



Payments in CEE

22/03/2010, Paris

9th International EPCA Conference

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AGENDA

1st Part

- CEE Trends and tendencies

2nd Part

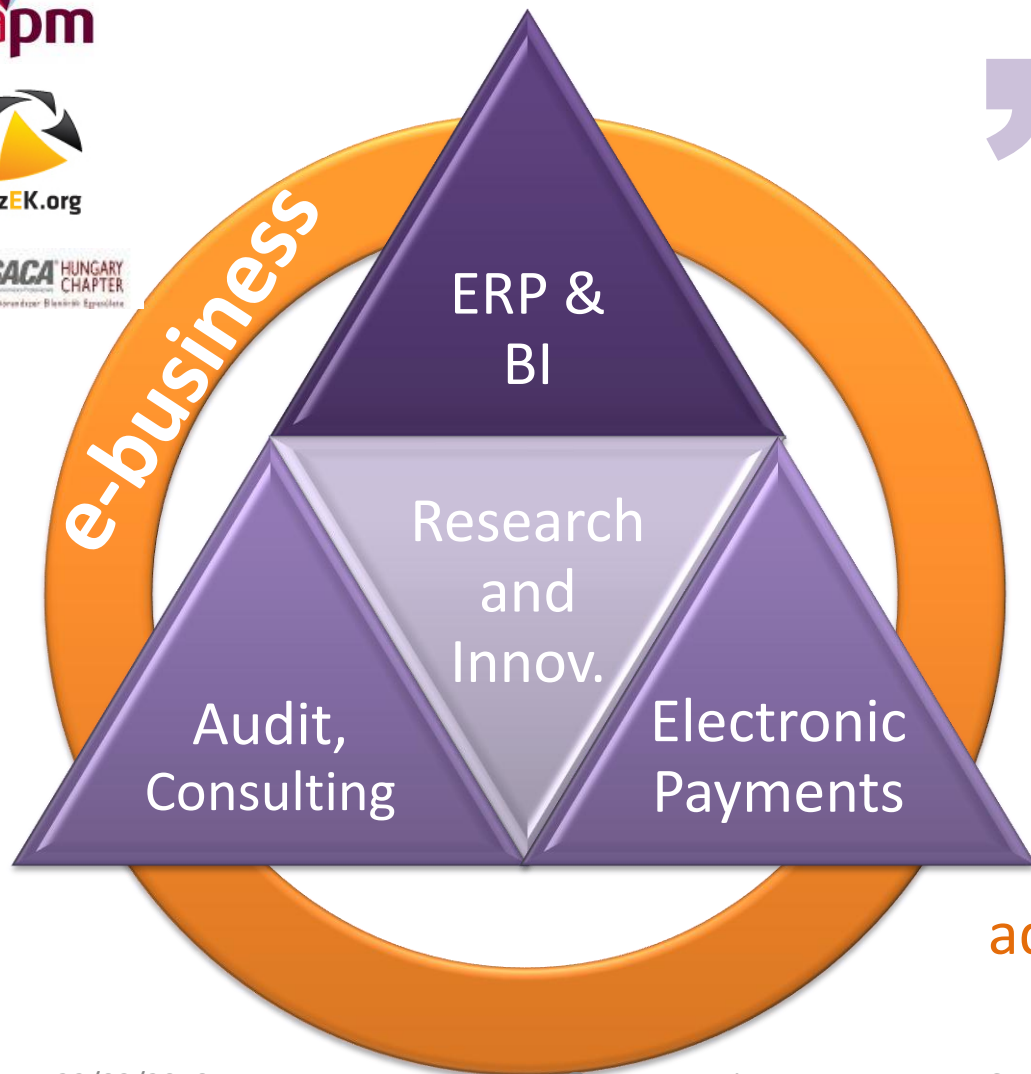
- A case study: Hungary (card + APM)

3rd Part

- Questions & Answers



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ELECTRONIC PAYMENT, EBPP SERVICES

- We offer
 - Transaction security services;
 - Development of risk / fraud models;
 - Payment channel design and management;
 - Compliance audits, PCI DSS pre-audit and preparatory services;
 - Project management;
 - Project quality assurance;
 - Training and coaching services;
 - Airline-specific payment projects.

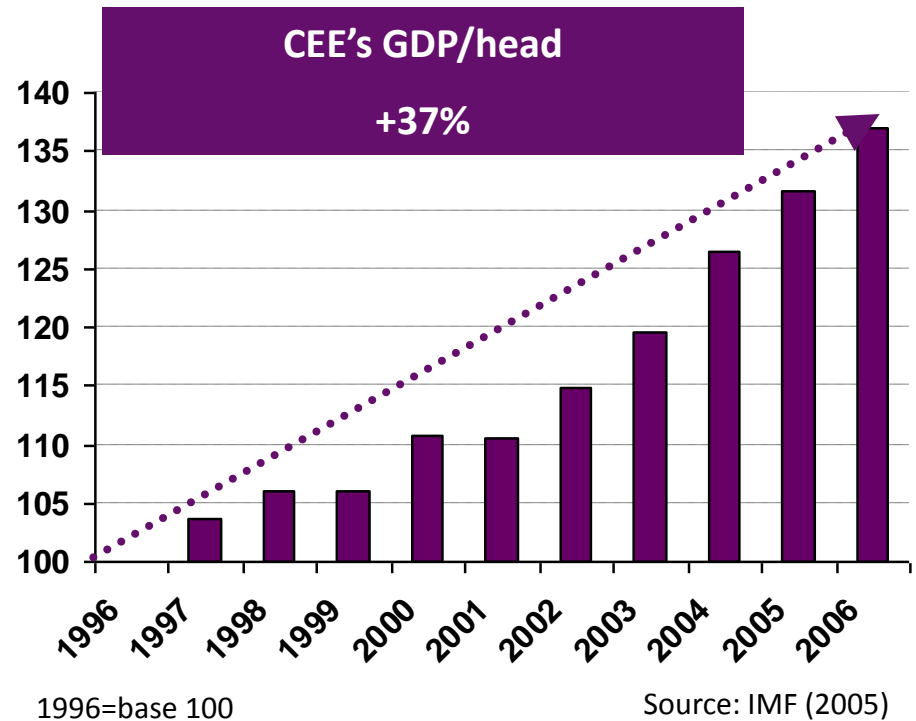
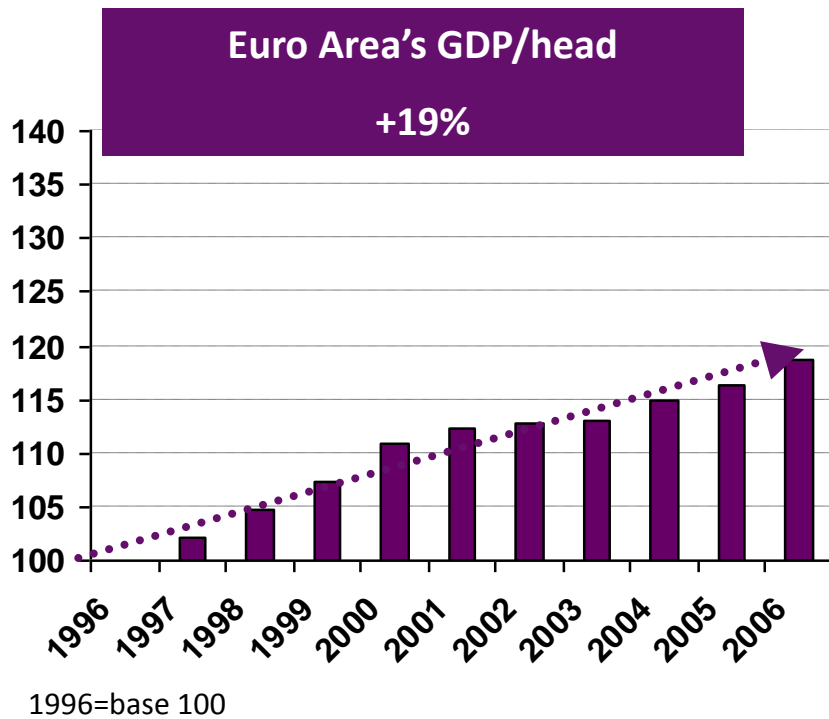
TENDENCIES, TRENDS IN CEE

- CEE = Central and Eastern Europe
- From Poland southward, from Slovenia eastward (EU + non-EU countries)
- A heterogeneous market of 100+ million people
- BIG cultural differences in the region
- Developing markets, hit by the crisis

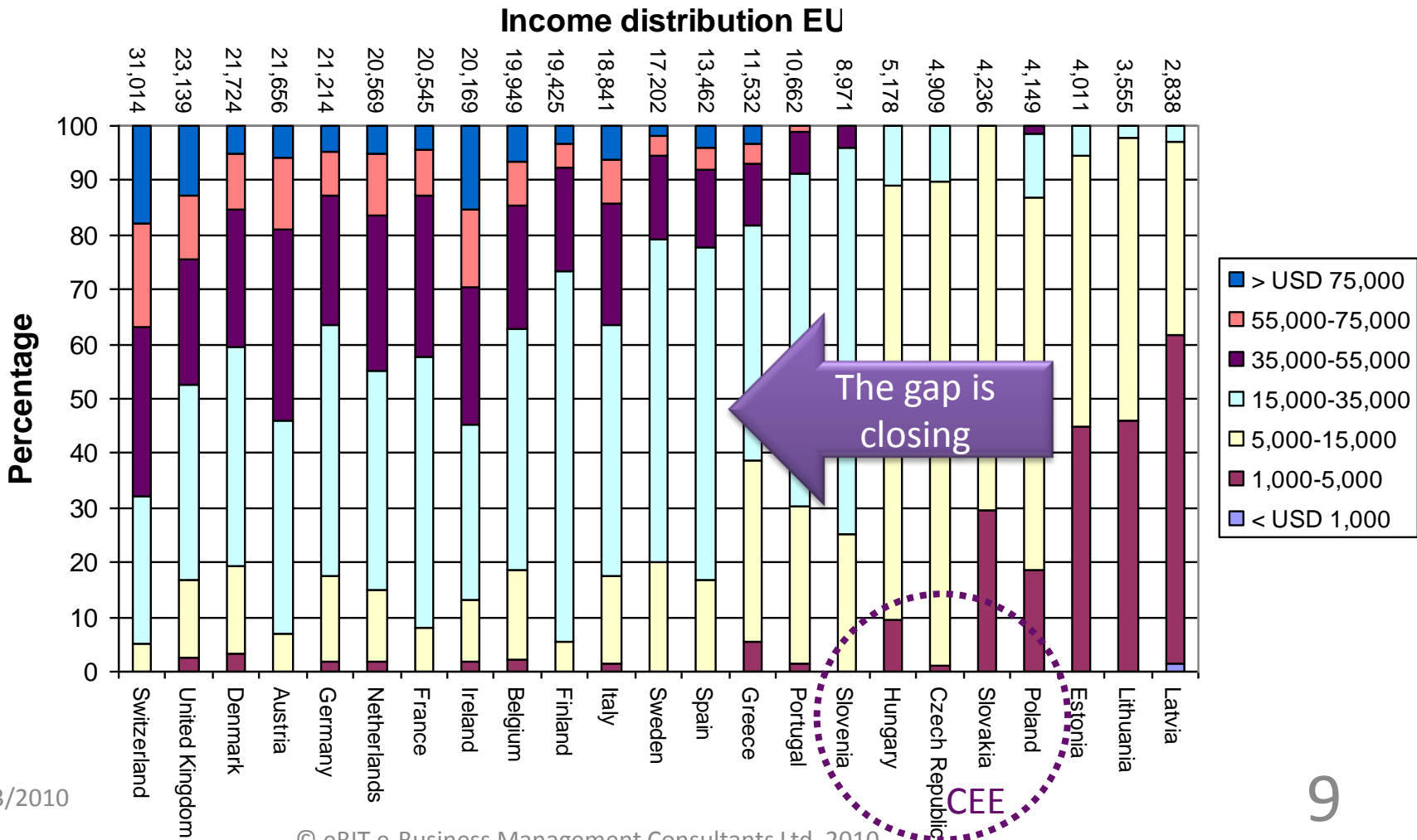
- Payments infrastructure is underdeveloped
- Interesting development pattern: new tech penetration is relatively high, but underlying mainframe often means an obstacle
- Diverse legislation makes regional presence a hassle (small markets, high admin. burden)
- „Classical” e-payments markets are mainly controlled by international bank groups

- Cutting-edge solutions are rather local SME-driven
- High innovation potential: lots of solutions
- APMs are facing issues with economies of scale
- (e-)Payments culture is underdeveloped compared to EU15, but developing steadily
- New perspective: SEPA, PSD
- Special payment risk pattern to be taken into account

Growth in real GDP per capita (1996-2006): CEE vs. Euro Area



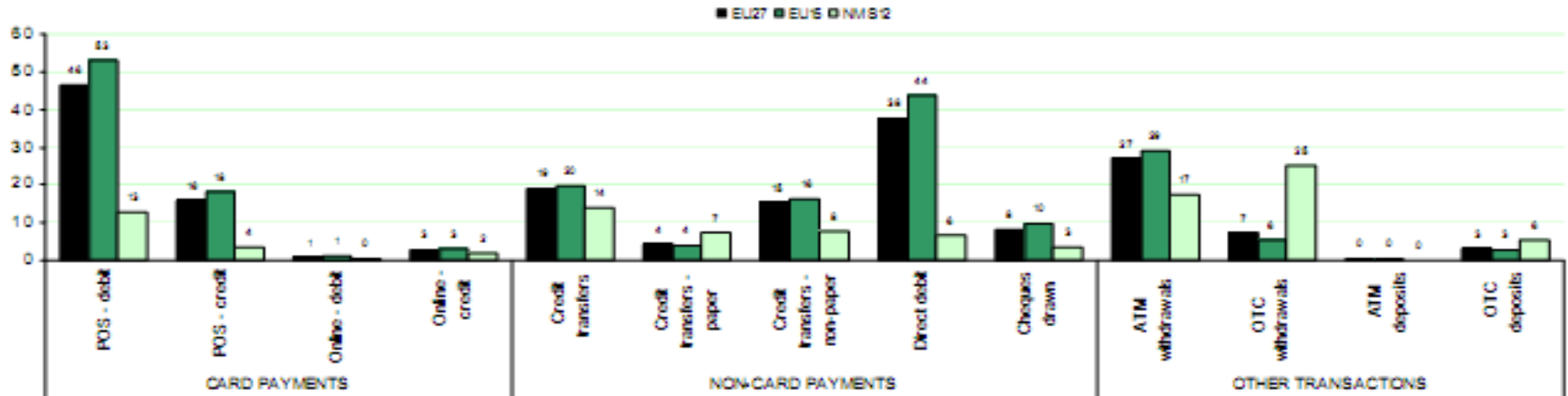
CEE average income is was 25% of western mature markets



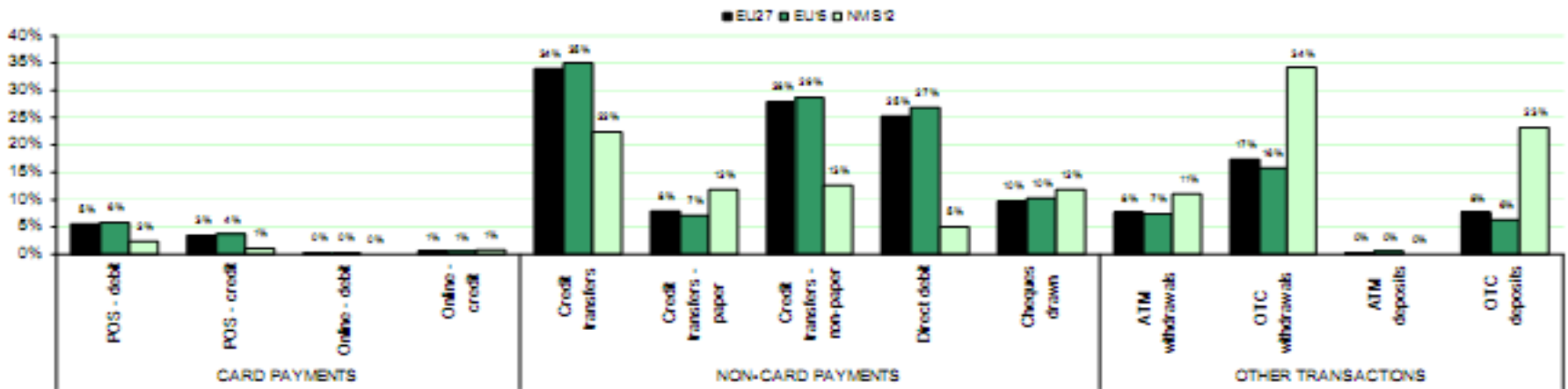
Note: Average disposable income (in USD) for 2004 at top of the graph. No data available for Luxembourg, Cyprus and Malta. Source: GMID

EU27/15/12 AVERAGES IN 2007

a) Number of transactions per banked adult



b) Value of transactions by banked adults (% of GDP)



A CASE STUDY: HUNGARY

- Population: 10 million
- „carded” population: 88%
- Mobile penetration: 108%

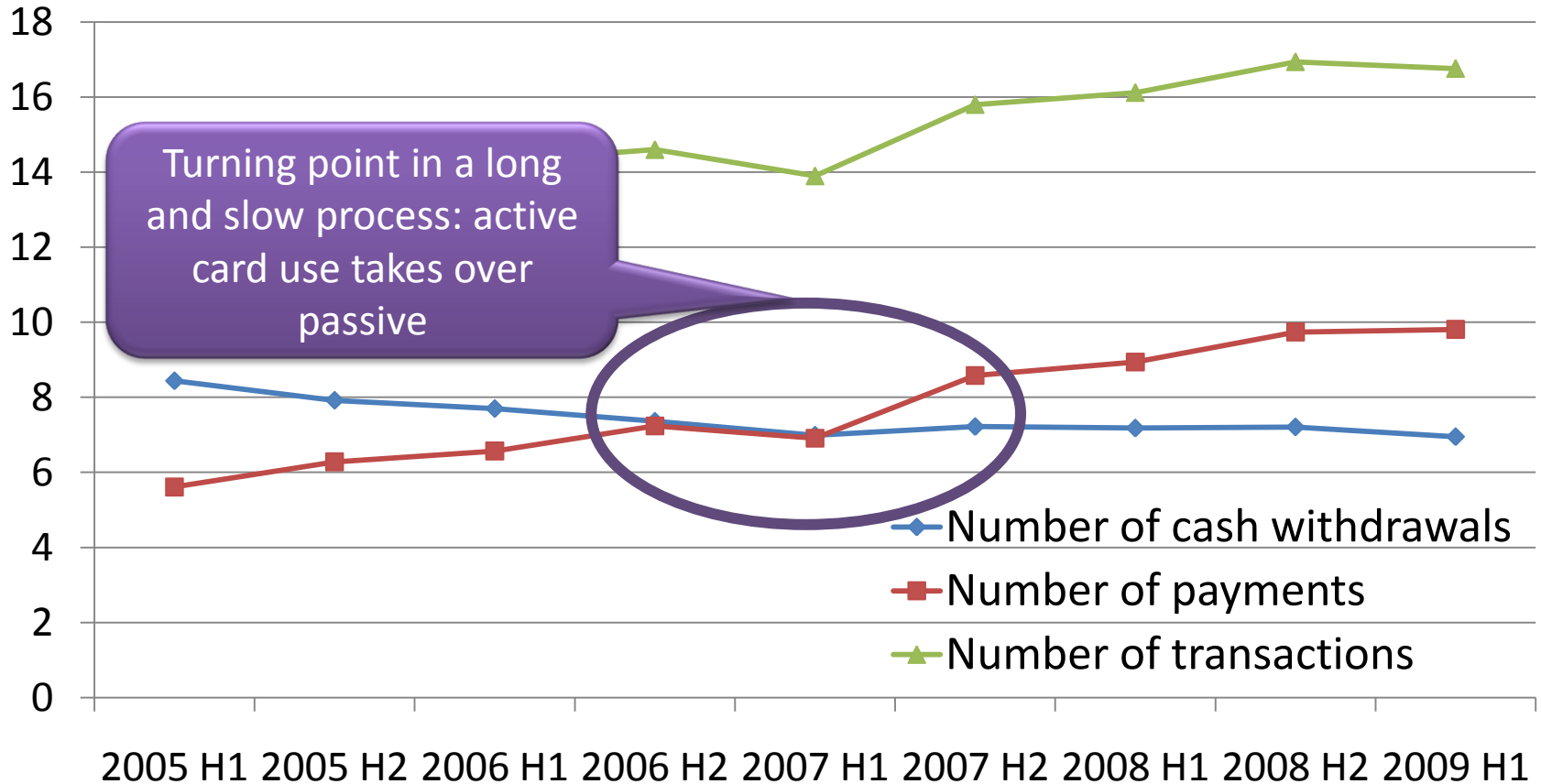


CULTURAL DIFFERENCES

- Special card use pattern: people tend to use card for money withdrawal, 2 times a month
- Customer behaviour is developing
- Push markets (customer demand is not the key driver)
- Trendsetter, market maker effect: e.g. travel
- High innovation potential

SLOWLY CHANGING CARDHOLDER BEHAVIOUR

No. OF CARD TRX (m) /CARDHOLDER/H

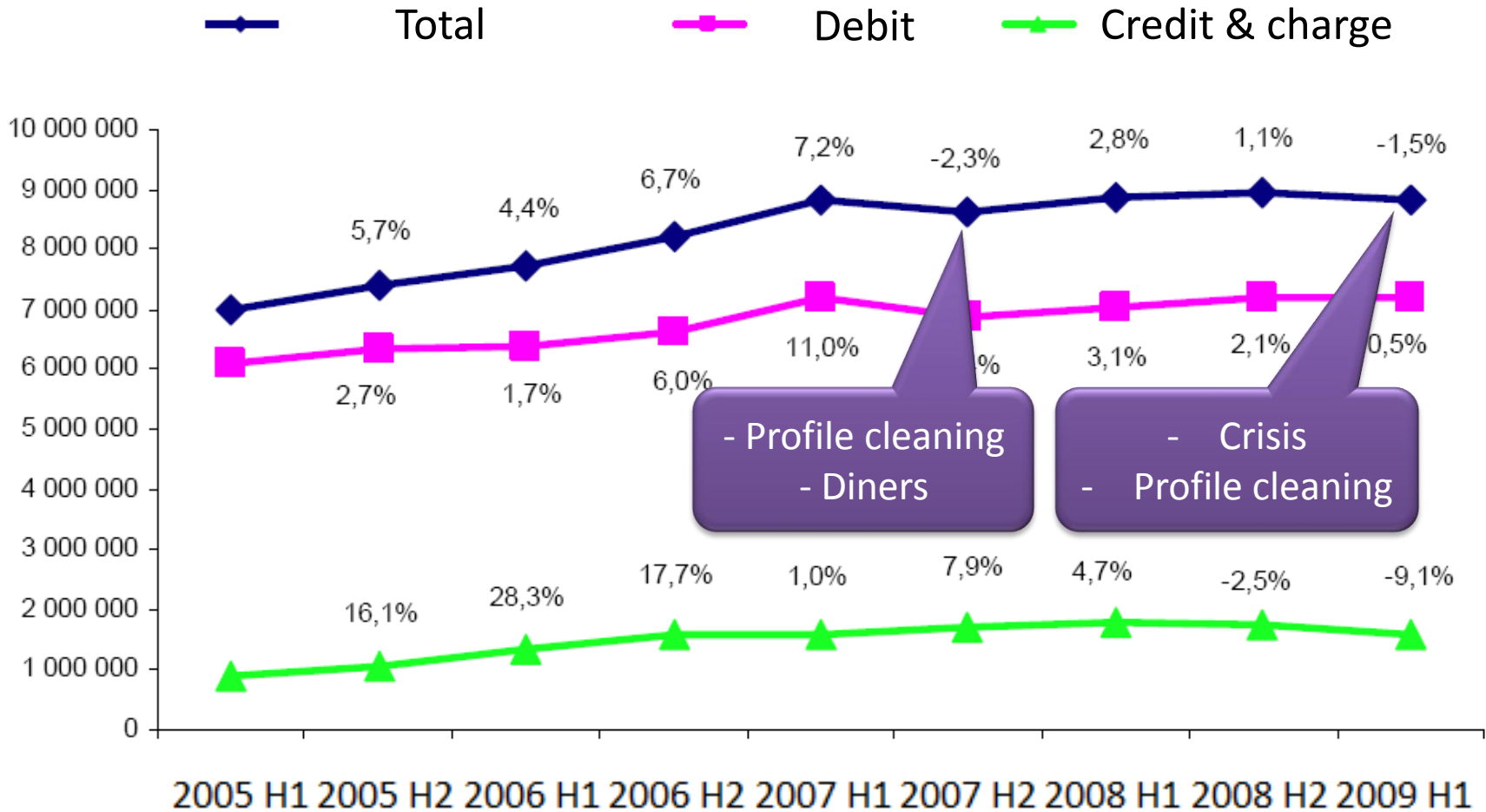


MARKET CLIMATE: CARD ACQUIRERS AND ISSUERS

- 176 Financial Institutions - 30 Banks - 26 issuers - 7* CnP acquirers
- ATM, acceptance, issuing, clearing: strongly concentrated
- Cross-border acquiring is gaining momentum (banks)
- Acceptance market is dominated by OTP and K&H
- OTP: 50+% market share on issuing and acquiring side
- Crisis: The total number of active cards decreased by 1.5%
- A lot of projects have been frozen (i.e. opposite tendencies in mobile payment among MNOs)

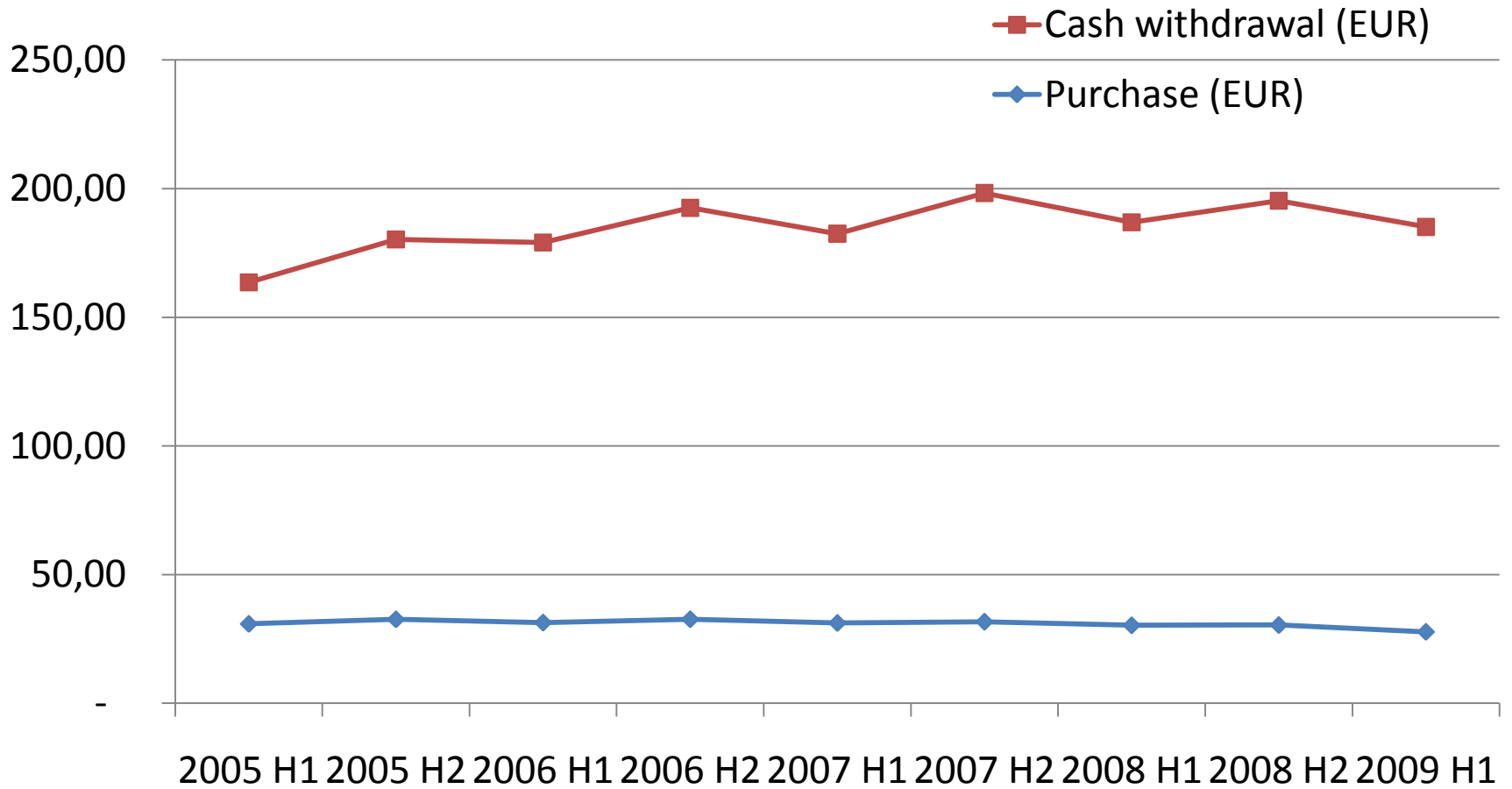
- Statistics contain major discrepancies
- Big internet merchants process their transactions outside of Hungary
- e.g. Inet + MOTO = EUR 101 m in 2009 H1
- One of our clients processed multiple of this in the same period

NUMBER OF CARDS (PIECES)



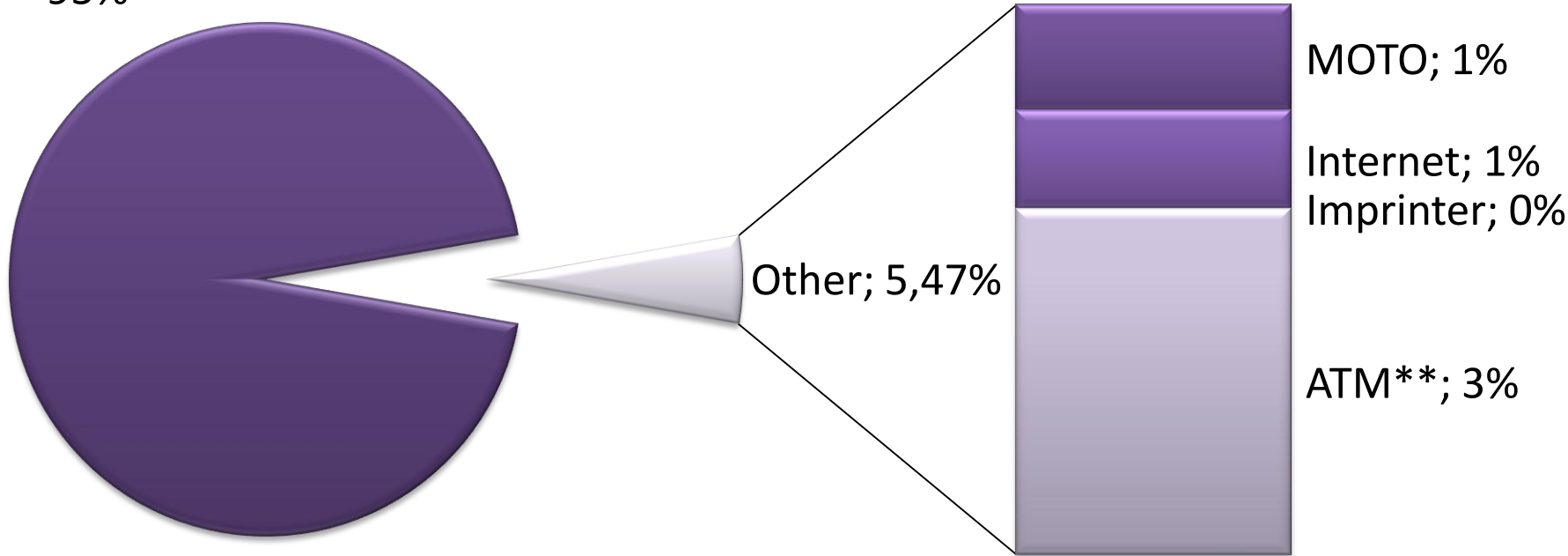
TRANSACTION VALUES

AVERAGE EUR VALUE / TRX / H



TRANSACTION VOLUME TOTALS BY TRX TYPE, 2009 H1, PIECES

Physical POS;
95%



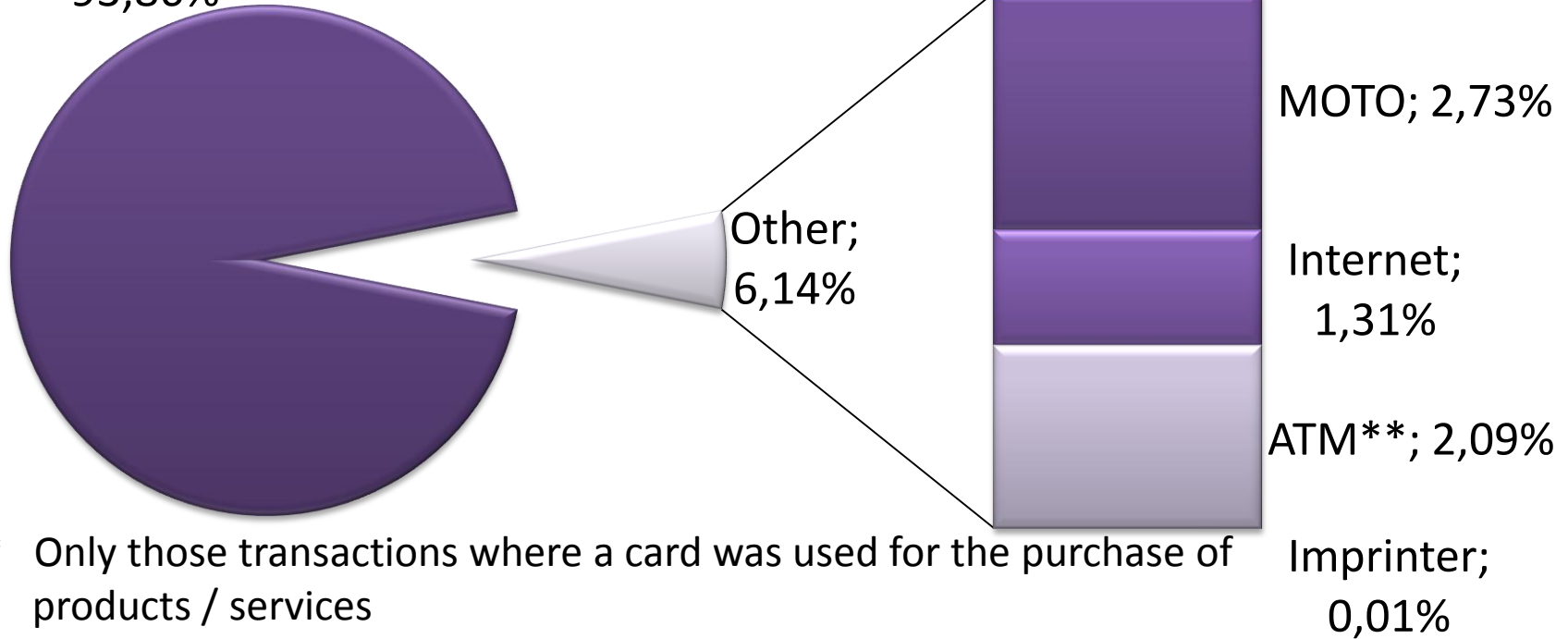
* Only those transactions where a card was used for the purchase of products / services

** Services purchased using an ATM

	Physical POS	MOTO	Internet	Imprinter	ATM	Grand total	
Hungarian cards	78 801 598	662 154	754 706	631	2 840 327	83 059 416	99,09%
Foreign cards	433 793	221 866	57 671	2 601	47 663	763 594	0,91%
total	79 235 391	884 020	812 377	3 232	2 887 990	83 823 010	100,00%
	94,53%	1,05%	0,97%	0,00%	3,45%	100,00%	

TRANSACTION VALUE TOTALS BY TRX TYPE, 2009 H1, MILLION EUR*

Physical POS;
93,86%



* Only those transactions where a card was used for the purchase of products / services

** Services purchased using an ATM

	Physical POS	MOTO	Internet	Imprinter	ATM	Grand total	
Hungarian cards	2 054	25	23	0	51	2 153	86,45%
Foreign cards	283	43	10	0	1	337	13,55%
total	2 337	68	33	0	52	2 490	100,00%
	93,86%	2,73%	1,31%	0,01%	2,09%	100,00%	

- Local banks do transaction processing
- Technology gap: lack of multi-currency processing, double conversion, etc.
- Gateways are moving slowly (they are missing from the market)
- First steps: international solution providers, nearshoring (call centres, dev. centres, shared service centres, etc.)
- EMV chip ratio: 34% (debit cards); 17% (credit)
 - Two issuers: OTP, K&H (KBC)
- EMV capable ATMs: 77% (up from 58)

MARKET CLIMATE: MERCHANTS

- Strong correlation between merchant size and card acceptance (GVH)
- Merchant mobility is 8% over a 2-3 year period
- Hungary: high MSCs and interchange fees (ruling) make merchants less competitive and make card payment less competitive to e.g. cash
- Price sensitivity
 - physical merchants: 61%
 - online merchants: 76%

MERCHANTS

	Physical merchants	MOTO merchants	Internet merchants
VISA	36 822	1 182	1 185
Mastercard	38 674	1 182	1 185
Diners	98	65	-
Amex	20 242	495	448
JCB	16 072	785	203
Bankpont (Local brand)	15 198	484	521

number of POS terminals: 55 199

MARKET CLIMATE: AUTHORITIES

- Fair Trade Authority inspection related to interchange fees
- Hungary: interchange plafond ruling went through the Parliament, later amended
- Thorough co-operative inspections in the following areas (after certain scandals):
 - Internet-based top-up service (PPO)
 - Buyer benefit schemes (Sciennet)

- Bank systems's technology gap supports alternative payment methods, quick desk to market times.
- Usability issues with APMs, lack of network effect.
 - too many solutions are competing relative to the size of the market,
 - cross-border service offering and co-operation is rare
- NFC – first pilots

DRIVERS TO APMs

- adult
- gambling (mainly cross-border)
- travel (regional players, reluctant to take alternative payment methods)
- toll payment
- parking – Hungary / Bulgaria
- mobile top-up



QUESTIONS & ANSWERS



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