

András Simor: Cost and efficiency of retail payments – evidence, policy actions and role of central banks

Pre-dinner statement by Mr András Simor, Governor of Magyar Nemzeti Bank (the central bank of Hungary), at the ECB-MNB Joint Conference on “Cost and efficiency of retail payments – evidence, policy actions and role of central banks”, Budapest, 15 November 2012.

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Distinguished guests, ladies and gentlemen,

It is a great pleasure for me to **welcome you** here in Budapest. We are honoured that the ECB accepted the Magyar Nemzeti Bank (MNB) as the co-organiser for a retail payments conference held in 2012. We attribute this privilege mostly to the fact that the MNB has completed and published first the national cost of payments study based on the harmonised pan-European methodology.

As I heard, this afternoon you listened to the opening remarks by Mr. Benoît Coeuré and after that you already had two sessions. You will also have a **very busy, tight schedule tomorrow, so as a kind of rest let me invite you to play a game**. How many of you brought your per diem in cash or cheques? Please raise your hand if you did! ... Not too many of you, I see. I am quite sure that 15 years ago I would have gotten quite a different result! This game tells us a great deal about innovation. **Innovation** is very important, because it leads to new, viable products, which can contribute to greater competition between payment service providers, changes in payment habits and thus the enhancement of overall efficiency. Nonetheless, I am somewhat more interested in the bigger picture, so let me speak briefly about **my own priorities in relation to retail payments**.

As mandated by the central bank act, the MNB promotes the smooth execution of payments and the reliable and efficient operation of Hungary's clearing and securities settlement systems. **I am personally convinced that we must go beyond this task and facilitate the continued improvement in the efficiency of domestic payments using all tools available to us**. Let me give you some Hungarian examples about what I am referring to.

One of our major recent achievements was the introduction of intraday clearing of retail payments with five daily cycles in July this year. The MNB participated in the project both as the catalyst and as the regulator to overcome network coordination failure. I am quite sure that you share my view that network coordination failure can emerge quite often in the field of payments. Therefore, in this particular case, with the conflicts of interests of individual banks and the reluctance of the banking community to make a decision on the actual start of implementation, the MNB decided to use its regulatory power. The MNB did so because timely implementation of the project was in the interest of society as a whole and the better achievement of the public good. Public good was served in several ways; First, by eliminating the float on the banks' side; Second, by facilitating more finely tuned liquidity management by customers; and Third, by generally improving the quality of services provided to customers.

Another of our achievements is the publication of the Hungarian national cost study entitled “Nothing is free”, which has helped to foster a public dialogue about the role of cash in our society. Our staff found that cash is heavily used in Hungarian retail payments: 85% of the number of retail payment transactions is connected to the use of cash. According to the best estimates, every year 0.4% of GDP (in the Hungarian context this currently corresponds to 370 million euros) could be saved in Hungary if the national payment pattern changed in such a way that the use of cash and paper-based payment instruments declined, and the use of electronic payments increased.

Our analysis revealed that the main bottleneck hindering much wider usage of cashless payments instruments is mostly on the acquirers' side. Consequently, we proposed public policy measures mostly with the aim of better attraction of merchants. Some of our ideas have been incorporated in the current economic policy programme of the Hungarian government, but implementation is still underway. **One of the key contemplated measures is the extension of the network of POS terminals,** which is underdeveloped in comparison to other European countries. In addition to possibly subsidised set-up of POS terminals, **we are also thinking about regulating the level of interchange fees.** Despite some declines, interchange fees remain too high in Hungary. Therefore, our intention is to somehow reduce the fee level, either by following the US and Australian examples or by reacting to recent European developments. Moreover, we also advocate the gradual introduction of mandatory acceptance of card payments at each merchant outlet.

Our analysis made it clear that cash is heavily used not only in consumer-to-merchant relationship, but also in business-to-business (B2B) payments and in payments of public administration. **In case of B2B payments, one step forward is the introduction of a ceiling on the amount which can be paid in cash** as compensation in a purchase contract. The current ceiling is a monthly amount of around 18 thousand euros, and this will be further reduced (to about 5–6 thousand euros), if endorsed by parliament.

We expect more robust and faster changes in the field of payments of the government. An upcoming MNB study has shown that **one-third of all payments in the field of public administration** (in total 100 million transactions) occur in cash. Let me give some background information. The first item is that about one-half of the outgoing cash-based payments relate to pension payments and the disbursement of various social transfers and benefits. The second item is that – within public administration – the local government sector is the most extensive cash user.

A low cost, basic payment account could also function as an important vehicle for curtailing cash usage. Providing access to payment accounts at reasonable prices is a precondition from the aspect of the government. If this kind of low cost, basic payment account facility were available, the government could launch a massive programme to increase electronic disbursements of pensions, social transfers and benefits to unbanked people and could also require that labour income and any other remuneration be transferred to payment accounts.

Our intentions are geared not only **to raising awareness of the costs involved, but also provoking changes. Payment habits can be changed most quickly in the field of public administration** provided that there is a supportive political will. A country like ours, a country with relatively low per-capita GDP and a not insignificant hidden economy, cannot afford to delay reducing the use of cash. It is very encouraging that in its current economic policy programme the government declared it necessary to curtail cash payments and intends to apply appropriate policy measures. However, it seems that implementation will not be completed very soon.

For most of the time I have been speaking about the **Hungarian case** and about the challenges we are facing, and the measures we have either taken or are still considering, in order to most efficiently tackle the waste of resources. I am sure some of these **phenomena** or similar ones **occur in your country** as well.

This entire conference and the dinner reception just ahead of us provide **an excellent opportunity for learning from each other,** and to discuss, for example, experiences, successes, failures, and forces behind changes in the overall efficiency of retail payments, in particular the role of central banks and the future evolution of the retail payments market. Let us keep in mind a Chinese proverb that says “A single conversation with a wise man is better than ten years of study”.

It has been a long day, in particular for those who departed early this morning or are still suffering from jet lag.

Therefore, I am not going to hold you up anymore. Bon appétit!