preparation time of 3 years available. In addition, technological developments, the emergence of new market players and changing customer needs will lead to significant changes in the European payments regulatory framework in a few years' time, and regulatory arrangements will result in a largely uniform set of rules for payment services in all EU Member States. The new rules will strengthen competition in the market by setting stricter rules than at present on the relationships between institutions that are necessary for open banking to work. Another objective is to increase the security of payments by making it compulsory to use fraud monitoring systems and to provide information to customers in order to effectively prevent fraud. As before, banks will continue to be held liable for unauthorised payment transactions, and a new bank liability rule is expected to be added to the regulation for cases where a payment transaction was made because the customer was misled in the name of the bank. This should mean that in future, customers will have to bear a smaller share of the losses in the event of fraud than at present.

Based on the payment audits, it can be concluded that, in general, the payment service providers audited were functioning well, but there is still a need to accelerate the speed of crediting incoming payment transactions, improve the accuracy of framework contracts to ensure that they are legally compliant and remove barriers to the take-up of open banking.

In 2023, the MNB identified a total of 102 infringements in 9 investigations. The most common infringement in 2023 was also related to the immediate crediting of payment transactions, which worsened customers' liquidity and could even harm customers if due to that they did not have sufficient funds to cover their own payment orders. In addition, most of the investigations found that the information provided prior to the conclusion of the framework contract and the form and content of the framework contract were in breach of the requirements, and that these breaches could be likely to influence customers' decisions adversely or mislead them. There were also a significant number of problems related to the IT connections (APIs) required for open banking to work. Some of these are infringements that banks can use to prevent new non-bank (e.g. fintech) players from entering the market and thus market competition. To address the latter issue, the MNB continued discussions between banks and third-party service providers.

Financial market infrastructures

Domestic financial infrastructures remained reliable and secure also in 2023.

The risk of service continuity of VIBER decreased compared to the previous year, with system availability meeting the 99.7 per cent availability rate set as the oversight expectation every month. The overall incident rate for total service outages decreased significantly – by 75 per cent – compared to the previous year. In 2023, the availability of instant, intraday and overnight clearing of the Interbank Clearing System met the 99.9 per cent and 99.8 per cent levels committed in the general terms and conditions for most months of the year. The KELER Group's systems ensured normal and safe operations, meeting the expected 99.7 per cent availability level in 11 months, with the KELER CCP not falling below 99.7 per cent once within that.

The turnover and liquidity of domestic infrastructures were strongly affected by changes in the monetary policy instruments in several cases.

The number of interbank transactions in VIBER increased by almost 8 per cent in 2023 compared to the previous year. Although the aggregate turnover of the Interbank Clearing System, which processes retail and corporate transactions, did not change significantly, there was a regrouping within the three ICS platforms. As a result, the number of transactions on the instant platform increased by 6 per cent. The value of VIBER turnover increased by 35 per cent in the full year 2023, but was 30 per cent lower in the last quarter than in the last quarter of 2022 due to the phasing out of the deposit quick tender. The value of KELER's turnover increased significantly by 64 per cent, while the number of transactions increased slightly. The reason for this large increase in turnover is the issuance of bonds by the MNB, which increased significantly in 2023. Overall, the turnover of the markets cleared by KELER CCP decreased by 46 per cent compared to 2022, due to a 13 per cent decrease in turnover in the spot capital markets and a 52 per cent decrease in turnover in the futures capital markets.

Table 1: Trends in turnover in domestic financial infrastructures (2021-2023)

OVERSEEN SYSTEMS		VOLUME (thousand pieces)			VALUE (HUF thousand billion)		
		2021	2022	2023	2021	2022	2023
VIBER		1 845	2 083	2 244	2 338	2 640	3 555
BKR	overnight clearing	97 353	73 777	70 830	10	5	6
	intraday clearing	138 021	156 590	151 001	130	178	190
	instant clearing	135 583	153 352	162 406	22	28	30
KELER		545	610	622	203	250	409
KELER CCP*		2 002	2 518	1 693	7	9	6

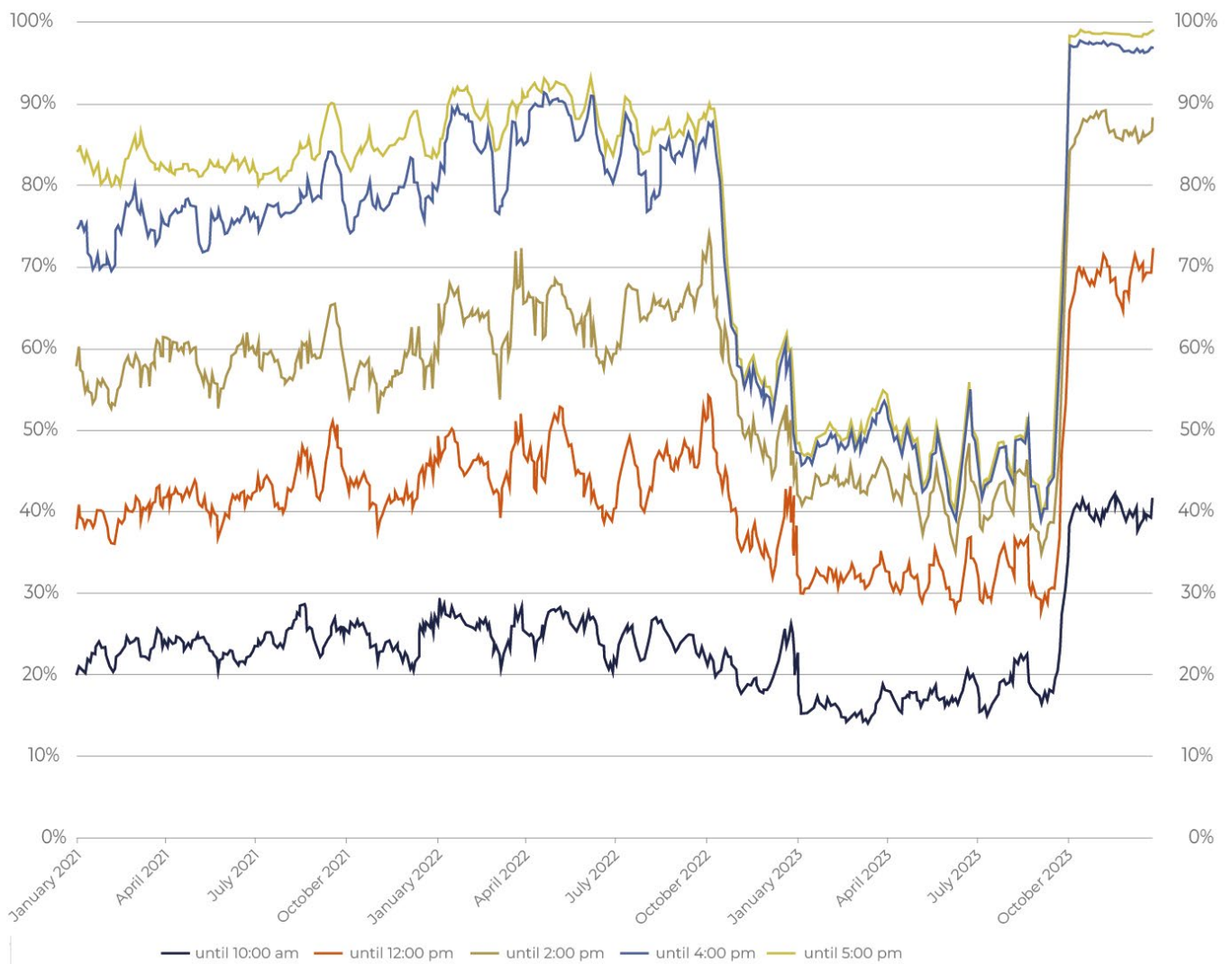
* The data refer to the capital market.

The liquidity of VIBER participants was sufficient to handle the increased and more volatile payment turnover, and payment system participants managed their liquidity efficiently to meet their significantly increased turnover in 2023.

Liquidity increased significantly in the first three quarters of the year, before falling back to the level at the beginning of the year in the last quarter, mainly due to the increased account balance following the change in the reserve requirement ratio and the change in the monetary policy instruments, as the MNB withdrew the deposit quick tender facility from its deposit instruments. With the phasing out of the quick tender deposit, the timing of VIB-

ER turnover was brought back to the timing before the introduction of the instrument in 2022, with more than 98 per cent of the total daily turnover value being settled by 5.00 p.m. in the last quarter of 2023, instead of around 50 per cent previously. The significant variation in the timing of VIBER turnover is due to the value of the quick tender deposits, which accounted for 40-45 per cent of daily VIBER turnover, and was typically contracted in the hours before the VIBER closed. For the instant clearing of the ICS, participants continued to plan with sufficient certainty for the liquidity needed to conduct the turnover in 2023, with no significant changes in their liquidity management practices.

Chart 10: Timing of VIBER turnover by value of transactions (percentage of value of turnover completed within a day by a given point in time) (2021-2023)



Shortening the settlement cycle for transactions executed on the trading venue from the second business day after the trading day to the first (T+1) will be a priority for the European Union in the coming years.

The US, Mexico and Canada introduced the T+1 settlement cycle in May 2024. The European Union will monitor the US experience for the time being and ESMA will report on the shortening of the settlement cycle by the end of 2024. These, as well as the ongoing discussions with stakeholders, will lay the foundation for the details of the possible harmonisation of the European Union. Although the arguments in favour of a switchover are stronger, the possibility of maintaining the current T+2 settlement cycle in the medium to longer term should be maintained – especially as a possible switchover would not be possible before 2027-2028 at the earliest, based on industry views.

The changes in the central bank's instruments in recent years have affected the liquidity of the payments system in different ways.

The changes concerning the reserve requirement ratio have a direct impact on the liquidity of the payment system, as they are directly related to the bank account balance. Other significant changes to the central bank's instruments with a direct impact may include measures to increase interbank liquidity and to nudge one-week deposit holdings to overnight deposit facilities, as well as changes to the scope of eligible collateral, as pledged collateral is linked directly to the intraday credit line. Other changes to the instruments had little or no impact on payment system liquidity, such as the fixed-rate covered credit facility introduced on 24 March

2020, the one-week deposit facility with interest at the central bank base rate activated on 1 April 2020, and the preferential deposit facility, which is not itself included in the pool of eligible collateral, but whose overnight terms allow participants to use the funds held in it for payment purposes for a significant part of the settlement day. Based on the experience of the past years, it is important to stress that even at a significantly lower liquidity level than the one at the time of the analysis, payment transactions would be smoothly processed in domestic payment systems, i.e. the available liquidity is ample for the management of electronic payment processes in the domestic economy.

In order to increase the operational efficiency of payment infrastructures, the MNB initiated that instead of the three platforms of the interbank clearing system operated by GIRO, only the most modern, instant payment platform should be operated in the future, so that overnight and daytime transactions are settled there.

This can reduce the operational resource requirements for both the central infrastructure and the banks, and can also help new entrants to enter the market by connecting to one system instead of three. Consolidation of clearing platforms requires that transaction types currently still handled in legacy systems, such as pension payments, direct debits or corporate batch credit transfers, can be reliably processed on the instant payments infrastructure. To ensure successful implementation, the MNB is launching a project to coordinate the changeover with stakeholders.



To view the full report, click on the link:

<https://www.mnb.hu/en/publications/reports/payment-systems-report>