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**Postal payment services in Hungary**

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**DR. ANIKÓ TURJÁN**

**Postal payment services in Hungary**



# **Postal payment services in Hungary**

**October, 2009**



**The views expressed here are those of the authors and do not necessarily reflect the official view of the central bank of Hungary (Magyar Nemzeti Bank).**

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**Postal payment services in Hungary**

**Written by: Dr. Anikó Turján**

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## Abstract

The study offers a summary on major postal payment services in the domestic payment market. In addition to their share based on volume, the importance of these services lies in that more than one-fourth to one-third of Hungarians does not have a bank account (bank relationship), meaning that for these people postal payment services are basically the only means to handle their payment transactions, to pay their bills, and to collect their pension or social benefits. Postal payment services are unique in that they are provided by a single domestic service provider.

The study is fact finding and descriptive in nature, for it takes account of all products featured in postal payment services in the domestic market, it shows the processes by which they are executed, and – from 1998 – it analyses the turnover of these products and compares it to those of the banks, along with a comparison of demand for postal payment services in Hungary and elsewhere. The study uses this approach to make a contribution to efforts made in the research of payment services in Hungary and to provide information to those interested.

**LEGEND:** D42, G14 D14, D23.

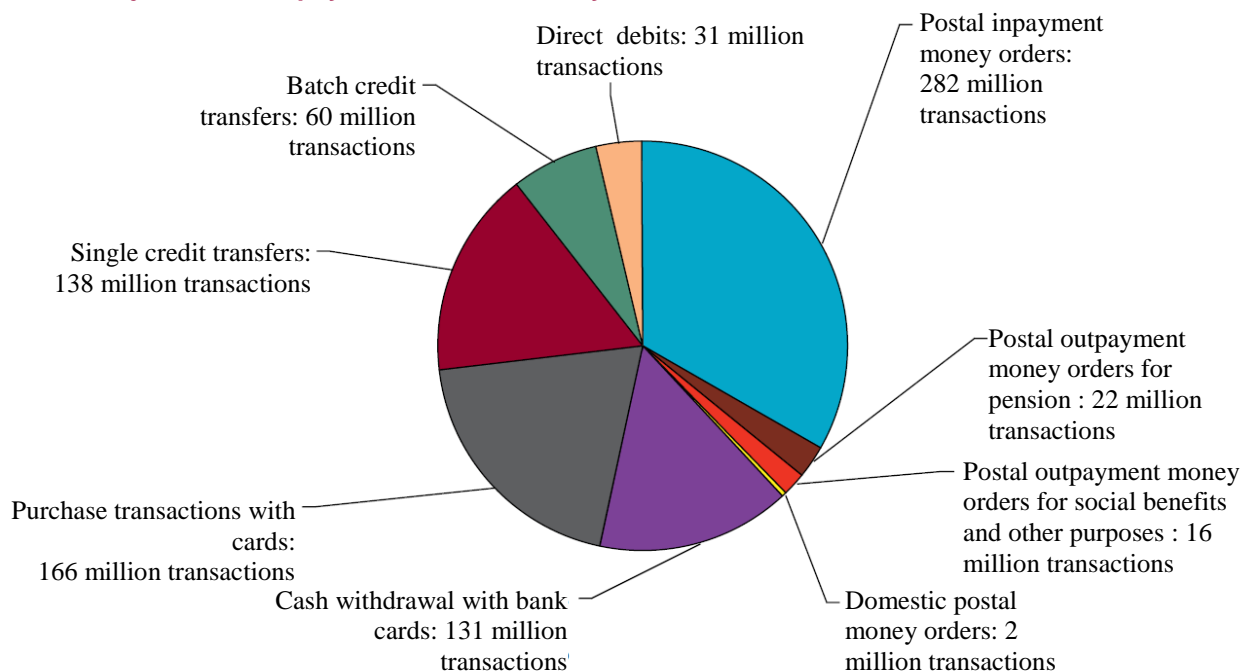
**Keywords:** postal payment instruments, postal inpayment money orders, postal outpayment money order for pension, postal outpayment money order for social benefits and other purposes, domestic postal money order, POS terminals located in post offices, postal order for cash withdrawal service, cash deposit book.



# 1. Introduction

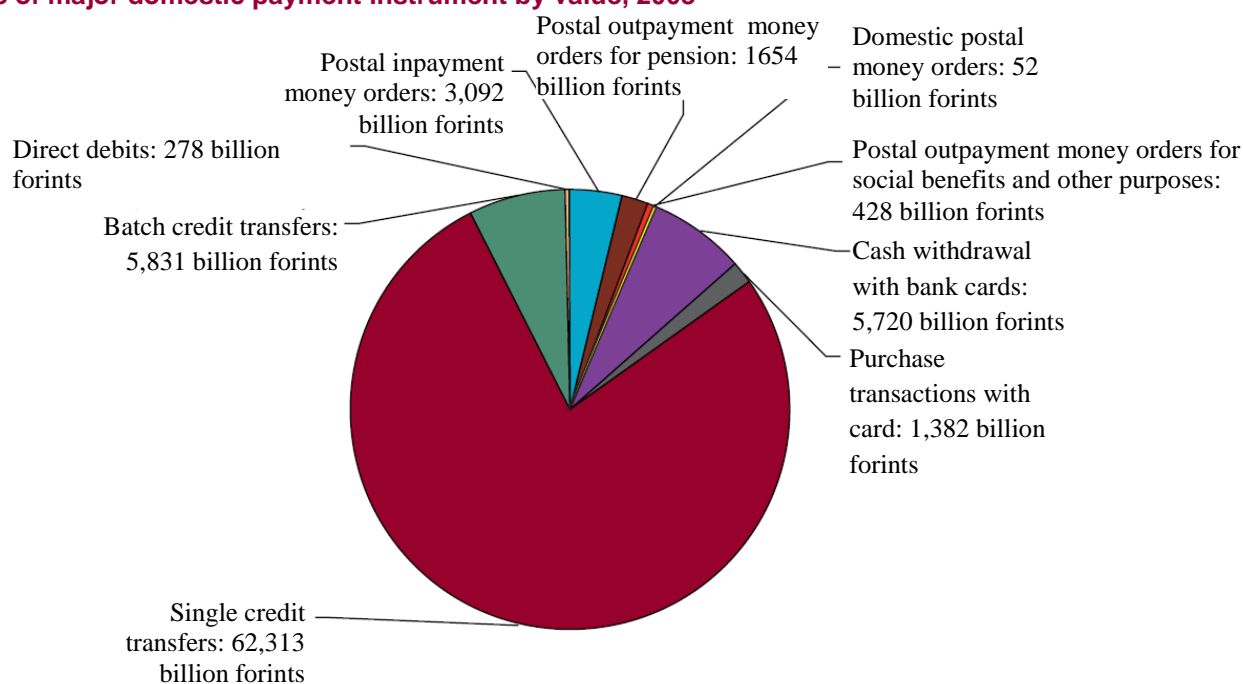
In Hungary there are many payment instruments available in domestic payment transactions by way of the use of cash or scriptural money. Charts 1 and 2 provide an insight in low value payment transactions – exclusive of cash payments and transit items in credit institutions – relating to the various payment instruments used in 2008 in terms of volume and value.

**Chart 1**  
Use of major domestic payment instruments by volume, 2008



Source: MNB.<sup>1</sup>

**Chart 2**  
Use of major domestic payment instrument by value, 2008



Source: MNB.

<sup>1</sup>As regards all charts and graphs the MNB-source refers to the central bank's collection systems.

The charts clearly indicate that postal payment services (execution of postal inpayment money orders, pension outpayment and postal outpayment money order for social benefits and other purposes, and the payment of domestic postal money orders) are significant factors. In 2008 the total amount of transactions conducted in these four services came to 323 million, in a value of 5227 billion forints total, which translates to a share of 38.0 % in terms of volume, and a share of 6.5 % in terms of value on the market of low value payment transactions during 2008. Postal financial services appear particularly important in terms of volume, therefore we are of the opinion that it should be examined deeper. These services are unique in that they are provided by a single domestic service provider.<sup>2</sup>

The present study features a brief introduction of the service provider and its major payment services (Chapter 2), as well as an analysis of demand for these products, procedures of clearing and settlement, advantages and disadvantages (Chapter 3), and we will provide an estimate of the interest income of Magyar Posta Zrt. (“Magyar Posta” and “Posta”) and its income from payment services activities (Chapter 4). International trends are illustrated in Chapter 5, while Chapter 6 contains a summary of findings and conclusions, as well as an outline of the future envisaged. The annex offers an insight into the procedures for the execution of postal payment services, including payment orders and other important documents and detailed flow charts.

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<sup>2</sup>Western Union provides a service similar to domestic money orders; it transfers a specified amount of money where it is required that the funds be prepaid in that amount.

## 2. Major payment services of Magyar Posta Zrt.

### Box 1: Introduction of Magyar Posta Zrt.

Magyar Posta Zrt. is a private limited company with a capital of 13.5 billion forints, it is owned by the State outright and supervised by Magyar Nemzeti Vagyonkezelő Zrt. (*Hungarian National Asset Management Zrt.*) on behalf of the State. The Nemzeti Hírközlési Hatóság (*National Communications Authority*) functions as the regulatory authority, vested with powers to authorize and register postal services and service providers, and to approve the Operational Terms and Conditions. The MNB exercises supervision – in accordance with the central bank act and the relevant decrees of the central bank – over the activities of Magyar Posta Zrt. with respect to payments transactions, bank notes and coins, and also to its own data disclosure requirements.

Magyar Posta Zrt. – in addition to postal services relating to postal consignments such as letters, packages and parcels, advertisement materials, official documents and postal articles of value – is also required to provide postal intermediary financial services and domestic postal money order services under Act CI/2003 on Postal Services.<sup>3</sup> Accordingly, as regards the latter two services, Magyar Posta Zrt. is under obligation to provide them covering the entire territory of the country. In tune with the fact that Government Decree 79/2004 (IV. 19.) on the provision of and the quality requirements for postal services provides in detail for the requirements relating to the temporal and territorial availability of the so called universal postal services<sup>4</sup>, it can be ascertained that postal services are locally available in some form even in communities with a population of less than six hundred souls.

Postal payment services have an important role in the activities of Magyar Posta Zrt. (These services, together with financial intermediation performed on behalf of others, now amount to more than 30% of the turnover of Magyar Posta Zrt.) Contrary to universal postal and reserved services<sup>5</sup>, Magyar Posta Zrt. has no monopoly in the field of postal payment services. Western Union has a product that is similar to postal money orders, meaning the transfer of a specified amount of money domestically or internationally, where it is required that the funds be prepaid in that amount. However, real competition for postal payment services comes from credit institutions, and their products and services, rather than from Western Union.

Magyar Posta Zrt. is engaged in the pursuit of payment services activities – within the framework of Decree No. 21/2006 (XI. 24.) of the Governor of MNB on money transmission transactions and the standard terms and conditions for financial transactions approved thereby – according to its business interest. The related infrastructure available is significantly broader than that of the competition, covering close to 3000 postal outlets and 5425 POS terminals located in post offices throughout the country (as opposed to the 3445 credit institution branches and 4623 ATMs found in Hungary). The hours of larger postal outlets is best suitable to accommodate the needs of consumers, currently there are more than 200 postal outlets which are open on Saturdays for any length of time, with 26 of them on Sundays as well<sup>6</sup>, plus there is one<sup>7</sup> that's open 24 hours a day, every day of the week. Within Magyar Posta Zrt., the Postal Clearing Centre (PEK) settles accounts with contractual partners, handles the related financial obligations, and carries out data disclosure requirements by way of processing and checking documents and reports sent back from the network, and takes part in the re-allocation of any cash surplus of the postal outlets inside the postal network.

Postal inpayment money orders represent the largest item among the payment services activities of Magyar Posta Zrt. in terms of turnover, followed by postal outpayment money orders for pension and postal outpayment money order for social benefits and other purposes.<sup>8</sup>

<sup>3</sup> Box 2 contains a summary of the impact these regulations have on Magyar Posta Zrt. since the time they entered into force on 1 November 2009.

<sup>4</sup> Postal service relating to domestic and international letters, postage paid advertising materials and forms up to 2 kilograms, domestic and international parcels, postage paid advertising materials and forms up to 20 kilograms, and domestic and international letter consignments containing text written by a method for the blind up to 7 kilograms.

<sup>5</sup> Postal service relating to domestic and international letters and postage prepaid advertising materials up to 50 grams, if the service charge is lower than two and a half times the postage charged for letters sent by the fastest available universal service in the first weight category.

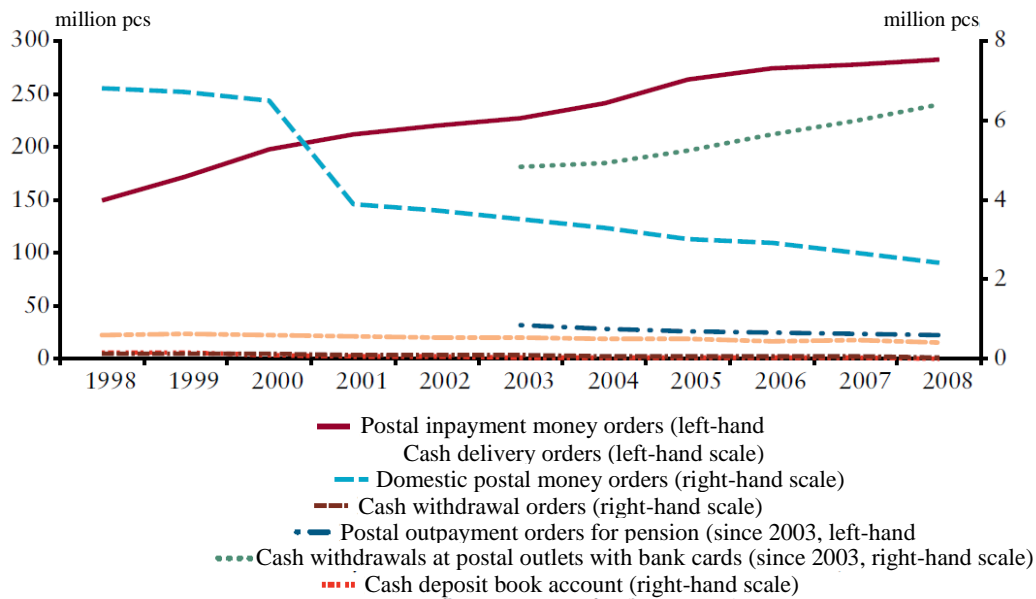
<sup>6</sup> Located mostly in larger cities or in the shopping centres in their vicinity (Budapest, Budaörs, Budakalász, Törökbálint, Dunakeszi, Fót, Kecskemét, Szolnok, Békéscsaba, Szeged, Debrecen, Miskolc, Székesfehérvár, Győr, Pécs).

<sup>7</sup> Budapest (Fogarasi úti TESCO post office)

<sup>8</sup> The data pertains to different periods, however, we will include – where available – data for 1998 and thereafter in order to better demonstrate the relevant trends.

### Chart 3

#### Annual volume of transactions



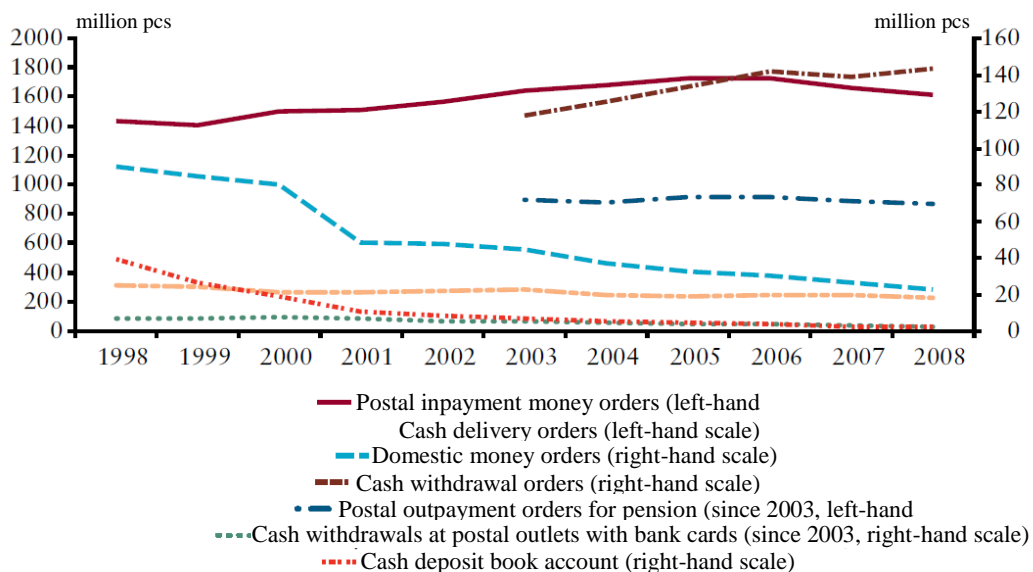
Source: MNB.

Postal inpayment money order means where cash is deposited with Magyar Posta Zrt. to be placed on a payment account at credit institutions (primarily for payments of utility charges and telephone bills), postal pension outpayment service means when funds are conveyed by the Nyugdíjfolyósító Igazgatóság (*Pension Payment Administration*) (NYUFIG) from Magyar Államkincstár (*Hungarian State Treasury*) (MÁK) for the outpayment of pension benefits, postal outpayment money order for social benefits and other purposes means when the Posta – by order of the account holder or the credit institution itself – conveys cash from the account holder’s payment account to a third party (primarily in connection with social payments). (Annual turnover data for these three products are shown in Charts 3 and 4 on the left scale.) The volume of cash withdrawals using a bank card or postal order for cash withdrawal service, or with cash deposit book from own payment account is considerably less, as well as sending money with domestic postal money orders, for which the turnover data is shown in Charts 3 and 4 on the right scale.

Those two charts indicate the turnover is either unchanged or fell sharply in connection with these payment services. Postal inpayment money orders shown on the left scale of the charts, and postal order for cash withdrawals at post offices, shown on the right scale of the charts, with bank cards are showing trends which are somewhat irregular.

### Chart 4

#### Annual value of transactions at a comparable (1998) prices



Source: MNB.

The volume of postal inpayment money orders has been growing dynamically in recent years, moreover, the value of transactions at comparable prices has also been increasing during most of the period in question, up until 2006. The volume of cash withdrawals with bank cards has increased every year, whereas the value of transactions at comparable prices has typically been rising as well.

Typically, for most products, the type of payment instrument changes during the payment services activities of Magyar Posta Zrt., i.e. the Posta uses cash on one side of the transaction and scriptural money on the other side.<sup>9</sup>In connection with postal inpayment money orders, cash is used in the beginning of the transaction, while for other products it is used at the end of the transaction.<sup>10</sup> Magyar Posta Zrt., following the necessary checks, uses some of the cash received at the given postal outlet for some other postal services,<sup>11</sup> and transfers some of the surplus funds from one postal outlet to another, and converts the larger part into scriptural money in the inter-bank money market, or through having it deposited to MNB. Consequently, Magyar Posta Zrt. is considered a major operator not only in transactions involving scriptural money, but also in cash transactions.

In connection with some of the products (postal inpayment money orders, postal outpayment money orders for pension, domestic postal money orders) Magyar Posta Zrt. receives the funds necessary to execute the transaction up front in all cases, whereas in the case of other products (postal outpayment money orders for social benefits and other purposes, postal order for cash withdrawal services, and cash withdrawals with bank cards and cash deposit books) the funds are received – depending on the relevant agreement – either in advance, or pays the funds using other sources and settles accounts with the client at a later date. Accordingly, Magyar Posta Zrt. earns interest (float) in connection with certain products on the funds received before the execution of the relevant transaction.<sup>12</sup> The clientele of Magyar Posta Zrt. is made up of credit institutions, the MÁK, municipal governments, the Nyugdíjfolyósító Igazgatóság, in addition to a host of corporate and great many private customers. Magyar Posta Zrt. has joined the real-time gross settlement system known as VIBER, designed for the settlement of high value urgent payments. Box 2 contains a summary of the impact the new regulations have on Magyar Posta Zrt. since the time they entered into force on 1 November 2009, and below we shall analyse each payment product separately.

**Box 2: The impact the new regulations had on Magyar Posta Zrt. since the time they entered into force on 1 November 2009.**

Act LXXXV/2009 on the Pursuit of the Business of Payment Services enters into force on 1 November 2009, as well as the amendments to the postal and banking acts and Decree No. 18/2009 (VIII. 6.) of the Governor of Magyar Nemzeti Bank on Payment Services Activities, all of which amend the regulations applicable to Magyar Posta Zrt.

The Payment Services Act refers to Magyar Posta Zrt. as a institution that operates the Postal Clearing Centre, essentially as a payment service provider, plus the amended Postal Act compels Magyar Posta Zrt. to operate three specific payment services activities covering the entire territory of the country as of 1 November 2009, and to that end to operate the Postal Clearing Centre. The three specific payment services activities mentioned above include postal inpayment money orders (“payment service where funds are received from a payer, without any payment accounts being created, for the sole purpose of transferring a corresponding amount to a payee or to another payment service provider acting on behalf of the payee, and/or where such funds are received on behalf of and made available to the payee”), services enabling cash withdrawals from a payment account and services enabling cash to be placed on a payment account. In addition to the above, Magyar Posta Zrt. is entitled to provide any other payment services.

Magyar Posta Zrt., as a payment service provider/institution is placed under the prudential supervision of Pénzügyi Szervezetek Állami Felügyelete (*Hungarian Financial Supervisory Authority*), and as such it is required to comply with information requirements and the procedures for clearing and settlement prescribed for payment institutions/payment service providers (as well as to credit institutions, and also mobile phone companies undertaking such activities under special authorisation), in addition to special prudential requirements.

As regards conventional postal payment services, from among the new settlement regulations let us point out the following. (1) The payer’s payment service provider shall ensure that, after the point in time of receipt, the amount of the payment transaction is credited to the payee’s payment service provider’s account at the latest by the end of the next business day (these periods may be extended by a further business day for paper-based payment transactions). (2) A payment order shall be deemed executed on the day when the funds are credited to the payee’s payment account (enters into force on 1 May 2010, after a six-month grace period). (3) The payment service provider shall ensure that the amount of the payment transaction is credited to the payee’s payment account immediately (and interest

<sup>9</sup> As far as domestic money orders are concerned, changing the form of payment instrument is atypical, although it is possible.

<sup>10</sup> In connection with domestic money orders usually on both sides.

<sup>11</sup> According to Dániel Havran, postal outlets enjoy some degree of freedom in decisions relating to their cash management practices, and they show different behavioural patterns, meaning that there are those that tend to accumulate and those that tend to return funds, and then there is the “self-centered” kind.

<sup>12</sup> Loses interest income elsewhere, where funds are not received in advance.

shall be accrued from that day as well). The provision in Paragraph (1) stipulates that in connection with postal inpayment money orders Magyar Posta Zrt. works on behalf of the payer private individual or business entity, rather than the (payment) service provider, whereas the provision under Paragraph (2) abolishes the rule according to which the transaction is considered to be executed upon payment of the amount of the transaction at a postal outlet for postal inpayment money orders.

### 3. Payment services

Statistical data relating to payment services (postal inpayment money orders, postal outpayment money orders for pension, postal order for cash withdrawal services, domestic postal money orders, cash withdrawals with bank cards) will be shown broken down according to the customer groups (covering all households, all pensioners, and/or the entire population), where household users are dominating.

#### 3.1. POSTAL INPAYMENT MONEY ORDERS (“YELLOW CHEQUES”)

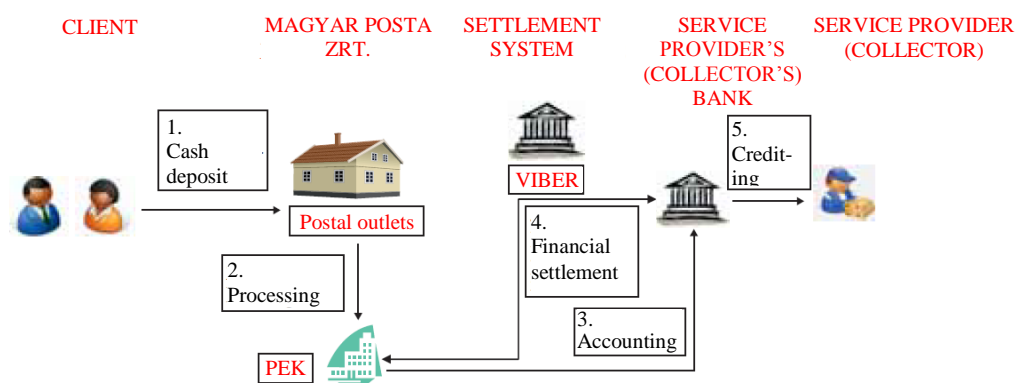
Postal inpayment money order means when the amount of the transaction is received by Magyar Posta Zrt. in cash to be placed on a payment account operated by credit institutions (banks of the service providers/collectors affected).<sup>13</sup>

##### Box 3: Simplified procedures for the execution of postal inpayment money order

The transaction begins when the client dispatches the postal inpayment money order at a postal outlet (hands over the cash in exchange for a receipt). Next the paid-up bill payment order is forwarded from the postal outlet to PEK for processing, upon which the Posta transfers the funds received for the execution of postal inpayment money orders on a daily basis, separately to each credit institution involved, as part of the financial settlement with the given credit institution. In the final step Magyar Posta Zrt. and the credit institution settle accounts for all transactions: the party in arrears transfers the net daily balance through VIBER, and finally the service provider's bank credits the service provider's payment account. (An in-depth description of the process and a "yellow cheque" specimen is available under point 1 of the Annex.)

##### Chart 5

##### Simplified chart for the execution of postal inpayment money orders



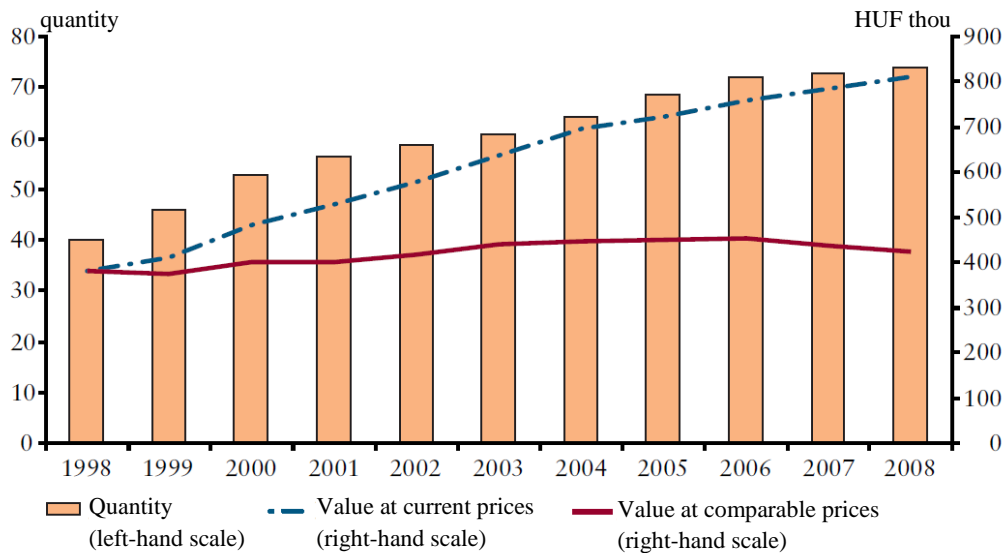
The majority of postal inpayment money orders are transacted for paying utility charges (22% by volume, 20% by value) and telephone bills (21%, and 13%), loan instalments (primarily consumer loans ) and insurance premiums (these two combined amount to 11% by volume and value alike), however, the Posta does not monitor payments made to local tax authorities or for duties. Presumably, the remaining portion is largely comprised of payments for taxes and dues (46% by volume and 56% by value).<sup>14</sup>

In 2008 the average Hungarian household initiated <sup>15</sup>74 postal inpayment money orders for a total of 811,000 forints (which translates to 6.2 postal inpayment money orders monthly in an amount of close to 74,000 forints).

<sup>13</sup> Recently some ATMs had been enabled to accept cash deposits on “yellow cheques”, however, this essentially means an ATM transfer, therefore we will not address this particular type of payment instrument.

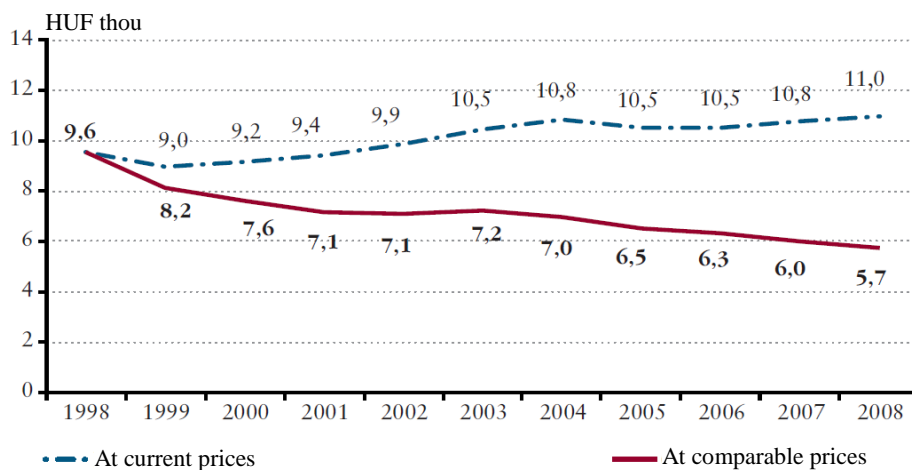
<sup>14</sup> Payments are made to some 400 to 500 thousand accounts, hence the full breakdown is unknown. Apart from taxes and dues, other potential targets may, for example, include donations as well.

<sup>15</sup> Naturally, this only matters for the purpose of averaging, as we have projected the use of bill payment orders for all Hungarian households.

**Chart 6****Annual volume (amount) and value (thousand HUF) of postal inpayment money orders per household**

Source: MNB.

Between 1998 and 2008 the volume of postal inpayment money orders per household has increased by 85.2% in total, and by 11.2% in terms of value at comparable prices. The greatest growth took place at the beginning of the period, showing an increase of 14.9% by volume in 1999 and 2000 each, and an increase of 7.1% in value (at comparable prices) during 2000. The average transaction value rose by 14.8% between 1998 and 2008 at current prices, while it dropped by 39.9% at comparable prices.

**Chart 7****Average value of postal inpayment money orders at current and comparable prices**

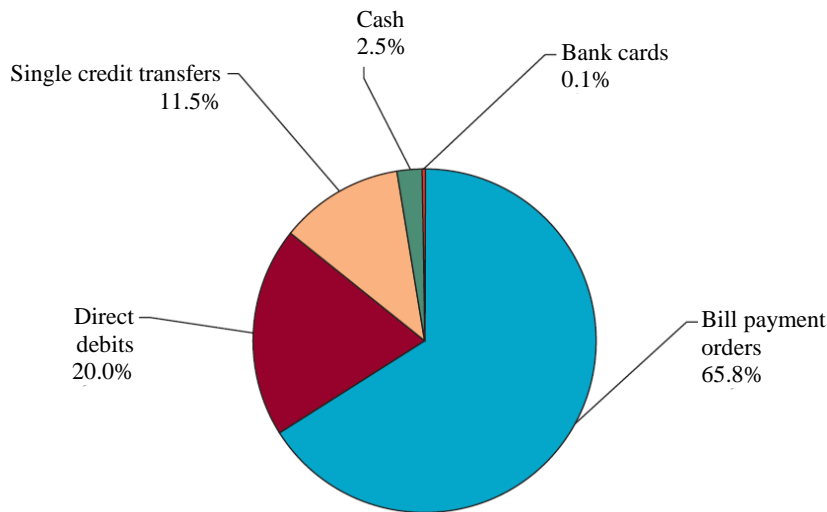
Source: MNB.

The moderate rise in the average transaction value at current prices indicates that some of the payers of larger sums decided to switch to alternate payment instruments.

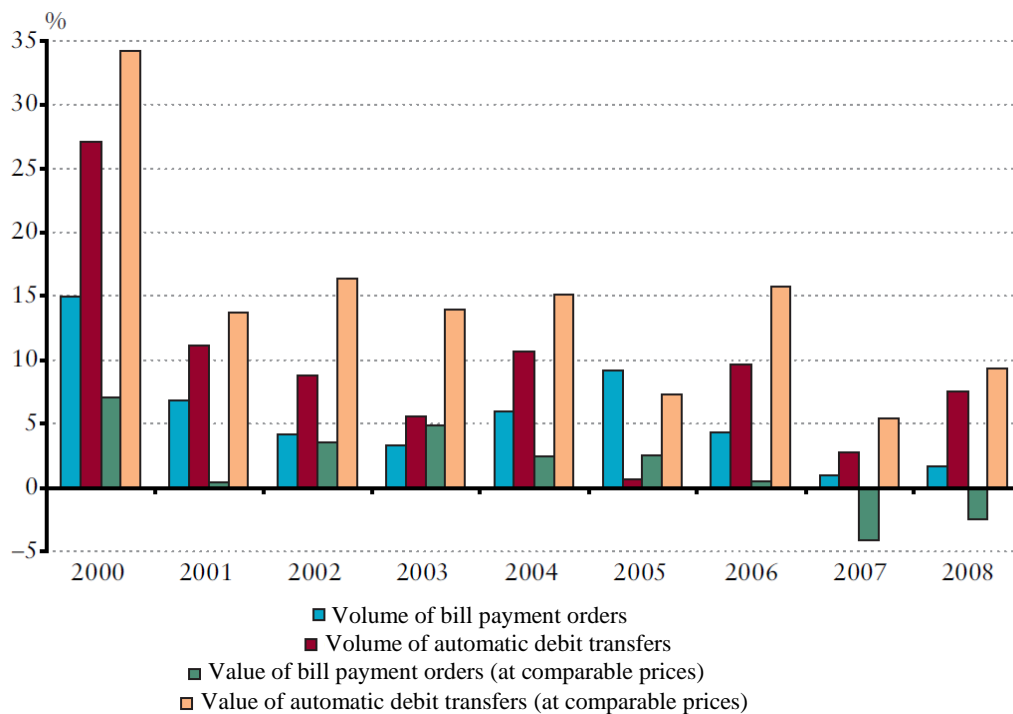
The most popular way – after postal inpayment money orders – used by households to pay their utility charges and telephone bills is the direct debit. According to a non-representative survey conducted in September of 2008<sup>16</sup> volume weighted payment of utility charges is broken down as shown in Chart 8.

<sup>16</sup> L. Faludi–A. Gergely–P. Kostenszky–I. Prágay (Hungarian SEPA Association) (2008).



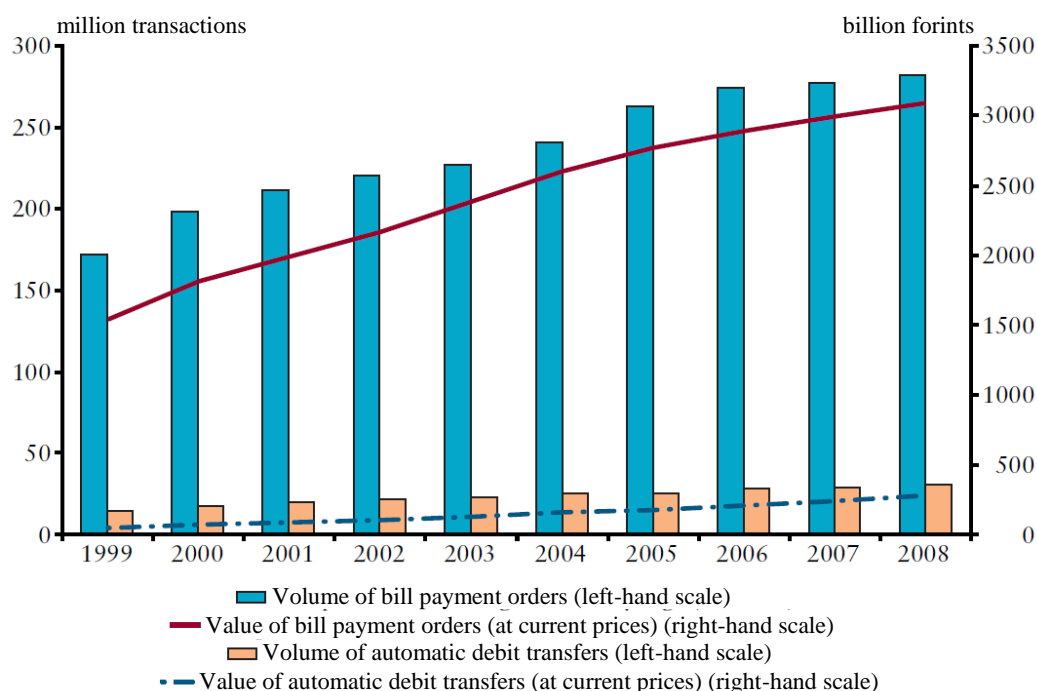
**Chart 8****Payments for public utility services according to payment instruments, 2008**

Source: Hungarian SEPA Association

**Chart 9****Changes in the volume and value of postal inpayment money orders and direct debits compared to previous year**

Source: MNB.

The use of direct debits has been growing every year in terms of value, and – with the exception of 2005 – every year in terms of volume as well at a pace greater than bill payment services, where the difference in growth is considerably greater in terms of value by comparison to volume. In spite of the difference on growth rate, the execution of direct debit lags far behind, in volume and value both, from postal inpayment money orders, specifically, in 2008 the volume of direct debits executed amounts to 11% and 9% of postal inpayment money orders, in terms of volume and value respectively.

**Chart 10****Annual volume (million transactions) and value (billion forints) of postal inpayment money orders and direct debits compared to previous year**

Source: MNB.

Magyar Posta Zrt., on the one hand, charges a fee for drawing up the document underlying the execution of postal inpayment money orders (see point 1 of the Annex),<sup>17</sup> and for carrying out the transaction. The fee charged depends on the volume ordered. In 2008 the fee was between 4.80 and 9.60 forints, while in the first half of 2009 it was between 5.00 and 9.80 forints, and between 5.21 and 10.21 in the second half of 2009. (The lowest sum applies to quantities above ten thousand and the highest sum applies to quantities below one thousand. The fee for orders between one thousand and ten thousand pieces was 6.60 forints in 2008, 6.80 forints in the first half of 2009 and 7.08 forints in the second half of 2009.) The service fee comprised two components until 2008: on the one hand it contained 3.60% of the amount of transactions, plus 66 to 87 forints per order on the other,<sup>18</sup> that was adjusted – instead of the transaction amounts – to the contents and mode of data supply, and the degree of completion of the postal inpayment money orders.

**Table 1****Breakdown of charges for postal inpayment money orders independent of the amount of transaction**

Contents/mode of data supply	Data medium only	Continuous stationery only	Data medium and continuous stationery both
Exclusive of document and their duplicate copies	66–70 HUF/ea.*	74–83 HUF/ea.*	80–82 HUF/ea.*
Including a duplicate copy of the whole or part of a document	74 HUF/ea.**	81–87HUF/ea.***	

Source: Magyar Posta announcement.

\* If completed in full by automated process in advance the lower limit, and if filled out by automated process incomplete the upper limit applies.

\*\* Electronic data and image of document.

\*\*\* For copies of the "Payer's name and address" section 81 forints, for copies of the "Payer's name and address" and the "Comments" sections 83 forints, for a reduced-size copy of the entire form 85 forints, and for full-size copy of the entire form 87 forints.

<sup>17</sup>The form may be obtained from other sources as well.

<sup>18</sup> This particular charge was changed in 2009 in that the full amount charged had to be at least 95 forints together with the 3.60% charged on the amount of transaction. The fee charged for one-day express bill payments in 2008 was 197 forints, 210 forints in 2009 (in addition to the 3.60% charged on the amount of transaction).

The costs of producing the documents are charged directly to the service providers (collectors), while the service fee is charged directly to the credit institutions, that they pass on to the service providers (collectors) together with their own charges.<sup>19</sup> In the fall of 2008 some news media accused certain service providers of charging 75 to 120 forints to clients using postal inpayment money orders for paying their invoices.<sup>20</sup> Neither the service providers (collectors) nor the consumers (persons dispatching postal inpayment money orders) pay any fee to Magyar Posta for the execution of bill postal inpayment money orders, however, the service fee is built-in the price charged for the basic service.

Magyar Posta Zrt. guarantees to have the amounts received from consumers with a postal inpayment money order to be credited to the payment accounts of the payment service providers of service providers (collectors) within two business days<sup>21</sup>. Settlement takes place on a net basis, instead of gross, since Magyar Posta Zrt. settles the balance of all payment transactions (postal inpayment money orders, express postal inpayment money orders, unpaid postal outpayment money orders for social benefits and other purposes, domestic postal money orders received for delivery, bank card acquiring through POS terminals, postal order for cash withdrawal services, cash supplies provided to and surplus cash received from credit institutions) carried out under contract with credit institutions (including MÁK) on the day of delivery of the relevant accounting statements, which differs for each service, i.e. it transfers funds in the case of postal debts and demands payment in the case of postal receivables.

It follows from the foregoing that Magyar Posta Zrt. can use the funds received for postal inpayment money orders for two business days: after processing and transport, where needed, the money is at its disposal to be used for making payments related to other cash transactions or it may be converted into scriptural money (in the inter-bank money market, or by way of having it deposited to MNB). Interest income is realised directly within the framework of executing postal inpayment money orders, as Magyar Posta Zrt. is not required to convert scriptural money to obtain cash for carrying out other services. The costs of processing, transport and storage of the cash received comes out of the proceeds from interest income, which has to be covered to some extent even if the cash is used within the postal network for making payments, and even more so if the cash received is converted into scriptural money.

Due to the wide-spread popularity of postal inpayment money orders the advantages and disadvantages of this particular product should be analysed.

**Table 2**  
**Advantages and disadvantages of postal inpayment money orders**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of Magyar Posta Zrt.	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Automated central processing</li> <li>– Revenues from fees and interest income</li> </ul>	<ul style="list-style-type: none"> <li>– Costs of cash handling</li> </ul>
From the consumers' standpoint	<ul style="list-style-type: none"> <li>– Well known product</li> <li>– Checking the account can be postponed until the time of payment of the amount of transaction</li> <li>– Payment of the amount of transaction can be delayed as much as tolerated by the service provider</li> <li>– Payment of the amount of transaction is recognised as having the payment obligation satisfied</li> <li>– Generally accepted receipt on performance</li> </ul>	<ul style="list-style-type: none"> <li>– Payment of the amount of transaction has to be made in person</li> <li>– Cash has to be withdrawn (for making the payment of the amount of transaction)</li> <li>– Service costs are hidden for the most part</li> </ul>
From the perspective of service providers (collectors)	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– End-to-end automated processing</li> <li>– Being able to reach consumers with no bank account, or who wishes not to go through a bank account for making a particular payment</li> </ul>	<ul style="list-style-type: none"> <li>– Service costs</li> </ul>
From the perspective of credit institutions	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> </ul>	<ul style="list-style-type: none"> <li>– It competes with bank products (direct debit, payment credit transfer)</li> </ul>
From the perspective of society as a whole	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Ability to reach all consumers</li> </ul>	<ul style="list-style-type: none"> <li>– Cash intensive</li> <li>– For corporate entities it reduces transparency in terms of business operations</li> <li>– Service costs remain hidden from consumers, hence it may distort their ability to make an informed decision</li> </ul>

<sup>19</sup> It is so indicated by the announcements and terms and conditions published by a host of credit institutions.

<sup>20</sup> Bankkártya Hírlevél (*Bank Card Bulletin*), 8 September 2008.

<sup>21</sup> One business day in the case of express bill payments.

### 3.2. POSTAL OUTPAYMENT MONEY ORDERS FOR PENSION

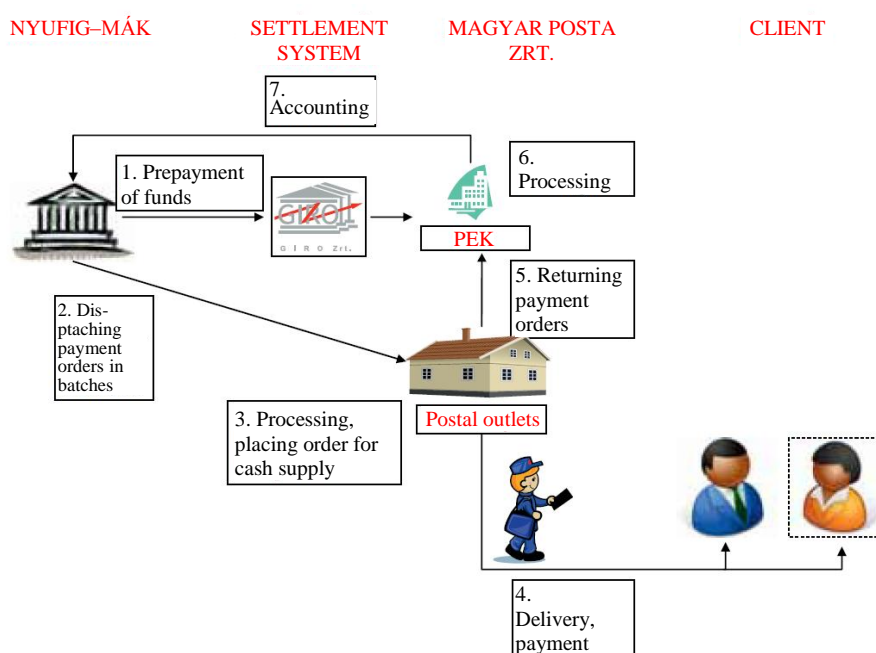
Magyar Posta Zrt. delivers the sums shown on the postal outpayment money orders for pension to the payees in cash, using the funds provided by the pension paying agencies in advance.

#### Box 4: Simplified procedures for the execution of pension outpayment transactions

The transaction begins with MÁK transferring the funds for the pension outpayments to Magyar Posta Zrt. via the Bankközi Klíring Rendszer (*Interbank Clearing System*) (BKR)<sup>22</sup>, after which NYUFIG sends the payment orders to Magyar Posta Zrt. Next the payment orders are delivered to the proper postal outlets where payments will be affected, and the order for the necessary cash supply is placed. The next step is when the funds are delivered to the payees. The postal outlets will then send all payment orders (paid and unpaid) to PEK for processing. Finally, PEK settles accounts with MÁK and NYUFIG, and returns the funds remaining from unpaid payment orders to MÁK. (An in-depth description of the process is available under point 2 of the Annex.)

#### Chart 11

#### Simplified chart for the execution of pension outpayment transactions



In 2008 Magyar Posta Zrt. executed 7.4 payment orders per each person receiving some form of pension benefits for a total amount of 547,000 forints.<sup>23</sup> The quantity of postal outpayment money orders for pension paid through the postal service is gradually decreasing, whereas the transaction shows moderate fluctuation at comparable prices (increased temporarily in 2005 and 2006). (For the most part, pension benefits are still paid through the postal service, see also Charts 13 and 14 below.)

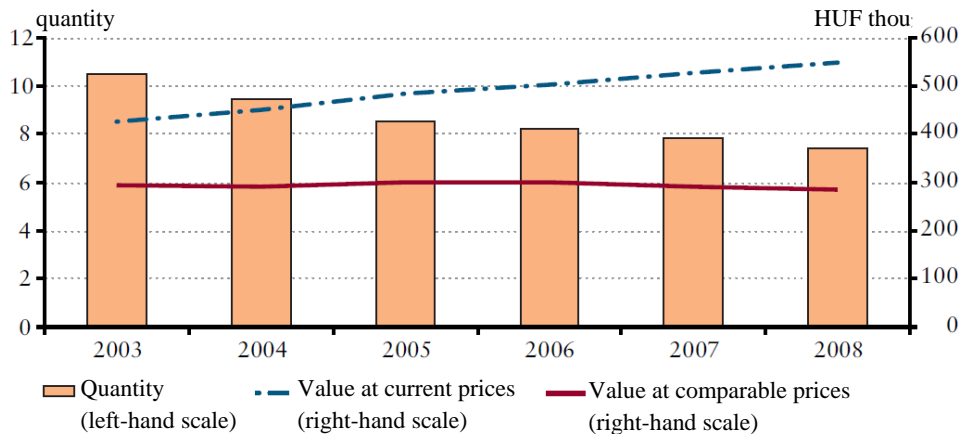
Between 2003 and 2008 pension benefits paid through the postal service dropped by 29.1% in terms of volume, and by 2.4% in terms of value at comparable prices. This reduction is clearly attributable to growth in the volume of payments made to bank accounts.

<sup>22</sup> A payment system for the settlement of low value payment orders used in large amounts, operated by Giro Zrt.

<sup>23</sup> The remaining pension benefits are paid by NYUFIG by way of transfer to the payee's bank account, rather than by Magyar Posta Zrt.

**Chart 12**

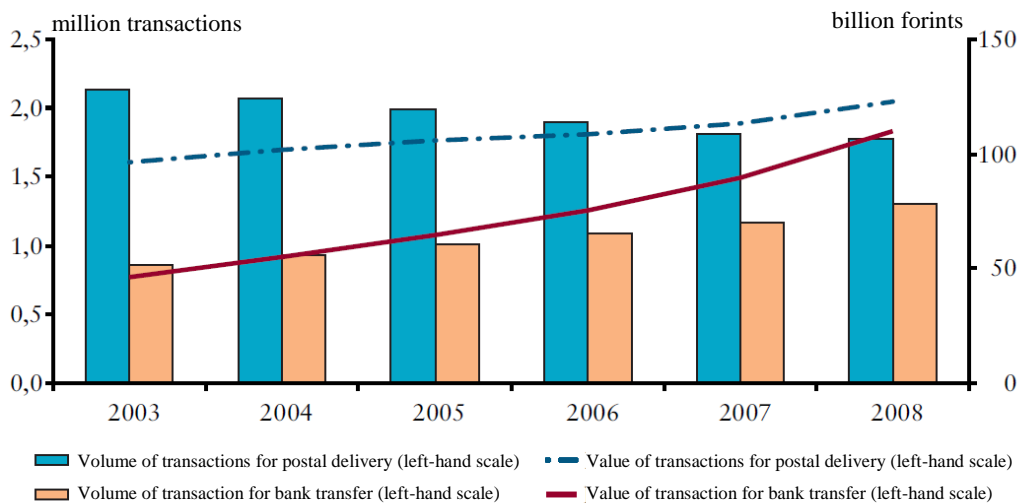
**Annual volume (amount) and value (thousand HUF) of pension outpayment transactions made through Magyar Posta Zrt. per payee**



Source: MNB.

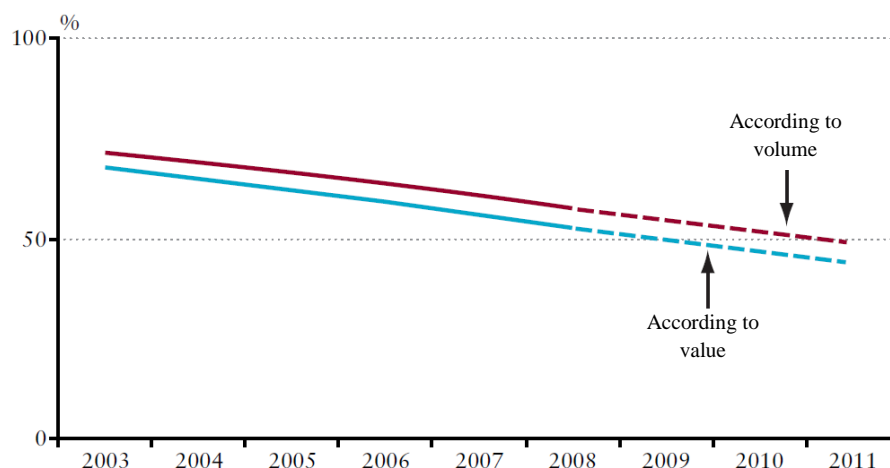
**Chart 13**

**Volume (million transactions) and value (billion HUF) of postal outpayment money orders for pension executed in December broken down according to payment instruments**



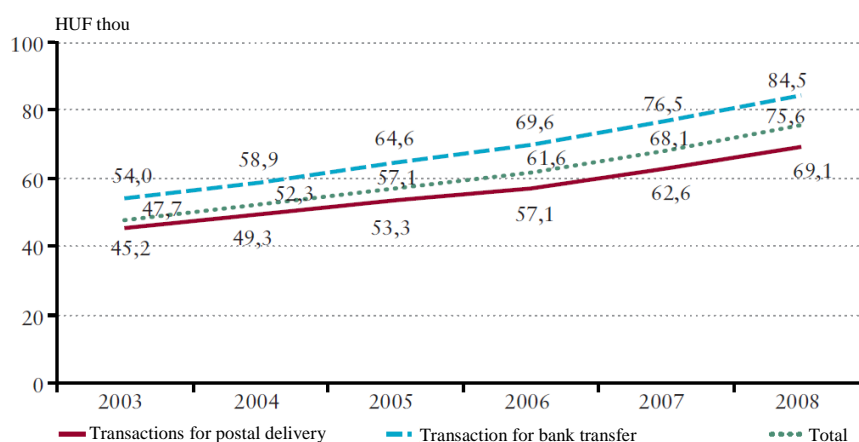
Source: ONYF

The share of postal transactions in 2008 reached 57.7% in terms of volume and 52.7% in terms of value. On a yearly basis reduction was somewhat slower for volume than it was for value, however, the rate of decline is gradually increasing year after year for volume and value both. Assuming that the rate of reduction remains at the level of 2008, the share of postal transactions will drop below the 50% mark in 2011 in terms of volume and in 2009 in terms of value.

**Chart 14****Estimated and actual share of pension outpayment transactions executed in December in terms of volume and value**

Source: MNB.

The average value of postal outpayment money orders for pension paid through the postal service generally remains below the value of pension benefits transferred to bank accounts.

**Chart 15****Average size of pension outpayment transactions executed in December broken down according to payment instruments**

Source: MNB calculations and on the basis of ONYF data disclosures.

Magyar Posta receives the service fee monthly, corresponding to the amount of postal outpayment money orders for pension dispatched by the Országos Nyugdíjfolyósító Igazgatóság.<sup>24</sup>

Pension outpayment transactions made through the postal service are unique in that they are not paid on the same day throughout the entire country. Magyar Posta Zrt. and NYUFIG jointly draw up a timetable for the execution of pension outpayment transactions according to a so called pension calendar, containing the day of payment of pension benefits broken down by communities, ensuring that they are delivered in the entire country by the end of the month. Its other characteristic is that Magyar Posta receives the payment order forms for a given month at the same time, while funds are made available on a daily basis, as required according to the timetable.<sup>25</sup> MÁK transfers the necessary funds 3 business days before the actual payment date through BKR, meaning that the funds are credited to the payment account of Magyar Posta Zrt. 2 business days before the actual payment date due to the fact that accounts are settled with BKR once a day. Magyar Posta Zrt. provides information on a daily basis – with 4-business day transit time – on the payments executed, and transfers the funds remaining from unpaid payment orders to MÁK within the framework of net settlement mentioned for postal inpayment money orders.

<sup>24</sup> The fee is not public, it comprises an integral part of the agreement between Magyar Posta and the paying agency.

<sup>25</sup> Such timetable is not required for pension payments made by way of transfer, where all payees receive payments of pension benefits at the same time.

**Table 3****Advantages and disadvantages of pension outpayment transactions executed through the postal service**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of Magyar Posta Zrt.	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Automated central processing</li> <li>– Interest income</li> </ul>	<ul style="list-style-type: none"> <li>– Costs of cash handling</li> </ul>
From the perspective of payees	<ul style="list-style-type: none"> <li>– Well known product</li> <li>– Being able to receive pension outpayments by persons with no bank account, or who wishes not to go through a bank account for collecting pension outpayments</li> </ul>	<ul style="list-style-type: none"> <li>– Costs and risks of cash operations</li> <li>– Receiving pension outpayments is contingent on the payee's home address (location of paying office)</li> </ul>
From the perspective of the pension paying agencies	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Being able to reach payees with no bank account, or who wishes not to go through a bank account for this purpose</li> </ul>	<ul style="list-style-type: none"> <li>– Administration for compiling the pension calendar, the timetable for the outpayment of benefits and for producing postal outpayment money orders for pension</li> <li>– Loss of interest income</li> <li>– Service costs</li> </ul>
From the perspective of credit institutions		<ul style="list-style-type: none"> <li>– Competition for bank transfers</li> </ul>
From the perspective of society as a whole	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Offers a solution for making payments to those with no bank account</li> </ul>	<ul style="list-style-type: none"> <li>– Administration</li> <li>– Service costs</li> <li>– It does not encourage the use of cash substitutes</li> </ul>

It follows from all of the foregoing that Magyar Posta Zrt. practically has the funds received from MÁK from which to effect payment of the pension benefits at its disposal for two business days. The amount of interest income is reduced by the fact that Magyar Posta has to make available sufficient cash supplies at each participating postal outlet for making payments of pension benefits on a daily basis.

### 3.3. POSTAL OUTPAYMENT MONEY ORDERS FOR SOCIAL BENEFITS AND OTHER PURPOSES

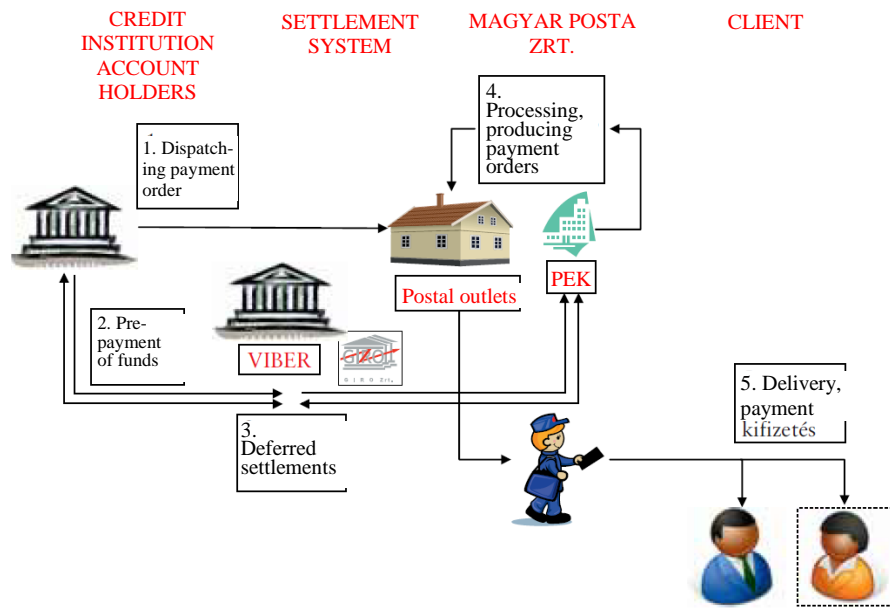
Postal outpayment money orders for social benefits and other purposes are designed to allow holders of accounts at credit institutions – or the credit institution on the account holder's behalf – to send money from the payer's account to a designated payee through Magyar Posta Zrt., to be delivered to the address specified.

#### **Box 5: Simplified procedures for the execution of postal outpayment money orders for social benefits and other purposes**

The procedure begins with the credit institution, or the account holder (or MÁK for the most part from the perspective of turnover) dispatches the postal outpayment money orders for social benefits and other purposes with a certificate of availability of funds attached. The second and third steps are taken depending on whether or not the funds for the postal outpayment money orders for social benefits and other purposes should be transferred on the day of dispatch of the order as stipulated in the agreement between Magyar Posta Zrt. and the credit institution (or the account holder). If the amount of the transaction is to be transferred on the day of dispatch of the order, the credit institution, or MÁK shall transfer the amount of the transaction on either of the two settlement systems, otherwise Magyar Posta Zrt. settles accounts with the credit institution together with all other dealings, where the party in debt transfers the outstanding balance to the other party. Next PEK processes – within Magyar Posta Zrt. – the payment orders already dispatched, checks the certificates of availability of funds, and whether or not the funds have already been received, where necessary, and shall make the postal outpayment money orders for social benefits and other purposes for making payment to the client. In the final step Magyar Posta Zrt. delivers payment of the amount of the transaction to the client (payee). (An in-depth description of the process and a specimen of the certificate of availability of funds is available under point 3 of the Annex.)

**Chart 16**

**Simplified chart for the execution of postal outpayment money orders for social benefits and other purposes**



This product is used mostly by MÁK and municipal governments for paying family allowances, social benefits, maternity allowances, child care benefits, unemployment benefits, public work fees, etc., and also by payers to a lesser extent, such as insurers for making settlement payments, companies for payments of wages, and by health funds for making payments of sick-pay benefits if the client does not wish to have the sum deposited to a bank account.

Having regard to the entire population, in 2008 Magyar Posta Zrt. executed 1.6 payment orders per person for a total amount of 42,700 forints. The volume of cash outpayment transactions is declining gradually (between 1998 and 2008 by 28.8%). The amounts paid out show moderate fluctuation at comparable and current prices, however, ultimately the amounts paid on an annual basis decreased by 27.4% between 1998 and 2008 at comparable prices. This reduction is attributable to growth in the volume of payments made to bank accounts.

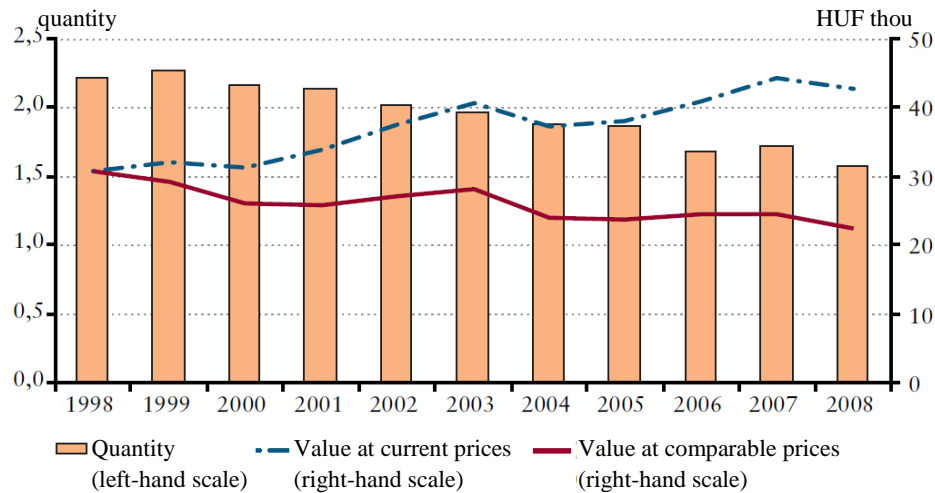
The average transaction amount for postal outpayment money orders for social benefits and other purposes – apart from some minor fluctuation – remained level at comparable prices practically speaking, nevertheless, it nearly doubled at current prices.

Magyar Posta Zrt. charges a fee for producing the postal outpayment money order forms for social benefits and other purposes and for the execution of the service. The fee for producing the order form depends only on the way the order is dispatched, whereas the service fee depends on the amount of the transaction as well (increases progressively). The majority of the orders (99%) are dispatched on data medium or by means of data transmission, containing the necessary data as well, while paper-based orders are also dispatched, their quantity however is insignificant. Generally, in 2008 one order cost 8.69 forints,<sup>26</sup> while the service fee – adjusted to the average transaction amount and the most common mode of dispatch – was 359 forints.<sup>27</sup>

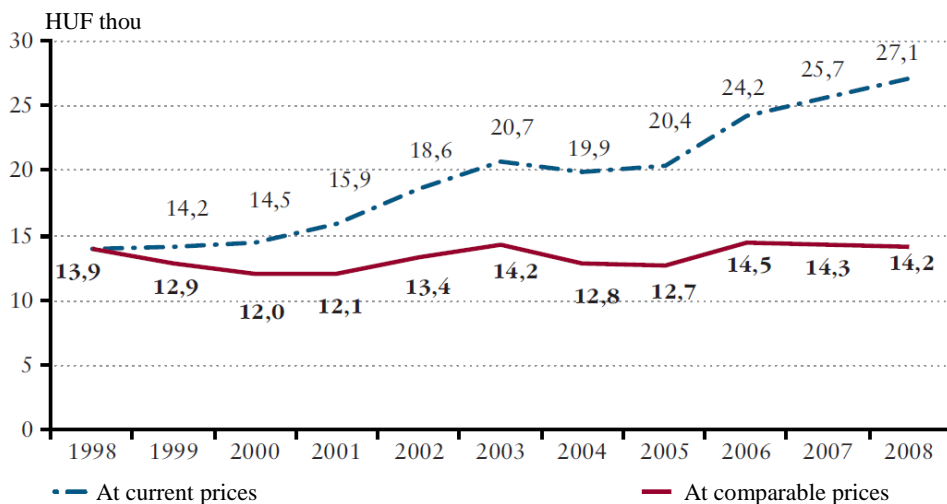
<sup>26</sup> During the first half of 2009 the fee increased to 9.04 forints, and it went up to 9.42 forints by the second half.

<sup>27</sup> In 2008 the fee was between 192 and 626 forints (for orders up to 100,000 forints), plus another 470 forints for each additional 100,000 forints, and any fraction thereof. In 2009 the minimum fee was between 237 and 664 forints up to 100,000 forints (plus another 498 forints for each additional 100,000 forints and any fraction thereof).



**Chart 17****Annual volume (amount) and value (thousand HUF) of postal outpayment money orders for social benefits and other purposes per person**

Source: MNB.

**Chart 18****Average amount of cash outpayment transactions**

Source: MNB.

In connection with this product securing the funding and settlement depends on the mode of dispatch. On general principle, Magyar Posta Zrt. receives the funds necessary to cover the amount of transaction (if the order is dispatched by means of data transmission) on the day of dispatch. If the order is dispatched on data medium, Magyar Posta Zrt. receives only an authorisation (certificate of availability of funds) on the day of dispatch, while the amount of the transaction is settled on the second business day following the day of dispatch together with all other payment transactions between the credit institution affected and Magyar Posta. (The balance of all transactions is settled within the framework of net settlement mentioned for postal inpayment money orders, it transfers funds in the case of postal debts and demands payment in the case of postal receivables.) Since Magyar Posta Zrt. begins to execute the payment order on the second day following the date of dispatch of the order, some interest income may result if the necessary funds are transferred in advance.

**Table 4**

**Advantages and disadvantages of postal outpayment money orders for social benefits and other services**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of Magyar Posta Zrt.	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Automated central processing</li> </ul>	<ul style="list-style-type: none"> <li>– Costs of cash handling</li> </ul>
From the perspective of payees	<ul style="list-style-type: none"> <li>– Well known product</li> <li>– Being able to receive social welfare benefits by persons with no bank account, or who wishes not to go through a bank account for this purpose</li> </ul>	<ul style="list-style-type: none"> <li>– It may be collected only in person or by an authorized agent, at the time of delivery or business hours</li> </ul>
From the perspective of payers	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Being able to reach payees with no bank account, or who wishes not to go through a bank account for this purpose</li> </ul>	<ul style="list-style-type: none"> <li>– Loss of interest income</li> <li>– Service costs</li> </ul>
From the perspective of credit institutions		<ul style="list-style-type: none"> <li>– Competition for bank transfers</li> </ul>
From the perspective of society as a whole	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Offers a solution for making payments to those with no bank account</li> </ul>	<ul style="list-style-type: none"> <li>– Administration</li> <li>– Service costs</li> </ul>

**3.4. DOMESTIC POSTAL MONEY ORDER (“PINK CHEQUE”)**

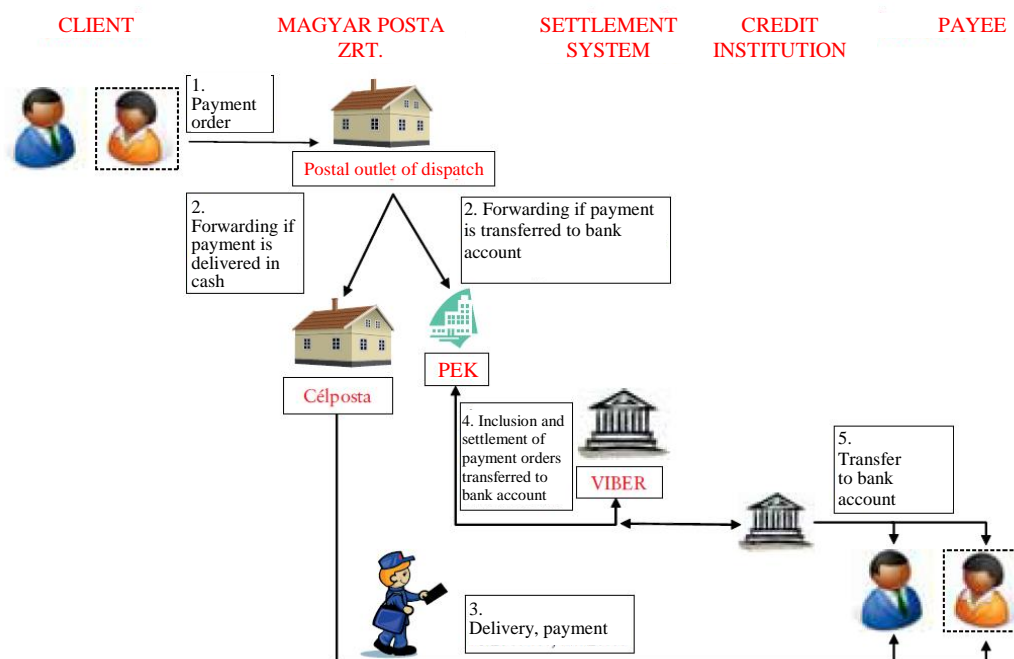
Domestic postal money orders are designed to allow the payer to send money to a designated payee where the funds covering the amount of transaction must be paid up front, and Magyar Posta shall deliver it to the address specified in cash, or shall credit it to a bank account.

**Box 6: Simplified procedures for the execution of domestic postal money orders**

The procedure begins when the payer dispatches the domestic postal money order at any postal outlet together with the amount of the transaction and the service fee paid in cash. Next the postal outlet of origin forwards the payment order to the postal outlet closest to the payee (destination post office), or to PEK, depending on whether the amount is to be made available to the payee in cash or in scriptural money (deposited to bank account). If payment is to be made in cash, the payment order is delivered and paid in the next step. If the amount of the transaction is to be made available in scriptural money, Magyar Posta Zrt. shall include the amount when settling accounts with the given credit institution for all transactions, and shall settle the daily balance bilaterally with the credit institution (the party in arrears transfers the daily balance to the other party). Next the credit institution affected credits the amount of the transaction to the payee’s bank account. (An in-depth description of the process and a specimen of the domestic postal money order is available under point 4 of the Annex.)

**Chart 19**

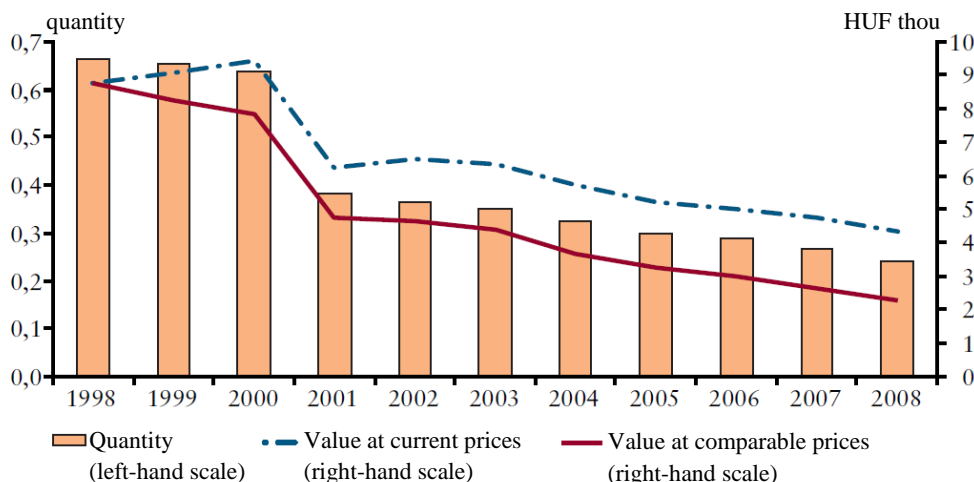
**Simplified chart for the execution of domestic postal money orders**



As regards the entire population, in 2008 one person sent 0.2 domestic postal money order for 4300 forints on the annual average. The quantity of payment orders is decreasing steadily, while the transaction amount (at current and comparable prices) is declining after a brief rising spell. Between 1998 and 2008 the annual volume of domestic postal money orders dropped by 63.7%, showing also a reduction of 50.6% at current prices and 74.2% at comparable prices in terms of value. This reduction is attributable to growth in the volume of payments made between bank accounts.

**Chart 20**

**Annual volume (amount) and value (thousand HUF) of domestic postal money orders per person**

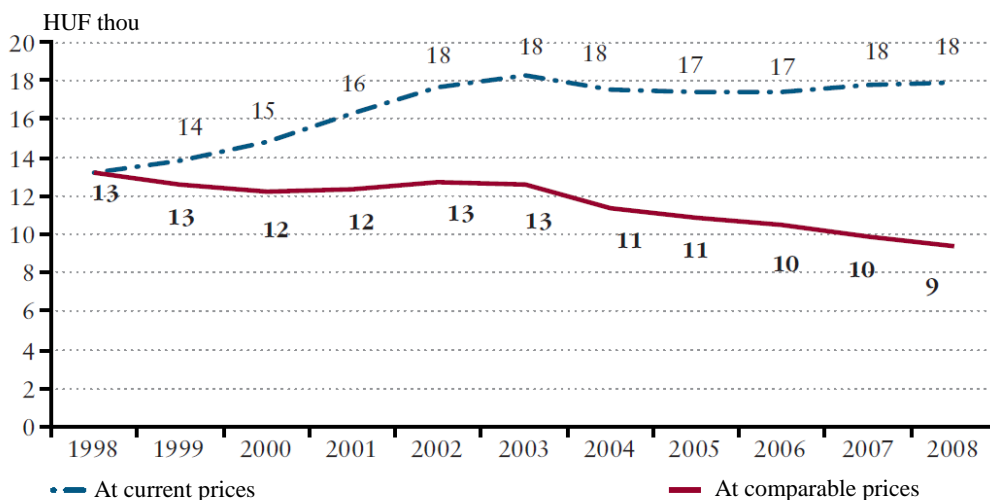


Source: MNB.

Since 2002 the average amount of domestic postal money orders shows minor fluctuation at current prices, while it decreases at comparable prices. As for the whole period, between 1998 and 2008 the average value at comparable prices dropped by 28.8%.

**Chart 21**

**Average amount of domestic postal money orders**



Source: MNB.

Magyar Posta Zrt. charges a fee for carrying out this service based on the amount of the transaction; in 2008 the fee was 645 forints according to the average transaction value.<sup>28</sup>

<sup>28</sup> In 2008 the fee was between 270 and 2790 forints (for orders up to 200,000 forints), plus another 745 forints for each additional 100,000 forints, and any fraction thereof. In 2009 the minimum fee was between 280 and 2910 forints up to 200,000 forints (plus another 780 forints for each additional 100,000 forints and any fraction thereof).

Magyar Posta Zrt. receives the amount of the transaction on the day of dispatch of the domestic postal money order in cash, and there is no instruction in its business policy as to any time requirement for having the funds delivered to the payee,<sup>29</sup> therefore Magyar Posta is practically able to earn interest on the money received (and indirectly on the scriptural money saved in consequence), until the funds received are in fact delivered to the payee.

In addition to the “pink cheque” service Magyar Posta Zrt. provides Western Union money order services as well, featuring fast execution of dispatch and delivery of the funds sent. The funds are usually paid to the payee within 10 to 30 minutes anywhere in Hungary or outside the country. The funds are to be prepaid in cash in person, or online (with a bank card and through the central website of Western Union). There are limits set for the amount of the transaction, applicable also to payers and the number of transaction that can be conducted on a given day.<sup>30</sup> In Hungary, in addition to Magyar Posta Zrt., Intercash Zrt. operates as an agent of Western Union, where the prior provides the service itself at designated postal outlets, and the latter operates through the involvement of others, such as M&M Exclusive Change, OTP, IBUSZ and some savings cooperatives. As regards the average transaction amounts of domestic postal money orders the fee Western Union charges is close to four times that of the fee of normal payment orders, and 1.2 times more than the fee for fast remittance orders.

**Table 5**

**Advantages and disadvantages of domestic postal money orders and Western Union money orders**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of the service provider (Magyar Posta Zrt., Western Union)	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Interest income (domestic postal money orders)</li> </ul>	<ul style="list-style-type: none"> <li>– Costs of cash handling</li> </ul>
From the perspective of payees	<ul style="list-style-type: none"> <li>– Well known product</li> <li>– Being able to receive the funds dispatched by persons with no bank account, or who wishes not to go through a bank account</li> <li>– Fast delivery (Western Union money orders and fast remittance orders)</li> </ul>	<ul style="list-style-type: none"> <li>– It may be collected only in person or by an authorized agent, at the time of delivery or business hours</li> <li>– Uncertainty as to time of delivery (domestic postal money orders)</li> </ul>
From the perspective of payers	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Being able to reach payees with no bank account, or who wishes not to go through a bank account for any purpose</li> <li>– Fast delivery (Western Union money orders and fast remittance orders)</li> </ul>	<ul style="list-style-type: none"> <li>– Uncertainty as to time of delivery (standard domestic postal money orders)</li> <li>– Service costs</li> </ul>
From the perspective of credit institutions		<ul style="list-style-type: none"> <li>– Competition for bank transfers</li> </ul>
From the perspective of society as a whole	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Fast delivery (Western Union money orders)</li> <li>– Offers a solution for low value (ad hoc) payment transactions</li> </ul>	<ul style="list-style-type: none"> <li>– Uncertainty as to time of delivery (domestic postal money orders)</li> <li>– Service costs</li> </ul>

<sup>29</sup> As regards the so called fast remittance orders, which command a higher fee, Magyar Posta Zrt. delivers the money in priority (within 6 hours from the time of dispatch in communities with permanent post offices, and on the next business day following the time of dispatch elsewhere), however, the transaction amount cannot be higher than 50,000 forints.

<sup>30</sup> One million forints for Magyar Posta Zrt. and approximately 1.5 million forints for the other intermediaries (specifically, 7000 USD, translated to forints at the exchange rate specified by Western).

### 3.5. CASH WITHDRAWAL AT POSTAL OUTLETS WITH BANK CARDS

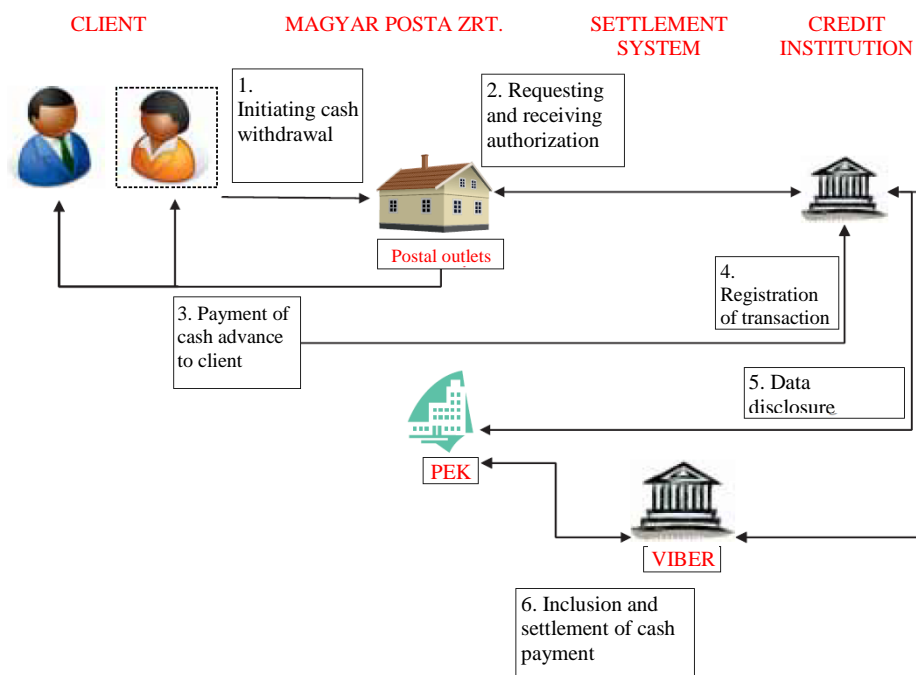
Credit institution account holders may use their bank cards to withdraw cash at POS terminals located in post offices. This service is available only when the given postal outlet is open for business.

#### Box 7: Simplified procedures for the execution of cash withdrawal with bank card

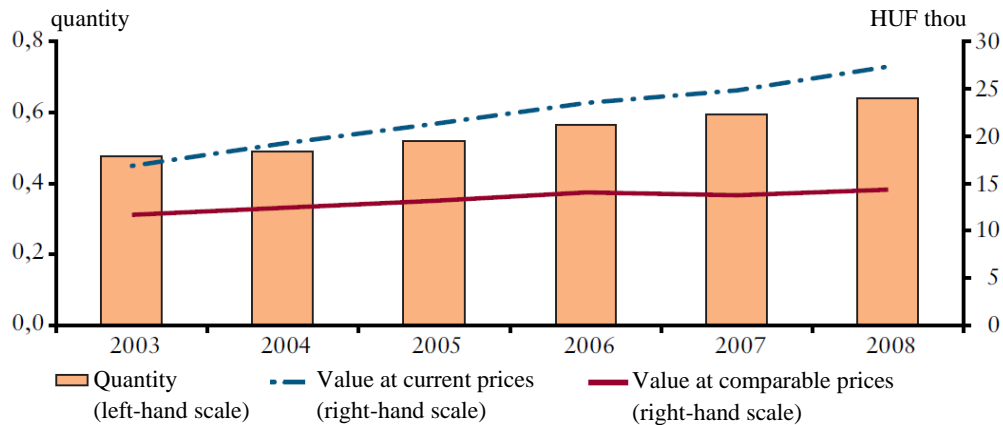
The process begins when the client initiates cash withdrawal from his bank account at a postal outlet. Next Magyar Posta Zrt. electronically requests and receives authorisation from the credit institution affected. Upon receipt of the authorisation Magyar Posta Zrt. executes the request for cash withdrawal. The credit institution then registers payment of the cash advance and transmits data on all transactions to Posta (PEK) on a daily basis. In the final step Magyar Posta Zrt. shall include the amounts of cash withdrawals executed with bank cards when settling accounts with the given credit institution for all transactions on a daily basis, and shall settle the daily balance bilaterally with the credit institution (the party in arrears transfers the daily balance to the other party). (An in-depth description of the process is available under point 5 of the Annex.)

#### Chart 22

#### Simplified chart for the execution of cash withdrawals at postal outlets with bank cards

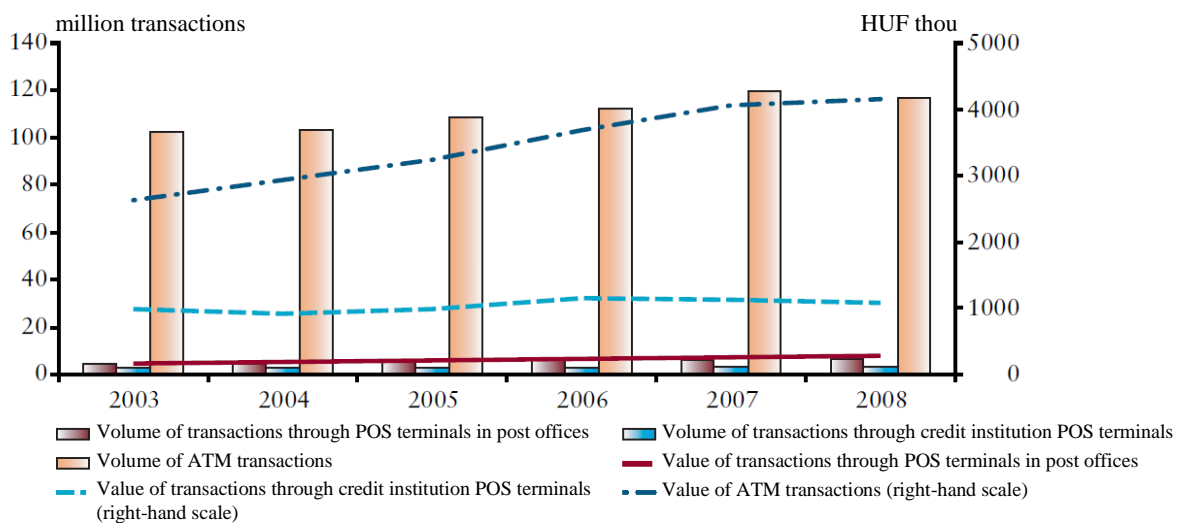


In 2008 on the average 0.6 cash withdrawals at postal outlets with bank cards had been executed per person for an amount of 27,300 forints. Between 2003 and 2008 the volume of cash withdrawals at postal outlets with bank cards per person increased by 34.2%, and the value of such transactions increased by 22.6% at comparable prices.

**Chart 23****Annual volume (amount) and value (thousand HUF) of cash withdrawals at postal outlets with bank cards per person**

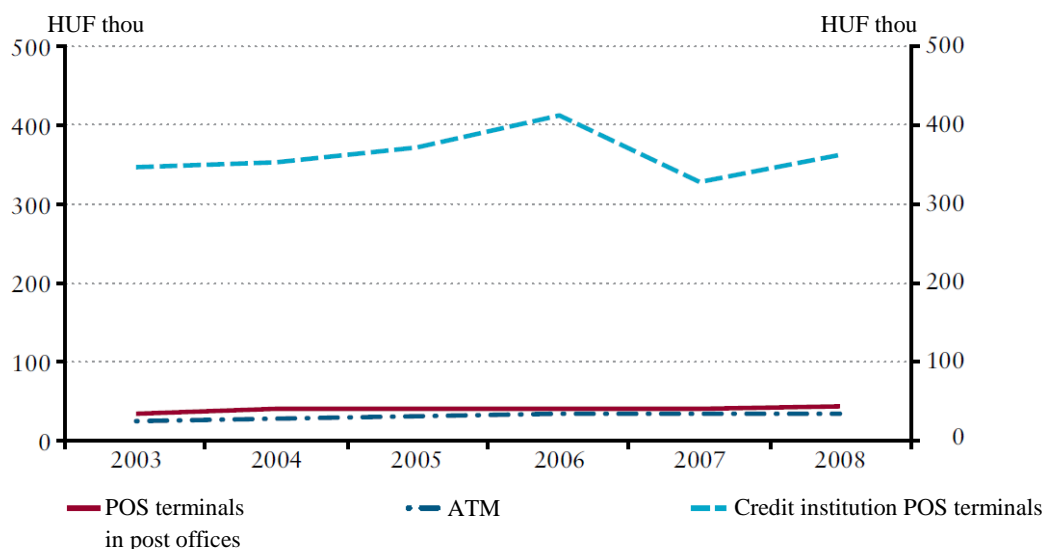
Source: MNB.

The amount of cash withdrawal transactions at POS terminals located in post offices is far behind in terms of value and volume compared to cash withdrawal transactions at ATMs, however, by comparison to cash withdrawal transactions at POS terminals located in credit institutions, it falls behind in terms of value only.

**Chart 24****Annual total volume (million transactions) and value (billion forints) of cash withdrawal transactions at POS terminals located in credit institutions and post offices, and at ATMs**

Source: MNB.

The average value of cash withdrawal bank card transactions at POS terminals located in post offices (36 to 43 thousand forints between 2003 and 2008) is somewhat higher than the volume of ATM cash withdrawal transactions, however, it is significantly lower compared to POS terminals located in credit institutions. What this indicates is that customers tend to use POS terminals located in post offices as ATMs.

**Chart 25****Annual average value of cash withdrawal transactions at POS terminals located in credit institutions and post offices, and at ATMs**

Source: MNB.

Magyar Posta Zrt. does not directly charge any fee for this service to customers withdrawing cash, however, there is a fee charged to the credit institution involved in the settlement of the transaction, and the credit institution is more than likely to pass this charge on to its customers. The fee charge by Posta consists of two components, a fixed amount (230 forints per transaction), plus 3% of the money paid out.

Magyar Posta Zrt. applies the charge on the business day following the day of the transaction together with all other transactions with the credit institution in question<sup>31</sup>, and settles the balance of all transactions within the framework of net settlement mentioned for postal payment money orders. (It transfers funds in the case of postal debts and demands payment in the case of postal receivables.)

**Table 6****Advantages and disadvantages of cash withdrawal transactions through POS terminals located in post offices**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of Magyar Posta Zrt.	– Wide-spread popularity	– Costs of cash handling
From the perspective of customers withdrawing cash	– Extensive network of postal outlets (geographical proximity)	– Cash withdrawal is tied to the post office's business hours – Service costs
From the perspective of credit institutions	– Cash distribution outsourcing	
From the perspective of society as a whole	– Wide-spread popularity	– Relative restrictions as to the use of cash-substitute payment instruments

**3.6. POSTAL ORDER FOR CASH WITHDRAWAL SERVICE**

Credit institution account holders may withdraw cash from their bank accounts – based on agreement between Magyar Posta Zrt. and the credit institution affected – by making out a postal order for cash withdrawal service at designated postal outlets or at the designated mobile post operator in communities where this service is available.

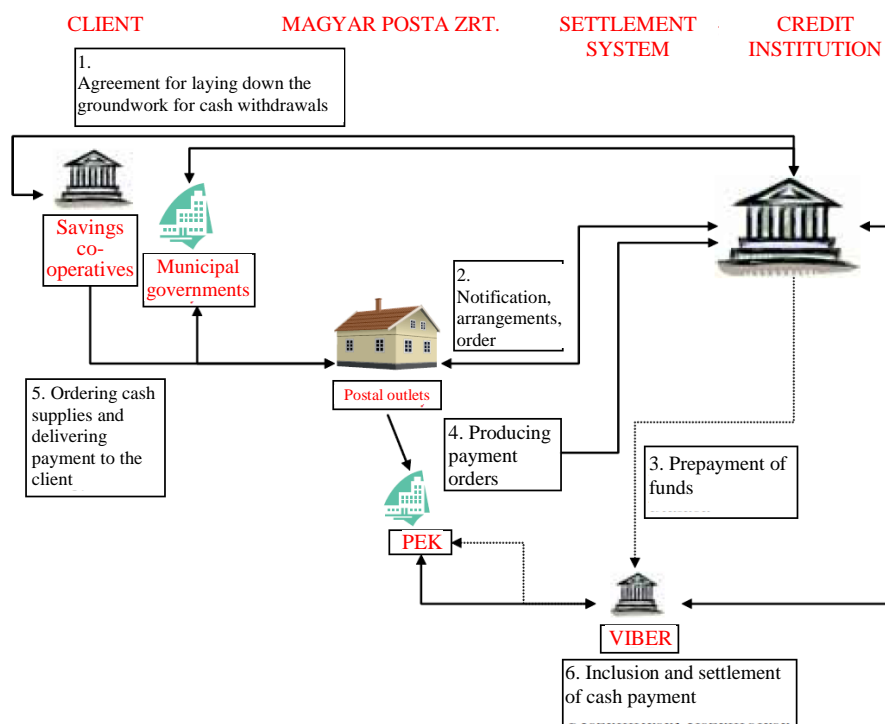
<sup>31</sup> In the case of two banks, accounts are settled directly with the issuing bank, and in the case of other credit institutions with the acquiring credit institution, which in turn settles accounts with the credit institution having issued the card involved through the card settlement infrastructure.

### Box 8: Simplified procedures for the execution of cash withdrawal with postal orders for cash withdrawal service

In the first step of the process, the customers (usually a savings cooperative, a municipal government or school) and the credit institution where they have an account enter into an agreement by mutual consent for laying down the groundwork for cash withdrawals (i.e. the place of cash withdrawal, the persons authorised to withdraw cash). Secondly, the credit institution notifies the receiving postal outlet of the designated place of cash withdrawal, orders the cash withdrawal slips (see the specimen in point 6 of the Annex), and then reach an agreement with Magyar Posta Zrt. on the amount of collateral requested, if any. Next the credit institution transfers the funds through VIBER to the payment account of Posta (if the funds are to be prepaid under the agreement). After that PEK makes out the postal order for cash withdrawal service, and sends it to the customer via the credit institution involved. Next the customer calls ahead to order the cash to be withdrawn at the postal outlet, upon which the postal outlet carries out the necessary checks to verify the identity of the persons authorised to withdraw cash (whether they are listed as payees, and whether the funds had in fact been prepaid as per the agreement) and pays the cash if everything is found in order. In the final step, Magyar Posta Zrt. shall deduct the amount of the transaction from the prepaid funds or shall include the amount when settling accounts with the given credit institution for all transactions, and shall settle the daily balance bilaterally with the credit institution (the party in arrears transfers the daily balance to the other party). (An in-depth description of the process is available under point 6 of the Annex.)

### Chart 26

#### Simplified chart for the execution of cash withdrawal with postal orders for cash withdrawal service



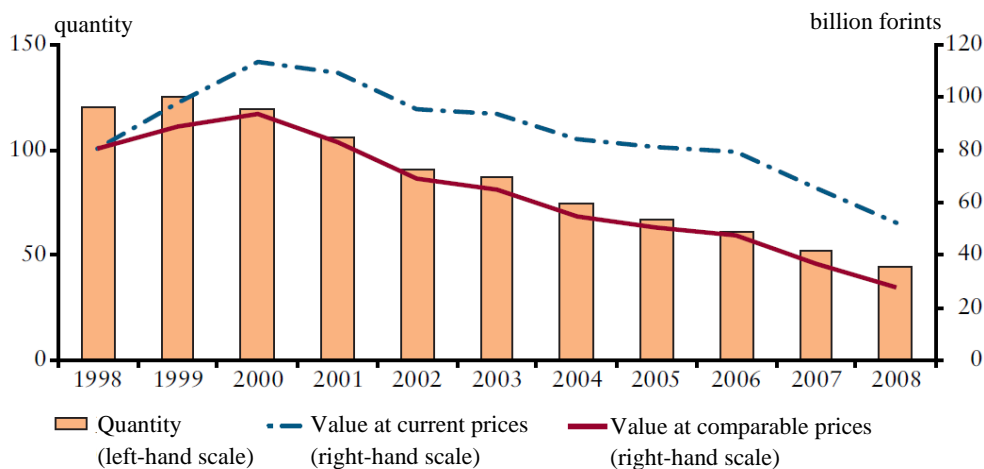
In 2008 Magyar Posta Zrt. carried out a total of 44,200 cash withdrawal transactions for an amount of 52.5 billion forints with postal orders for cash withdrawal service. Between 1998 and 2008 the annual volume of domestic postal money orders dropped by 63.2%, showing also a reduction of 34.6% at current prices and 65.8% at comparable prices in terms of value.

In 2008 the average sum paid for postal orders for cash withdrawal services transacted by Magyar Posta Zrt. was 1.2 million forints, which is a clear indication that these are not private customers. This amount indicates a minor fluctuation at comparable prices, and it decreased by 7.1% between 1998 and 2008 on the whole.



**Chart 27**

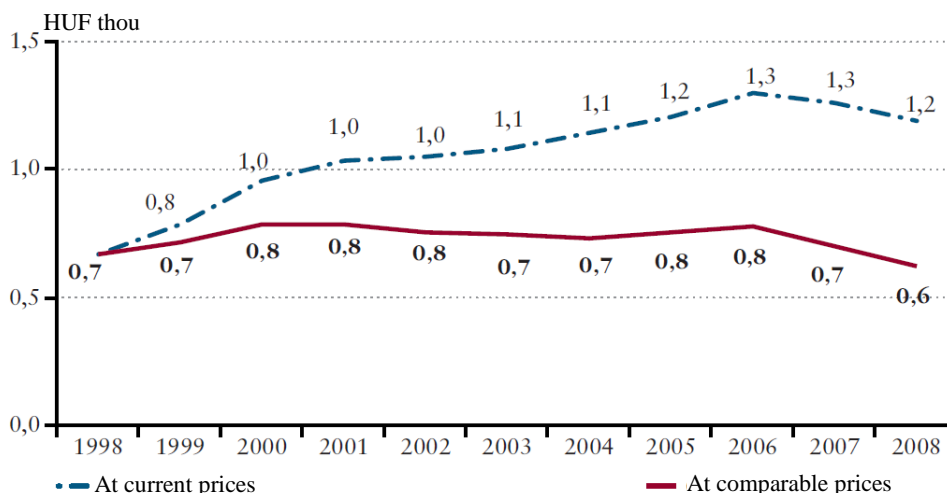
**Annual volume (thousand transactions) and value (billion forints) of cash withdrawal transactions with postal orders for cash withdrawal**



Source: MNB.

**Chart 28**

**Average amount of postal orders for cash withdrawal**



Source: MNB.

Magyar Posta Zrt. determines the fee for this service based on the amount of cash paid to the client. In 2008 the fee was 5.3 or 5.9% of the amount paid out, or minimum 265 forints<sup>32</sup> where the lower fee was charged when the funds had to be prepaid, while the higher fee was applied in the case of deferred settlement. Additionally, Magyar Posta Zrt. charges 17.40 forints<sup>33</sup> for each cash withdrawal order.

In connection with this product there were two methods employed for securing the funding and settlement, depending on the agreement with the other parties. Magyar Posta Zrt., in the case of credit institutions representing the majority of all transactions, does not receive the funds for cash withdrawals in advance, where the amount of the cash paid out to clients is settled on the second business day following the day of the transaction together with all other payment transactions between the credit institution affected and the Posta (conventional method). (The balance of all transactions is settled within the framework of net settlement mentioned for postal inpayment money orders, it transfers funds in the case of postal debts and demands payment in the case of postal receivables.) In other cases Magyar Posta Zrt. receives the funds for cash withdrawal transactions in advance (this is the new method). (Based on estimates of projected transactions, credit institutions and Magyar Posta Zrt. agree on the amount of prepaid funds covering three business days, subject to review on a regular basis in consideration of the transactions already executed.) Magyar Posta Zrt. pays the amount withdrawn from the prepaid funds (requesting that the funds are routinely replenished).

<sup>32</sup> In 2009 the fee increased to 5.55, or 6.15% of the amount received, or minimum 280 forints. The lower fee remains to apply when the funds had to be prepaid, while the higher fee was charged in the case of deferred settlement.

<sup>33</sup> 18.30 forints during the first half of 2009 and 19.05 forints in the second half. (It was available in blocks of 20 for 348 forints during 2008, for 366 forints in the first half of 2009, and 381 forints in the second half.)

**Table 7****Cash withdrawal transactions executed by Magyar Posta Zrt. on the basis postal orders for cash withdrawal**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of Magyar Posta Zrt.	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> <li>– Interest income (on the prepaid funds)</li> </ul>	<ul style="list-style-type: none"> <li>– Costs of cash handling</li> </ul>
From the perspective of credit institution account holders	<ul style="list-style-type: none"> <li>– Well known product</li> <li>– Extensive network and geographical proximity of postal outlets of Magyar Posta Zrt.</li> </ul>	<ul style="list-style-type: none"> <li>– Service costs</li> </ul>
From the perspective of credit institutions	<ul style="list-style-type: none"> <li>– Outsourcing some of the cash transactions</li> </ul>	<ul style="list-style-type: none"> <li>– Loss of interest (on the prepaid funds)</li> </ul>
From the perspective of society as a whole	<ul style="list-style-type: none"> <li>– Wide-spread popularity</li> </ul>	<ul style="list-style-type: none"> <li>– Service costs</li> </ul>

Accordingly, Magyar Posta Zrt. is drawing interest on the prepaid funds in some cases.

### 3.7. CASH WITHDRAWAL FROM CASH DEPOSIT BOOKS

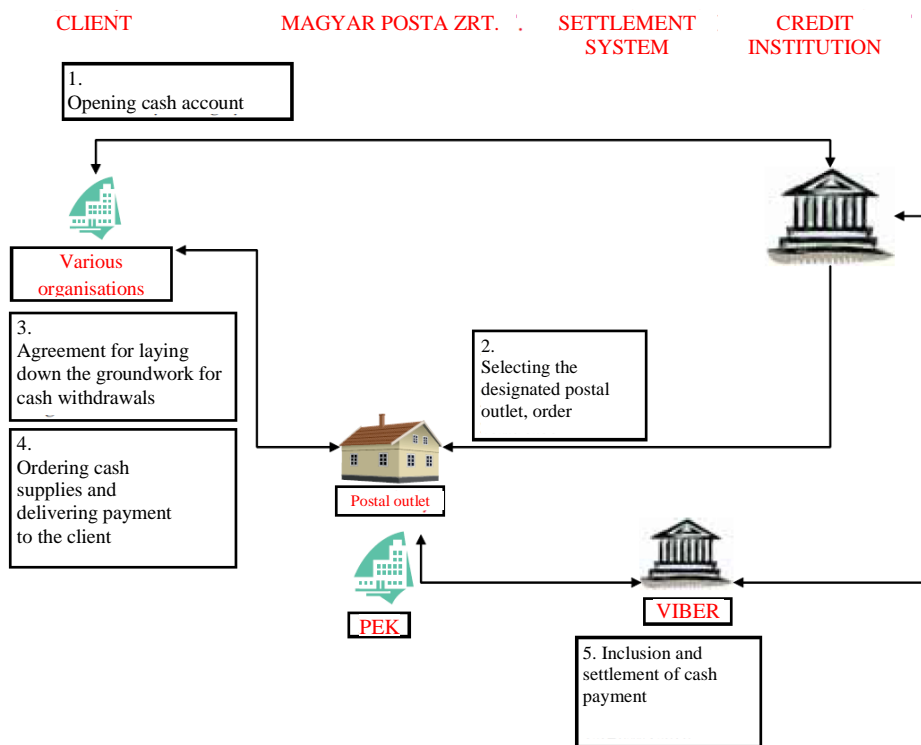
Cash withdrawal from a cash deposit book means when cash is withdrawn at the postal outlet from the client's own bank account, where the credit institution account holder is required to conduct all transactions exclusively at a designated postal outlet. (The holders of such cash deposit books have the opportunity to have sums transferred to them is credited to their cash deposit books, or make cash deposit as well.)

#### **Box 9: Simplified procedures for the execution of cash withdrawal from cash deposit books**

The process begins when the credit institution opens a cash deposit book at the client's request. Next the credit institution and Magyar Posta Zrt. designates a postal outlet where the client is required to conduct transactions exclusively to and from the cash deposit book. The next step is when the client and Magyar Posta Zrt. collectively set the conditions for cash withdrawal transactions at the post office designating by the persons authorised to withdraw cash from the account, Magyar Posta Zrt. supplies the necessary forms for using the account (for example, cash deposit book withdrawal slip under point 7 of the Annex). Next the customer calls ahead to order the cash to be withdrawn at the postal outlet, upon which the postal outlet carries out the necessary checks to verify the identity of the persons authorised to withdraw cash (whether they are listed as payees) and pays the cash if everything is found in order. In the final step, Magyar Posta Zrt. shall include the amount when settling accounts with the given credit institution for all transactions, and shall settle the daily balance bilaterally with the credit institution (the party in arrears transfers the daily balance to the other party).

**Chart 29**

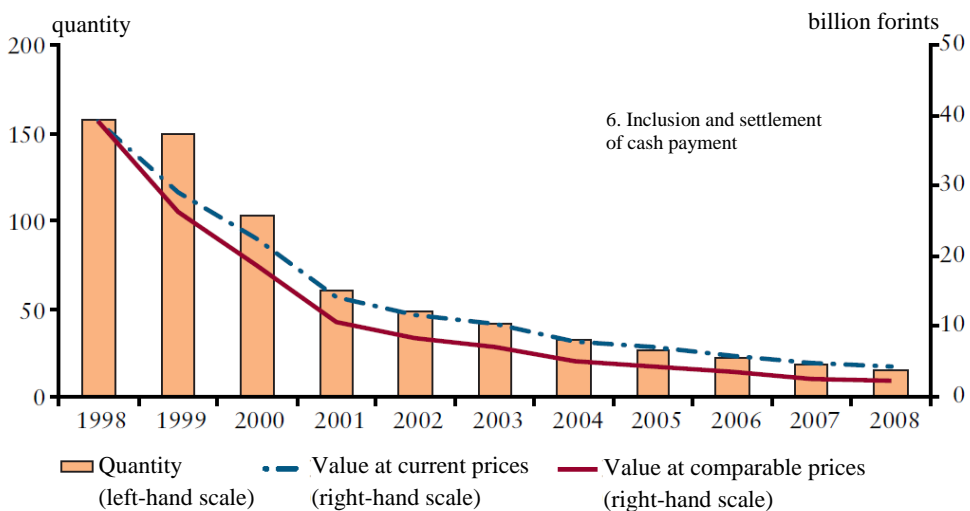
**Simplified chart for the execution of cash withdrawal from cash deposit books**



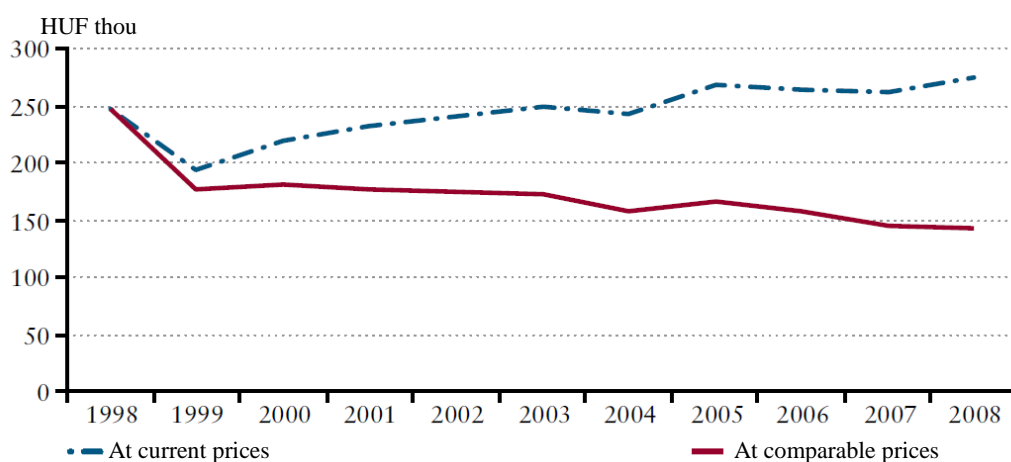
In 2008 Magyar Posta Zrt. carried out a total of 15,600 cash withdrawal transactions for an amount of 4.3 billion forints from cash deposit books. The number of transactions dropped drastically between 1998 and 2008.

**Chart 30**

**Annual volume (thousand transactions) and value (billion forints) of cash withdrawal transactions from cash deposit books**



Source: MNB.

**Chart 31****Average amount of cash withdrawal transactions from cash deposit books**

Source: MNB.

In 2008 the average sum paid for cash withdrawal orders transacted by Magyar Posta Zrt. was 273,000 forints. This amount decreased by 42.2% between 1998 and 2008 at comparable prices.

The fee charged for cash withdrawals from postal cash deposit books is 9,0‰ of the amount of the transaction (there is no minimum fee)<sup>34</sup>, while the fee charged for cash deposits is 3.6‰ of the amount deposited, plus 87 forints per deposit.<sup>35</sup> The price of cash withdrawal and deposit forms (cash deposit book withdrawal slip and personalised deposit forms provided for cash deposit books) is 15 forints each.

Magyar Posta Zrt. includes the amount of the cash paid out to clients on the second business day following the day of the transaction together with all other payment transactions pending/executed between the credit institution affected and Magyar Posta Zrt. (The balance of all transactions is settled within the framework of net settlement mentioned for postal inpayment money orders, it transfers funds in the case of postal debts and demands payment in the case of postal receivables.)

**Table 8****Cash withdrawal transactions executed by Magyar Posta Zrt. from cash deposit books**

	<b>Advantages</b>	<b>Disadvantages</b>
For the purposes of Magyar Posta Zrt.	– Wide-spread popularity	– Costs of cash handling
From the perspective of credit institution account holders	– Well known product – Transactions may be conducted in person at a postal outlet nearby	– Restricted use of bank account – Service costs
From the perspective of credit institutions	– Outsourcing some of the cash transactions – Possibility of sing a postal outlet closest to the client	
From the perspective of society as a whole	– Wide-spread popularity	– Restricted use of bank account – Service costs

<sup>34</sup> 9.90‰ since 2009.

<sup>35</sup> Since 2009 a minimum charge of 95 forints is applied for each form.

## 4. Estimate of interest income and similar proceeds enjoyed by Magyar Posta Zrt.

### 4.1. INTEREST INCOME

In the description of payment services we have mentioned on occasion that theoretically Magyar Posta Zrt. has the opportunity to earn interest income. This possibility exists where the Posta receives the funds for transactions in advance in cash or in scriptural money.<sup>36</sup> On the other hand, payment services are unique in that the form of payment instrument changes in most cases, cash turns into scriptural money or vice versa. In a traditional sense, interest income appears feasible only in the case of scriptural money, nevertheless, it may be realised indirectly also if the funds are available in the form of cash, since this way Magyar Posta Zrt. does not have to release any scriptural money for filling the cash requirement for the purpose of carrying out a particular service. The costs of processing, transport and storage of the cash received comes out of the proceeds from interest income, which has to be covered by Magyar Posta Zrt. even if the cash is used within the postal network for making cash payments.

**Table 9**  
**Funding postal payment services, related settlement and interest income**

Description of service	Funding	Clearing and settlement	Interest income
Execution of postal inpayment money orders (yellow cheques)	Cash deposits of clients	Included in net settlement on the second business day following the date of prepayment of funds	+ (under normal circumstances: 2 business days)
Postal outpayment money orders for pension	Prepaid 3 business days before the scheduled date of payment	Settlement of unpaid postal outpayment money orders for pension on the fourth business day following the payment deadline	+ (under normal circumstances: 2 business days)
Execution of payment orders dispatched by means of data transmission or on paper	Prepaid on the date of dispatch of the payment order	Settlement of unpaid payment orders on the third business day following the date of delivery to PEK	+ (under normal circumstances: 1 to 2 business days)
Payment of payment orders dispatched on data medium	Not prepaid	Included in net settlement on the second business day following the date of dispatch	-
Execution of domestic postal money orders ("pink cheque")	Prepaid at the time of dispatch		+
Cash disbursement at postal outlets with card use	Not prepaid	Included in net settlement on the business day following the date of transaction	-
Payment of postal orders for cash withdrawal	Not prepaid (in the case of credit institutions where most transactions take place)	Included in net settlement on the second business day following the date of withdrawal of cash (in the case of credit institutions where most transactions take place)	- (in the case of credit institutions where most transactions take place)
Payment from cash deposit books	Not prepaid	Included in net settlement on the second business day following the date of withdrawal of cash	-

<sup>36</sup>Loses interest income elsewhere, where funds are not received in advance.

## 4.2. INCOME FROM POSTAL SERVICES

Relying on the announcement on the rates for postal payment services in 2008 and on the turnover data for 2008 we have estimated the revenues of Magyar Posta Zrt. from those services. We used the following assumptions.

- In connection with postal inpayment money orders we applied the lowest fee – 66 forints – irrespective of the transaction amount (the payment order is filled out completely, data is supplied solely on data medium – without delivering the payment order forms or their copies – on the second business day following the date of dispatch of the postal inpayment money order).
- We have taken only the amount of yellow cheques of executed postal inpayment money orders into consideration (meaning that we did not figure torn and discarded cheques), and we assumed that the service provider (collector) orders all postal inpayment money orders from Magyar Posta at the best rate (4.80 forints).
- As regards the production of postal outpayment money orders for social benefits and other purposes, we also applied the lowest fee (8.69 forints), in other words the fee charged by Magyar Posta Zrt. when making out the form using the data file. We applied a service charge (359 forints) relative to the average value, that is used for the most common form of dispatch and conveyance (on magnetic disc or by means of data transmission).
- As regards cash withdrawals at postal outlets with bank cards we applied the uniform fee of 3% on 230 forints per transaction.
- For domestic postal money orders we applied the service charge relative to the average value, at 645 forints per transaction.
- In connection with cash withdrawal orders we figured a charge of 17.40 forints for the form and the service charge of 5.9% for the most common service method (deferred settlement).
- Relating to deposits into cash deposit books we applied a printing charge of 15 forints plus a service charge of 9% on the amount of transaction for cash withdrawals.
- We decided to overlook postal outpayment money orders for pension, deposits into cash deposit books and international money orders.<sup>37</sup>

Taken from the assumptions the revenue estimate is to be considered the minimum.

Taking all revenues into consideration, postal inpayment money orders constitute the largest percentage with minimum 31 billion forints, as this particular service represents the largest turnover among all postal payment services in terms of volume and value both.

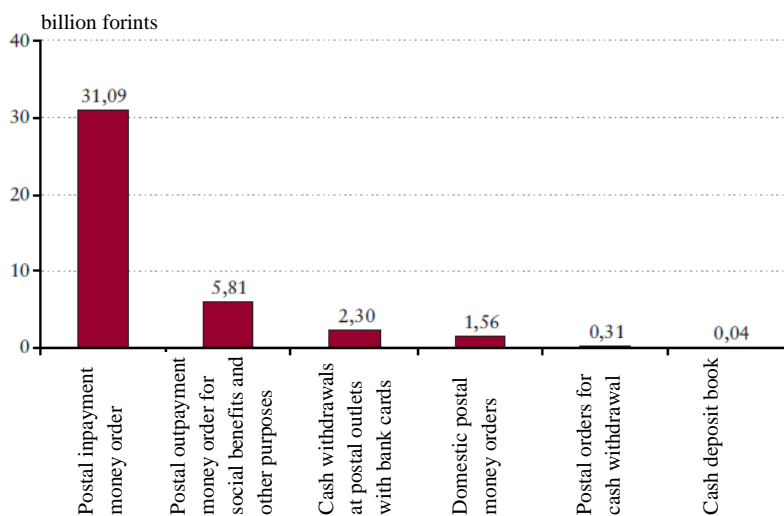
As regards revenues per transactions, postal inpayment money orders are the smallest items at 110 forints. The amount we have calculated coincides with the sum (70–120 forints),<sup>38</sup> that some service providers (collectors) had been charging in 2008 to clients using postal inpayment money orders to pay their bills.

At the same time the volume of cash withdrawal transactions with cash withdrawal orders or from cash deposit book is insignificant among all revenues, however, it is considerable in terms of per transaction revenues.

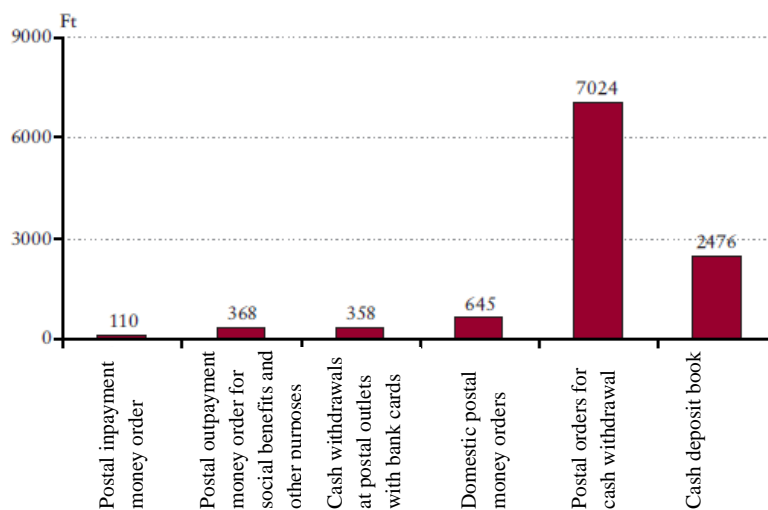
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<sup>37</sup> The service charge for payments of pension payment orders is not public, and the other two items are not included in the main subject of the study.

<sup>38</sup> Bankkártya Hírlevél (*Bank Card Bulletin*), 8 September 2008.

**Chart 32****Revenues of Magyar Posta Zrt. from payment services activities, 2008**

Source: MNB calculations.

**Chart 33****Revenues of Magyar Posta Zrt. per payment services transactions, 2008**

Source: MNB calculations.

## 5. International comparison

Postal services are involved in the international transmission of money by way of international money orders and Western Union money order services. Nevertheless, let us take a broader look into the services provided by postal services abroad.

### Box 10: Overview of international postal trends

After the 1980s the postal services sector went through considerable changes. In the wake of technological development, the introduction and rapid growth of electronic mail systems, and on account of globalisation and liberalisation, postal services, all of which previously enjoyed national monopolies, are now facing stiff competition. According to a publication of Union postale universelle/Universal Postal Union (UPU) (a UN body established to improve cooperation between postal services and to provide consultation services)<sup>39</sup> some of the postal services reacted to such changes by aggressive product diversification, cutting costs and mergers, some entered into a restructuring process – under protection of the internal market –, while others implemented only minor changes in their business strategy, and suffered heavy losses in consequence. In the late 1980s, the most profitable divisions, specifically the telecommunications sectors, got separated from postal services, and the postal services had been converted into publicly funded organisations with own budget, and lately there are some examples of privatisation as well (in the Netherlands and Germany). The transition process had been and is spearheaded by the very postal services that were targeted for privatisation by the respective national governments.

The service spectrum of national postal services include, in addition to letter and parcel consignments, freight forwarding and lately electronic services, financial services provided either on own account or on behalf of others in the capacity of an intermediary. The scope of postal financial services activities ranges from the most common form of postal inpayment money order services, provided since 1878, to accepting deposits and administering loans in some cases.<sup>40</sup>

According to UPU<sup>41</sup> postal financial services activities are particularly important in isolated areas, which may also apply to any underdeveloped region or community of an otherwise developed country. This theory is supported by a report recently made for the lower house of the British Parliament<sup>42</sup>. Banks are inclined to close their branches in less frequented areas, after which the local clients usually seek out the local post office – if there is a need for local and personalised services –, provided that the post office still operates. Naturally, postal financial services activities are also sought by people with no bank account, knowing that they represent 5% of the population in places like the United Kingdom in 2006/2007.<sup>43</sup>

Accordingly, the revenue of the British postal service (Post Office Ltd.) from financial services (including insurance activities as well) was 29.3% in 2007/08.<sup>44</sup> According to UPU statistics for 2003–2007, the ratio of income from financial services within the revenues from postal services is the highest in Italy (between 43.6% and 49.0% ) among the EU-25. Let us note that statistics do not appear solid and balanced neither in time nor among the countries in respect of whether the post offices report on their financial services activities, therefore, instead of the itemised annual data we opted to include the tiered data considered characteristic (see Table 10).

According to the summary analysis conducted by UPU on the impact of the economic and financial crisis of 2008<sup>45</sup>, the amount of deposit and saving accounts held by national postal services went up during the fourth quarter of 2008 on the whole – by comparison to the same period the year before –, while the volume of domestic letter consignments dropped by 5.9%.

In 1997 the first postal directive was adopted in the European Union, intended – on the one hand – to guarantee access to letters and parcels – defined as universal services – within the EEA for all users at sufficient quality and affordable prices, and to ensure the furtherance of the gradual, controlled liberalisation of the postal market. As the European Commission stated in its last report on the application of the directive<sup>46</sup>, universal services within the Union are to be provided every working day and not less than five days a week, at affordable prices and in good quality, in respect of the transit times with better results in 2006 and 2007 than what is prescribed by the directive,<sup>47</sup> moreover, the first signs of competition in the making are already evident in the letters market. The market share of the competition of universal service providers emerging in Spain, Sweden, Germany and the Netherlands was between 8 to 14% in 2007, while it remained under 2% in the other Members States.

<sup>39</sup> Union postale universelle/Universal Postal Union (2004).

<sup>40</sup> Union postale universelle/Universal Postal Union (Connecting today's postal sector with tomorrow's future, Postal financial services: the closer the better).

<sup>41</sup> Union postale universelle/Universal Postal Union (Connecting today's postal sector with tomorrow's future, Postal financial services: the closer the better).

<sup>42</sup> House of Commons, Business and Enterprise Committee (2009).

<sup>43</sup> HM Treasury, refers to the House of Commons, Business and Enterprise Committee (2009), point 127, where the people with no bank account represented 75% (of the adult population) towards the end of the 1960s.

<sup>44</sup> House of Commons, Business and Enterprise Committee (2009).

<sup>45</sup> Union postale universelle/ Universal Postal Union (2009).

<sup>46</sup> Commission of the European Communities (2008).

<sup>47</sup> Contrary to the 85% requirement, 94% of all postal items had been delivered within 3 days from the day of dispatch as regards the consignments in the fastest standard category in intra-Community cross-border services.



The postal network is significant. The population served by one postal outlet in the 30 European countries (the EU-27 plus Croatia, Norway and Iceland) – according to the Eurostat report <sup>48</sup> – was between 661 and 13,668 during 2006 (which is practically the same as in previous years). In the case of the EU-27 this number is 3447, slightly higher (by 8.6%) than the Hungarian number. In addition to the EU-27 average and Hungary, France, Croatia, Portugal, Romania, Slovakia and Slovenia is found in the 3000 to 4000 category. The lowest figure (below 1000) applies to the Czech Republic, Cyprus and Luxembourg, while the highest belongs to Spain.

**Table 10**  
**Ratio of revenues from payment services within all revenues from postal services between 2003 and 2007**

Margin	Number of countries	Description of countries
above 40%	1	Italy
Between 30 to 40% on the average	0	–
Between 20 to 30% on the average	6	France, Lithuania, Hungary, the Czech Republic and Slovenia
Between 10 to 20% on the average	5	Germany, Greece, Ireland, Latvia, Luxembourg
Between 5 to 10% on the average	3	Estonia, Portugal, Slovakia
Between 0 to 5% on the average	6	Cyprus, Denmark, Finland, Malta, Spain, Sweden
Not available	4	Austria, Belgium, Great-Britain, the Netherlands

Source: UPU

In connection with postal financial, and even more so payment services activities, the scant availability of comparable international statistics is remarkable. The UPU statistics mentioned in the prior clearly outline the amount of giro, postal savings and bank accounts maintained by post offices in certain countries.

**Table 11**  
**Data on payment services provided by post offices**

Country	Year	Per capita number of giro accounts		Per capita number of postal savings and bank accounts		Comments
		Quantity (ea.)	Value (SDR)	Quantity (ea.)	Value (SDR)	
Austria	2006	0.07	120	0.25	724	As an agent of Postabank
Belgium	2004	0.01	657	0.06	276	Together with another organisation
the Czech Republic	2007	0.10	Not available	0.11	Not available	Together with another organisation
France	2005	0.18	Not available	Not available	Not available	By the banking subsidiary of Posta
Ireland	2007	–	–	0.38	282	Together with another organisation
Poland	2007	0.00	Not available	–	–	Together with another organisation
Luxembourg	2007	0.26	5116	–	–	
Great-Britain	2006	0.04	117	Not available	Not available	Together with another organisation
Germany	2005	0.06	202	0.21	420	By the banking subsidiary of Posta
Italy	2007	0.09	572	0.41	1207	
Spain	2004	–	–	0.00	11	Together with another organisation
Slovenia	2007	–	–	0.13	0	Together with another organisation

Source: UPU

<sup>48</sup> Eurostat (2008).

What Table 11 demonstrates is that postal services do not usually provide financial services on own account. The amount of per capita postal giro accounts is high in Luxembourg and France (one such account per four to five persons), while the per capita year-end account balance exceeds 5,000 SDR<sup>49</sup> in Luxembourg. The amount of postal savings and bank accounts is high in Ireland and Italy, nearly every other person has one. The per capita year-end account balance usually equals to several hundred SDR, however, in Austria it is higher than 700 SDR and in Italy it exceeds 1,200 SDR. According to some information for other sources<sup>50</sup> the British postal service (Post Office Ltd.) provides access as an intermediary to the clients of many banks (for example, Bank of Ireland, Bank of Scotland, Barclays, Lloyds TSB, Nationwide Building Society, The Co-operative Bank) to cash withdrawal and cash deposit facilities, balance inquiries and, in some cases, borrowing and term deposit facilities as well.

The latest development is that the German postal service<sup>51</sup> (Deutsche Post World Net) is gradually abandoning the market of financial services and it focuses on its basic services (letters, packages, newspaper distribution, logistics, express services), where ultimately an agreement was concluded for the sale of Deutsche Postbank AG.

**Table 12**  
**Annual volume and value of domestic postal money orders per person in the EU Member States**

Country	Year <sup>52</sup>	Quantity (ea.)	Value (SDR)	Comments
Austria		2.03	Not available	
Belgium	2005	0.01	Not available	
Cyprus		0.01	0.47	
the Czech Republic		0.54	47.31	
Denmark		–	–	
Estonia		0.10	5.48	
Finland	2006	0.00	0.20	
France		Not available	Not available	
Greece		0.28	89.24	
the Netherlands		–	–	
Ireland		0.48	93.08	
Poland		2.10	Not available	
Latvia	2006	0.01	0.32	
Lithuania		0.06	3.59	
Luxembourg		–	–	
Hungary		0.44	26.65	Including Western Union services
Malta		0.04	1.78	
Great-Britain	2006	0.20	7.45	
Germany		–	–	
Italy		0.17	53.26	
Portugal		1.47	406.28	
Spain	2006	0.32	18.91	
Sweden		–	–	
Slovakia	2005	0.41	33.57	
Slovenia		0.22	12.34	

Source: UPU

<sup>49</sup> A currency created by the IMF (International Monetary Fund) in 1969 to function as a currency basket for the purposes of international reserves. The currency basket presently consists of the euro, Japanese yen, pound sterling and the American dollar. On 31 August 2009, 1 SDR was worth 0.0973 euro.

<sup>50</sup> House of Commons (2009).

<sup>51</sup> Deutsche Post (2008).

<sup>52</sup> 2007 unless otherwise indicated.

The UPU statistics also indicate the volume and value of domestic and international money order services provided by postal services. Table 12 focuses on domestic postal money order services, which is more relevant for our purposes (colloquially known as “pink cheque”).

Table 12 also demonstrates that – with the exception of Austria, Poland and Portugal – more than one domestic postal money order – projected upon the entire population – is not dispatched in any country, i.e. this product appears obsolete or outdated. The per capita amount of such transactions usually remains below 20 SDR, however, in Portugal it is above 400 SDR, in Ireland and Greece it is close to 100 SDR, and in Italy and the Czech Republic it is around 50 SDR. Hungary – with Western Union services included – is in the middle with 26.65 SDR (similar to Slovakia).

The Blue Book, the financial publication of ECB, contains postal turnover data only for periods before 2006. This also illustrates that, in addition to the domestic postal money order service discussed in detail in the prior, postal payments carried more weight in Belgium in 1999, and in Poland until 2003.

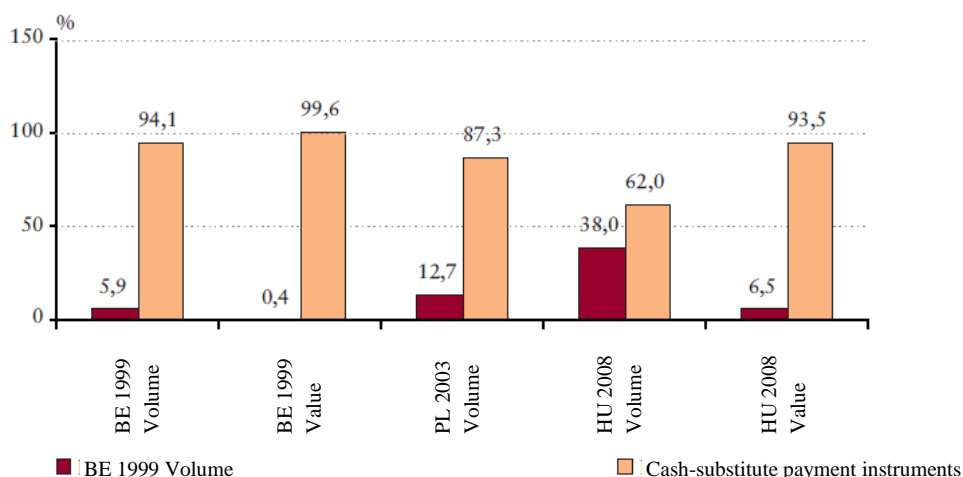
Looking at postal services and the various cash-substitute payment instruments (credit transfers, direct debits, e-money, card payments, cheques, bills) on the aggregate, the share of postal services is significantly higher in terms of volume than it is in terms of value. As far as volume is concerned, the share of postal services was considerable in Belgium (BE) in 1999 and also in Poland (PL) in 2003 (5.9 and 12.7%).

**Table 13**  
**International and domestic data on postal transactions**

Country	Service	Year	Quantity (million transactions)	Value
Belgium	Cash deposited at a postal outlet to be placed on a postal or bank current account	1999	73.8	47.3 billion euro
Belgium	Postal cheque that can be cashed in a postal outlet or a credit institution	1999	13.8	7.0 billion euro
Poland	Postal transfers, pension and other postal outpayments	2003	99.4	
Hungary	Postal inpayment money order services, pension outpayment and other payment transactions, domestic postal money orders	2008	322.5	5226.8 billion forints (20.8 billion euro)

Source: ECB, National Bank of Poland, MNB.

**Chart 34**  
**Share of postal services and cash-substitute payment instruments in certain European countries**



Source: ECB, MNB.

Chart 34 clearly indicates that the share of postal products in Hungary well surpasses the share of postal services in the two benchmark European countries in volume and value both.

After researching comprehensive international statistics we have specifically sought out information for those three postal payment services in Europe, which are considered the most significant in the activities of Magyar Posta Zrt.

As shown in Chart 3, bill payments represent the largest volume in all payment services of Magyar Posta, therefore we have investigated abroad whether utility and telecommunications bills – being the most important type of bill payment services – can be paid at post offices. We have found that such service is available in the United Kingdom, Ireland, Romania and Australia, moreover, in Australia even some products and services can be paid for with this payment instrument (Pay it @Post). The system known as Paypoint is used in the United Kingdom, Ireland and Romania for paying bills with cash and to top up mobile phones in post offices, plus in a host of retail stores as well. The system was developed and is maintained with those in mind who wish to transact their payments in cash. The operators have the bills scanned, receive the cash payment, the Paypoint organisation collects the cash from these operators on a daily basis, and they settle accounts within four business days. The bills paid through the BillPay.ie system in Ireland amounted to 24.8 million in 2007 (that means 6.2 bills annually per person, while the same is 27.6 bills in Hungary). In Slovenia and Slovakia<sup>53</sup> utility and telecommunications bills and newspaper subscriptions had commonly been paid in post offices in the past, the latest publications, however, make no mention of such postal services in neither of those countries.

The two postal payment services next in line in terms of volume are the postal outpayment money order for pension and – used mostly for payment of social welfare benefits through the postal service – the cash outpayment service. In a host of countries, such as Austria, Estonia, Greece, Ireland, Latvia, Portugal and Slovakia there is a service offering facilities for collecting and social welfare benefits in cash in post offices, however, they are showing negative tendencies. In Great-Britain they have developed a special way – in addition to transfers to bank accounts – for making payments of postal pension outpayments and social welfare benefits, known as the post office card account (POCA). The post office card account is not a bank account, although it is somewhat similar to a bank account. Money can be withdrawn from POCA – with a POCA card – and balance inquiries can be made at the post office free of charge (we have no information as to any interest). POCA is presently used by about 2 million people, however, it is not known whether it will be around on the long run.<sup>54</sup>

According to the latest development, in Romania the postal service (Posta Română) introduced a prepaid card product (Cashplus) in April 2009 (see Chart 35), in addition to its traditional payment services activities (such as, pension outpayments, utility bills).<sup>55</sup>

The Romanian postal service has begun to offer this service at six locations in Bucharest, gradually introducing it at the remaining 7000 or so postal outlets (presumably by the end of 2009). The objective is to reach those customers who have no bank account. The prepaid card can be used without a bank account, it is simple and easy to use and available to any person over the age of 18 who resides in Romania. It was developed in cooperation with Advance Payment Solutions Ltd. of Britain and with Mastercard. The card has a chip and its own PIN.

The card can be used for making purchases (including on-line shopping) and for cash withdrawal through ATMs, however, the Romanian postal service plans to expand the card's functions (for example, to include facilities for the payment of utility bills at postal outlets, and for crediting pension outpayments and social welfare benefits to the card). There is a one-off charge and a monthly fee for the card, and the latter has to be paid if the card is topped up or if used in the given month. The one-off fee is 18 lei (approximately 4.3 euro) and the monthly fee is 9.95 lei (2.3 euro).

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<sup>53</sup> ECB Blue Book published in August of 1999.

<sup>54</sup> British politicians are of the opinion that it is unlikely that this product will be allowed to continue after 2014. (House of Commons, 2009, paragraph 152).

<sup>55</sup> APS, Danubius Exim, Finextra, Prepaid conference (2009).

### Chart 35

#### Cashplus prepaid postal card of Romania



Source: Danubius Exim.

In conclusion of the above, it is apparent that postal payment facilities for paying bills in cash, for cash withdrawals and for collecting pension outpayments and social welfare benefits in cash are available in other countries which are of the same or higher level of development as Hungary. In these countries the postal network is similar in terms of quantity and density, however, postal payment services are more popular among those people with no bank account. On the other hand, Great-Britain has a surprisingly large variety of payment services designed specifically for people with no bank accounts, not to mention that some products are even exported to other countries in Europe.

## 6. Executive summary, conclusions and future prospects

The study offers a summary on major postal payment services in the domestic payment market, as they had a 38.0% share in 2008 in terms of volume and 6.5% in terms of value among all low value payment transactions. In 2008 the per capita number of household forint bank accounts in Hungary was 0.74. At the same time, some people have more than one bank accounts, and there are others with joint bank accounts (primarily married couples). Consequently, more than one-fourth to one-third of Hungarians<sup>56</sup> does not have a bank account (bank relationship). What this means is that for these people postal payment services appear to be the only alternative to handle their payment transactions, to pay their bills, and to collect their pension or social welfare benefits.<sup>57</sup>

Postal payment services are unique in that they are provided by a single domestic service provider. Usually, for most products, the type of payment instrument changes, i.e. the service provider uses cash on one side of the transaction and scriptural money on the other side. The service provider collects funds in advance for some type of payment services, and consequently it is able to draw interest in connection with these services, the size of achievable interest is reduced by the costs incurred in relation to the change in the type of money. (The service provider carries out clearing exposure for the rest of payment services, therefore it suffers loss of interest income with respect to these services).

Postal inpayment money orders represent the most important payment service of Magyar Posta Zrt. (“yellow cheques”), which, however, produces the least amount of income on a unit basis. This product is used to a larger extent by the households to pay their bills, than the cash-less payment instruments, which may be influenced by the fact that payers have the opportunity to have their bills checked postponed until the time of payment, or may even postpone payment itself up to the date tolerated by the service provider. Payment obligations are considered fulfilled – presently and all the way up to 30 April 2010 – at the time when payment is made at the post office, and the receipt stub is generally recognised as proof of payment, however, payment has to be made in person, which in turn involves a cash withdrawal transaction.

Postal inpayment money orders are followed by postal outpayment money orders for pension and postal outpayment money orders for social benefits and other purposes in the ranking of the volume of postal payment services. Postal outpayment is a widely used method for paying pension and social welfare benefits, however, having the funds credited to a bank account is gaining popularity as far as pension outpayment are concerned, approaching the level of postal outpayment in terms of value. Postal outpayment money order ensures access to pension and social welfare benefits to all those customers who has no bank account, or if they have a bank account, they choose not to use it for that purpose. At the same time, the persons affected are liable to bear the risks involved and the costs of keeping cash, and the date of delivery of pension outpayment depends on the location of the payee’s home. Moreover, this particular payment instrument does not encourage the use of cash substitutes. Domestic postal money orders and Western Union money orders are designed for sending money by those with no bank account.

Cash withdrawal transactions with bank card from POS terminals located in post offices are rising in contrast with general trends, being the fourth most used postal payment service in recent years. This type of cash withdrawal is fundamentally designed for households, whereas Magyar Posta Zrt. offers postal orders for cash withdrawal and cash deposit books for the cash withdrawal transactions of institutions. The convenience afforded by the broad network of postal outlets (geographical proximity) favours the use of these postal services, however, cash withdrawal is limited to the opening hours of post offices in all cases.

By international comparison we have established that inside the European Union revenues from financial services constitute a significant portion of the income of postal institutions in many cases, they primarily provide banking services as agents. Certain postal institutions offer cash services to customers with no bank account for paying their bills and for collecting pension outpayment and social welfare benefits (collecting pension outpayment and social welfare benefits is seen in more countries as opposed to the payment of bills). All in all, the use of postal payment services is considerably lower even in the neighbouring countries, than it is in Hungary.

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<sup>56</sup> A similar estimate had been published by GfK Hungária and by Millward Brown for 2006.

<sup>57</sup> Utility and telecommunications bills can be paid in cash directly, and money can be sent through Western Union as well.

On the other hand, the number of household bank accounts is increasing year after year in Hungary as well, and the use of banking services is growing at the same pace. The number of people using credit transfers and direct debits is on the rise, 23% of new account holders places at least one direct debit<sup>58</sup>, and an increasing number of payees ask to have their pension outpayment or social welfare benefits transferred to a bank account. As a mirror image of the increasing use of banking services, the use of postal payment services is showing signs of slower growth (or decline), however, the actual share of these services still far exceeds the share seen around Europe in countries of similar level of development. According to international trends, demand for postal payment services is decreasing. This phenomena is considered favourable for the economy and society as a whole, due to the fact that postal payment services are cash intensive and the use of cash is less beneficial above a certain amount by comparison to cashless payment instruments. According to international estimates, this limit is between 8 to 18 euro<sup>59</sup>.

Magyar Posta Zrt. charges a fee for its services, however, end-users are not always aware of the existence of such fees directly. There is no charge for the payer in case of postal inpayment money order, whereas – although there is no charge to the payee for the use of outpayment of pension, social benefits, and postal orders –<sup>60</sup> these service too have their costs, set in the public tariff schedule of Magyar Posta Zrt.<sup>61</sup> and charged accordingly to the credit institutions and thereby their clients (service providers). As per our calculations – taking into account turnover data and the rates published in the tariff schedule – the cost of one postal inpayment money order in 2008 was approximately 110 forints, and 368 forints for a postal outpayment money order for social benefits and other purposes. Providers of utility and telecommunications services, and other service providers – excepts for certain cases – refrain from making the costs of postal inpayment orders clearly shown, specifically the payers using this type of payment instrument. Consequently, the fees are ultimately built into the price of the basic service. As Magyar Posta Zrt. publish its fees – except for postal outpayment money orders for pension – it rather depends on the providers of utility and telecommunications services, and other service providers whether the payment costs related to the collection of fees for basic services remain hidden from the general public.

The fact that the fees charged for postal payment services remain hidden in some cases from the end-users, is detrimental to relative chances of competition products. Despite of the hidden nature of fees, demand for traditional postal payment services is expected to decline even further – due to the increasing popularity of banking products and in accordance with international trends – where the rate of decline may be influenced by the State's behaviour as a participant on the payment market, notably because the State has an important role in the payment services market in its capacity of collecting taxes and tariffs, paying pensions and social benefits and, to some extent, wages<sup>62</sup> as well. Today, postal inpayment money orders are still the most common means of paying taxes and tariffs, however, ongoing efforts to improve the relevant infrastructure could result in broader use of electronic payment facilities.

Nevertheless, new payment regulation is scheduled to enter into force on 1 November 2009, featuring broader playing field for Magyar Posta Zrt., while increasing competition at the same time. According to the new regulation, Magyar Posta Zrt. is granted the status of a payment service provider and as such it may open payment accounts for private customers and collectors/payees alike. Decades of experience, the knowledge capital accumulated, its reputation and the wide network will help Magyar Posta Zrt. to expand and retain its clientele. However, in the interest of success it is essential to improve its variety of services, to develop the IT systems of postal outlets, specifically at the post offices with no live network (on-line) connection at this time. Amid the increasing competition, the unified information and settlement regulations applicable to payment service providers/institutions must be complied with as well.

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<sup>58</sup> B. Feitel–L. Kovács (Millward Brown), 2006.

<sup>59</sup> Such estimates were made in the Netherlands, Belgium and Sweden, showing 11.36 euro in the study made in the Netherlands, 10.24 euro according to the authors of the study made in Belgium, and 8 and 18 euro by the study made in Sweden (compared to debit cards and credit cards).

<sup>60</sup> Although some may give a tip to the postman delivering the money.

<sup>61</sup> The fee charged for delivery of pension payment orders is not public.

<sup>62</sup> Within the public administration system.

# Annex: Arrangements for the execution of major payment services activities and the related flow charts

## 1. POSTAL INPAYMENT MONEY ORDERS (“YELLOW CHEQUES”)

**Figure 1-1**  
“Yellow cheque”



Service providers (collectors) (including the tax authorities and any other body that issues postal inpayment money orders for the payment of loan instalments or donations, or for any other purpose) have at their disposal several different sources from which to obtain the inpayment money orders, or they have the option to produce them themselves [Figure 1-2: steps 1a)-b)]. Potential sources include the Magyar Posta (PEK and Electronic Postal Centres), and contractors engaged under contract with Magyar Posta. The standard terms and conditions for the payment services activities of Posta contain provisions for the production of empty forms and their completion by an automated process (also known as personalisation<sup>63</sup>). Where an organisation that did not previously engage in such activities, offers to manufacture these forms, it must produce a sample first that will have to be approved by Posta before beginning the manufacturing process. Posta will also monitor the quality of order forms manufactured simultaneously with processing. Service providers (collectors), in connection with self-produced forms, cover the costs of any interruption or disturbance in the postal processing system attributed to faulty forms.

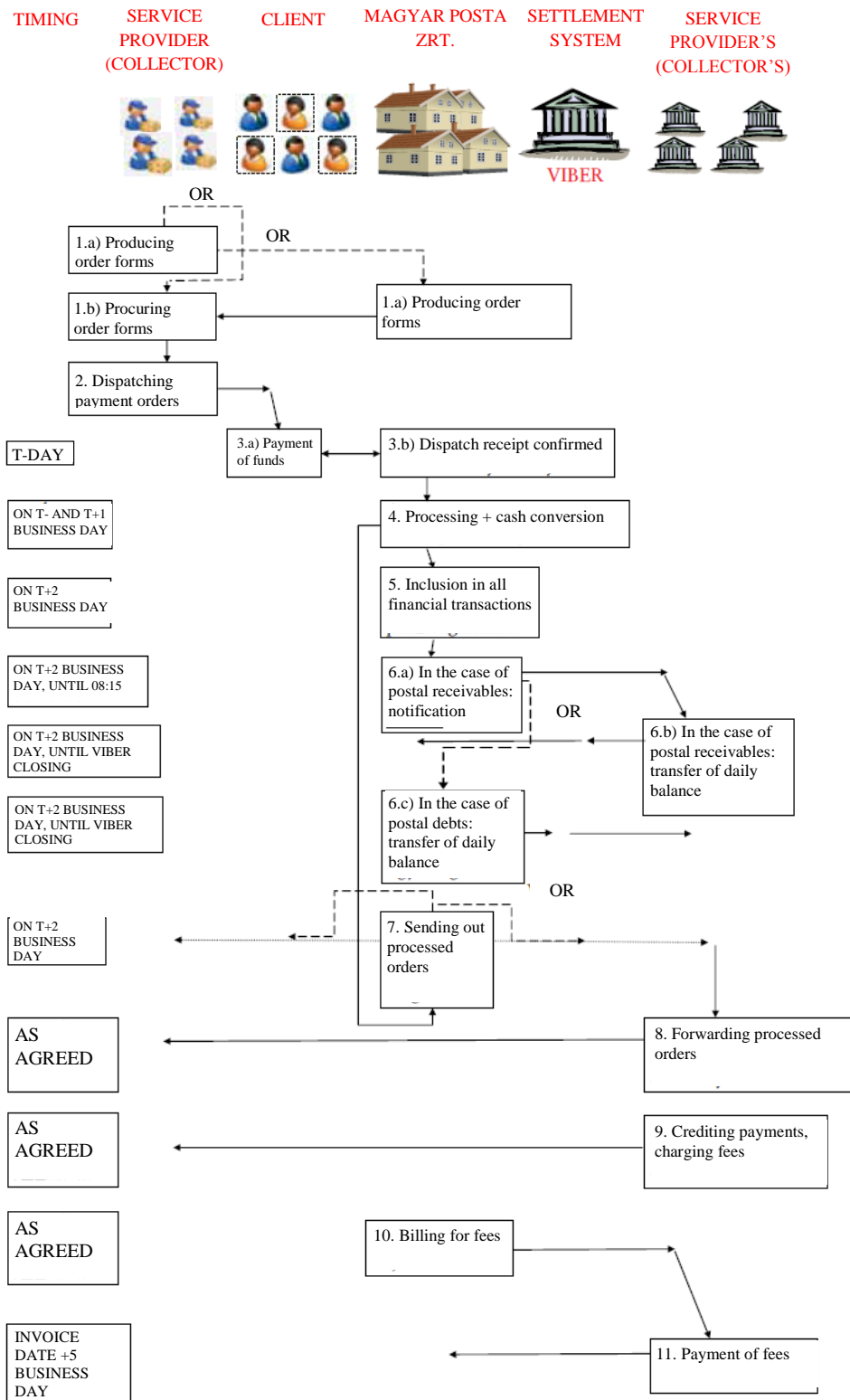
The lower, white section of the payment order stubs (also referred to as OCR or Optical Character Recognition section) contains coded information defining the mode of payment of the postal inpayment money order, therefore the account holder is required to specify the transaction – to which the service pertains – and output codes in advance, in agreement with the credit institution and the Posta (PEK). The transaction codes refer to the degree of completion of the orders (indicating the amount and the payer identification code pre-printed, or the absence thereof), whereas output codes refer to the means of disclosure of information from processing the payment orders (in continuous format on a close to full-size copy of the original form or a reduced-size copy, or in a computer file).

Payers are supplied with postal inpayment money orders by the service providers (collectors) (Figure 1-2: step 2).

<sup>63</sup> Indicating information such as the payer and payee, the payment deadline and the amount, and the information the account holder is expecting during processing, etc.



**Figure 1-2**  
**Execution of postal inpayment money orders**



Magyar Posta confirms receipt of the payment order upon receipt of the funds covering the transaction amount [Figure 1-2: step 3.a)], by endorsement and return of the dispatch receipt [Figure 1-2: step 3.b)] on T-day. The amount acceptable for a single payment order is limited at 9 digits (maximum 1 billion forints minus 1 forint)<sup>64</sup>. Once the payment order is confirmed, the payer may not request a refund and may not cancel the order, for pre-payment of the funds is considered completed when the money is deposited at the postal service outlet. Once the payment order is accepted, the account holder indicated on the form has the right to dispose over the money paid up, meaning that the client cannot ask the Posta to refund the money after the fact.

Postal service locations shall send the orders they have accepted on a given day – using the postal courier – by the time of settlement (by or before the closing of the postal outlet to allow ample time for forwarding the orders on the same day) with a cover sheet attached, to PEK on T-day. PEK shall process all transactions connected to payment service orders centrally, it will scan the original order forms, correct the errors where necessary (for example, manually record the data of damaged forms) and shall then produce the processed orders on T+1 business day. Some of the cash funds received is used – following the necessary checks – at the given postal outlet for making payments in connection with some other postal services, and Magyar Posta transfers some of the surplus funds from one postal outlet to another, and converts the larger part into scriptural money in the inter-bank money market, or through having it deposited to MNB. (Figure 1-2: step 4)

Magyar Posta transfers the sum indicated on the payment order on the second business day from the time of daily settlement to the account number shown on the payment slip in the OCR box, or based on some other form of identification – for the purpose of credit on bank account – to the account carrier credit institution through VIBER. Settlement takes place on a net basis, i.e. the balance of all payment transactions carried out under contract with credit institutions (including MÁK) is settled on the day of delivery of the relevant accounting statements, which differs for each service. (Figure 1-2: step 5)

If the daily balance shows postal receivables, Posta notifies the credit institution affected on the same day by 08:15 [Figure 1-2: step 6.a)], requesting payment of the sum due on that day, before the closing of VIBER, by transfer through VIBER to the MNB account of Posta [Figure 1-2: step 6.b)]. If the daily balance shows any liability on the part of Magyar Posta, Posta shall initiate the transaction on the same day, also before the closing of VIBER, through VIBER to the MNB account of the credit institution in question [Figure 1-2: step 6.c)].

Magyar Posta sends the processed orders – as agreed with the credit institutions affected – either to the credit institution or directly to the service providers (collectors) on the second business day following the date of receipt of payment. This is done either on paper-based data medium or in a computer file, as requested by the account holder (arranged according to account numbers or credit institutions, with the summary statements for settlement enclosed). (Figure 1-2: step 7)

If Magyar Posta sends the processed orders to the credit institution affected, the credit institution shall forward it to the service providers (collectors) based on their agreement (Figure 1-2: step 8).

The credit institution affected shall credit the sum paid up according to the agreement concluded with the service provider/collector, and shall charge the service fee to the service provider's (collector's) account (Figure 1-2: step 9). Credit institutions usually pass on the postal service fee to the service providers (collectors) together with their own charges.<sup>65</sup>

Magyar Posta bills for its services – depending on the agreement with the credit institution affected – weekly, bi-weekly or monthly (Figure 1-2: step 10), with a payment deadline of five business days (Figure 1-2: step 11).

Magyar Posta also provides express services, where the funds received are sent to the credit institution, and the information processed is sent to the credit institution and the service providers on the first business day following the time of daily settlement. Similar to standard postal inpayment money orders, Magyar Posta charges a fee for express services also comprised of two components, 3.60% of the amount of the transaction (which is the same as charged for standard services), plus 197 forints per transaction irrespective of the amount of the transaction, i.e. more than double of the highest fee charged for standard services.

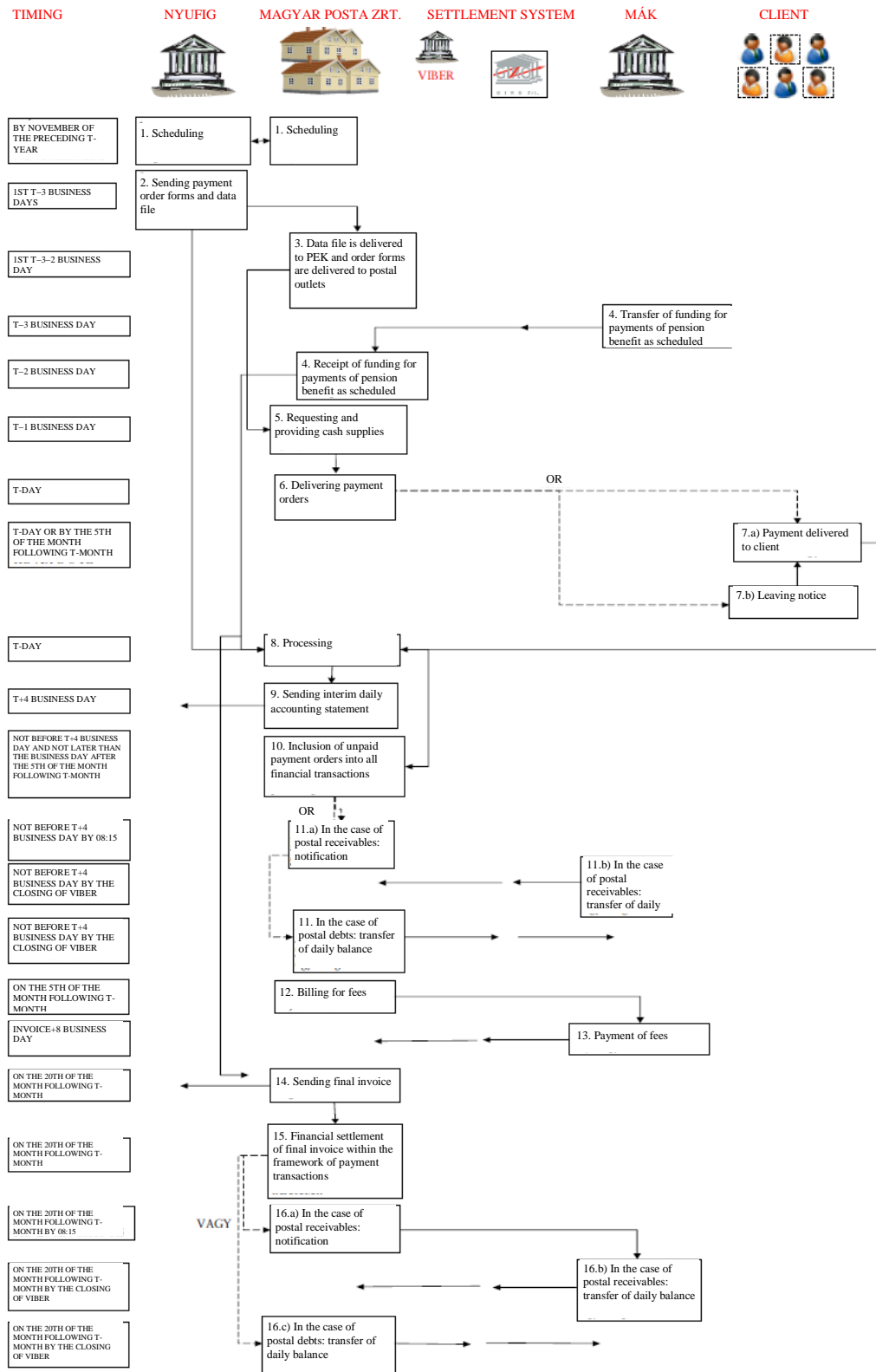
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<sup>64</sup> The final amount will be rounded according to Act III/2008 laying down the rules for rounding required on account of the withdrawal of 1 and 2 forint coins from circulation.

<sup>65</sup> It is so indicated by the announcements and terms and conditions published by a host of credit institutions. In other cases this may be revised based on the bargaining position of service providers.

## 2. EXECUTION OF POSTAL OUTPAYMENT MONEY ORDERS FOR PENSION

**Figure 2-1**  
Execution of postal outpayment money orders for pension



Magyar Posta Zrt. and NYUFIG jointly draw up a timetable for the execution of postal outpayment money orders for pension according to a so called pension calendar. (The pension calendar contains the day of payment of pension benefits broken down by communities, ensuring that they are delivered in the entire country by the end of the month, thus there are some communities where pension benefits are delivered 14 business days before the end of the month). (Figure 2-1: step 1)

NYUFIG dispatches the printed payment orders for the month in batches together with a data medium containing the particulars of those payment orders to Magyar Posta three business days before the first payment day shown in the pension calendar (1st T-day) (Figure 2-1: step 2). The batch of payment of orders is delivered to the relevant postal outlets on the day of dispatch, or on the next day, depending on the distance and the mode of transport, while the data file is delivered to PEK on the day of dispatch (Figure 2-1: step 3).

On behalf of NYUFIG, MÁK transfers the funds estimated to cover the payments to be made on the payment day designated by the pension calendar (T-day) to BKR on T-3 business day to the payment account of Magyar Posta operated by MNB, meaning that the funds are placed at the disposal of Posta on T-2 business day, depending on the settlement cycle of BKR (Figure 2-1: step 4).

The paying postal outlets place the order for the necessary cash supply on the phone on T-1 business day from the regional Posta depositories (Figure 2-1: step 5).

On T-day Posta delivers the postal outpayment money orders for pension scheduled for T-day (Figure 2-1: step 6), and the funds indicated on the orders to the authorised recipient (payee, authorised agent, substitute recipient) irrespective of any amount limit [Figure 2-1: step 7.a)] or leaves a notice [Figure 2-1: step 7.b)]. Apparently, Posta pays pensions over 100,000 forints at the designated destination to the payee or his/her authorised representative, however, a substitute recipient may collect postal outpayment money orders for pension up to 100,000 forints only. Payment can be made by the 5th of the following month, or the next business day if the 5th falls on a weekend or holiday.

Postal service locations send the payment orders executed, and unpaid payment orders following the payment deadline to PEK for processing (Figure 2-1: step 8), that sends an interim daily accounting statement to NYUFIG and the data file on a data medium on T+4 business day (Figure 2-1: step 9). (Paid and unpaid payment orders are retained by Posta, specifically PEK.) As part of interim daily accounting, Posta includes the sum of unpaid postal outpayment money orders for pension in the net settlement system, executed on T+4 business day at the earliest (Figure 2-1: step 10). In the case of postal receivables on the aggregate, Posta sends a notice to MÁK and requests to have the balance transferred [Figure 2-1: steps 11.a) and b)], whereas in the case of postal debts it transfers the relevant sum to MÁK through VIBER [Figure 2-1: step 11.c)].

Magyar Posta bills monthly for the execution of postal outpayment money orders for pension dispatched by NYUFIG<sup>66</sup> on the 5th of the following month (Figure 2-1: step 12), and MÁK settles such bill through BKR within 8 business days following receipt of the invoice (Figure 2-1: step 13).

Magyar Posta Zrt. prepares the final invoice by the 20th of the following month covering paid and unpaid payment orders, and sends it to NYUFIG (Figure 2-1: step 14), and settles the final invoice with MAK within the framework of all financial transactions (Figure 2-1: steps 15-16).

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<sup>66</sup>The fee is not public, it comprises an integral part of the agreement between Magyar Posta and the paying agency.

### 3. EXECUTION OF POSTAL OUTPAYMENT MONEY ORDERS FOR SOCIAL BENEFITS AND OTHER PURPOSES

Figure 3-1

Postal outpayment money orders for social benefits and other purposes

The image shows a sample of a Hungarian postal outpayment money order form (Fedezeti okirat) for social benefits. The form is pink and white with red text. It includes fields for the amount (2,808.5), the payer's name (MINTA), the date (2003. április 1.), and the account number (11222222). There are also handwritten signatures and stamps. The form is numbered 05189612 527 86.

There are two preconditions for this service: one is that the credit institution has to select the postal service locations together with the regional postal directorate (Figure 3-2: step 1), and they are to provide for the possibility for dispatching postal outpayment money orders for social benefits and other purposes at the selected locations, i.e. the credit institution is to notify the selected postal outlets of the persons authorised to sign the certificates of availability of funds, and shall have the signature specimens delivered (Figure 3-2: step 2).

Postal outpayment money orders for social benefits and other purposes may be dispatched three different ways, on paper (with the related posting list and certificate of availability of funds), by means of data transmission or providing the data file on data medium (Figure 3-2: step 3).<sup>67</sup>

Orders may be dispatched at the designated service locations or in PEK by 12:00 hours if submitted on paper form, by 15:00 hours if submitted by means of data transmission, and if submitted on computer data medium by 16:00 hours at the latest, although it may vary according to postal service locations. (Postal outpayment money orders for social benefits and other purposes may be submitted in PEK only if dispatched by providing a data file by means of data transmission, or if dispatched in Budapest in whatever form.) The amount acceptable for a single payment order is limited at 9 digits (maximum 1 billion forints minus 1 forint)<sup>68</sup>. The certificate of availability of funds shall indicate the account number to be debited and the total amount of the transaction and the service charge.

If dispatched on paper, Posta enters the particulars of receipt on the posting list made out in 4 counterparts, and returns a copy to the payer on T-business day. If dispatched with data file, Posta – after processing on the day of receipt – prepares a data file complete with information for identification of the payment order received (supplemented data file) delivers it to the credit institution or the credit institution account holder by means of data transmission, or on data medium (supplied by the payer) on T-business day (Figure 3-2: step 4).

If dispatched by means of data transmission or on paper, the credit institutions affected (including MÁK) shall transfer funds on the day of dispatch necessary to cover the payment of postal outpayment money orders for social benefits and other purposes (through VIBER by 16:00 hours at the latest, in BKR by 22:00 hours at the latest) to the payment account of Magyar Posta operated by MNB (Figure 3-2: step 5).

Magyar Posta (PEK) verifies receipt of the funds on T+1 business day,<sup>69</sup> and shall lodge a complaint if necessary (Figure 3-2: step 6).

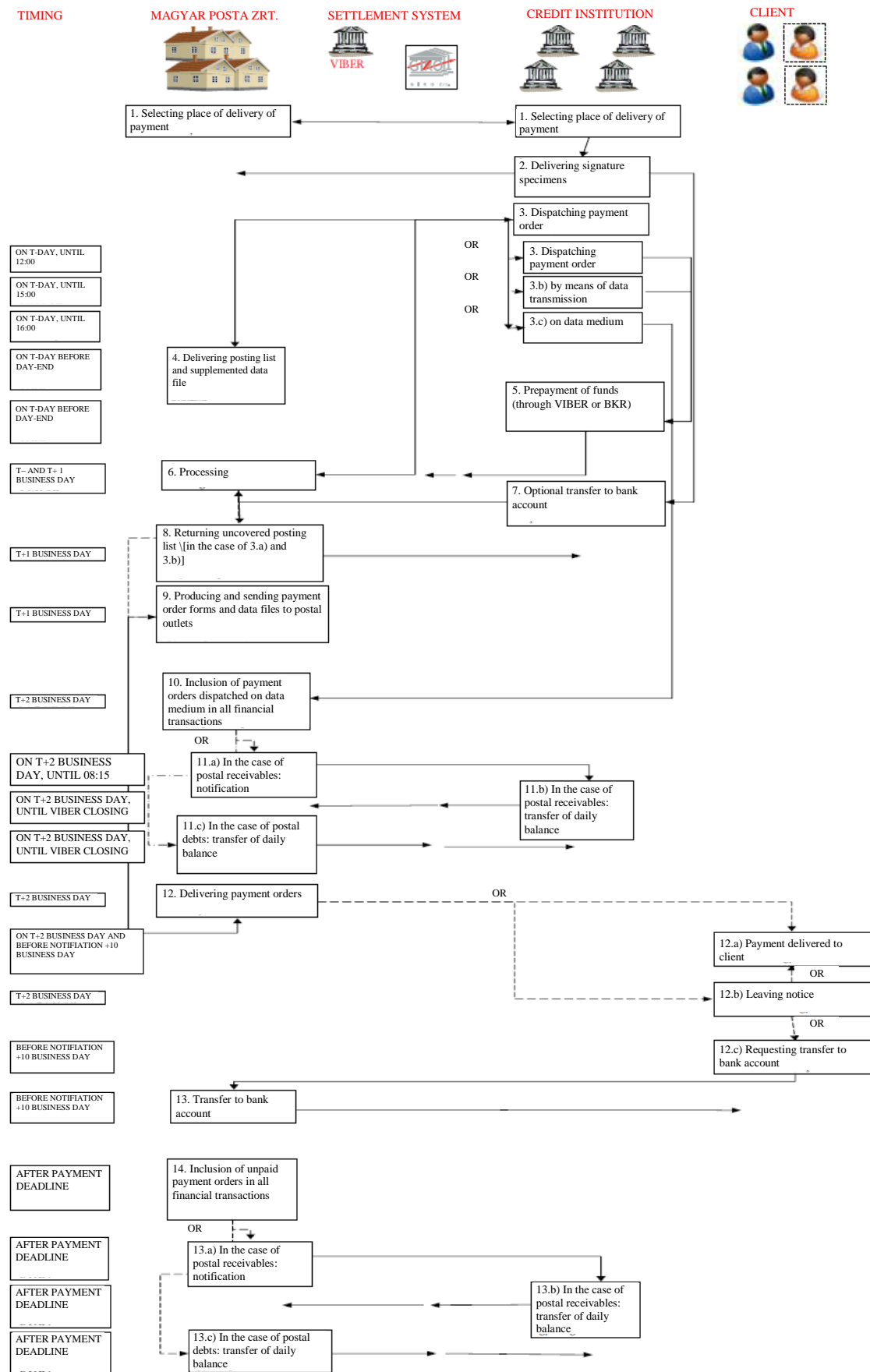
<sup>67</sup> The most frequently used means of dispatch is data transmission that is used – in addition to MÁK – by several credit institutions as well. The second most popular way of dispatch is on data medium (used by most credit institutions). (Use of paper-based forms is insignificant: less than 1%.)

<sup>68</sup> The final amount payable will be rounded according to Act III/2008 laying down the rules for rounding required on account of the withdrawal of 1 and 2 forint coins from circulation.

<sup>69</sup> If dispatched by means of data transmission or on paper-based form.

**Figure 3-2**

**Execution of postal outpayment money orders for social benefits and other purposes**



Credit institutions have until T+1 business day to request to have the funds transferred to the payee's bank account instead of the original order of cash payment (Figure 3-2: step 7).

Magyar Posta returns the posting list dispatched on paper or by means of data transmission to the payer in the event of insufficient funds (Figure 3-2: step 8).

Posta begins to make out paper-based forms from orders dispatched by means of data transmission only if there is sufficient cover, whereas paper-based forms for orders dispatched on data medium are made out irrespective of receipt of funds. Posta expedites paper-based orders on T+1 business day to the paying postal outlet (Figure 3-2: step 9).

If the order is dispatched on data medium, Magyar Posta Zrt. shall include the funds received for executing the payment orders on the second business day in all payment transactions pending/executed between the credit institution affected and Posta (Figure 3-2: step 10), while the balance is settled within the framework of net settlement mentioned for postal inpayment money orders [Figure 3-2: steps 11.a)-c)].

Payments are effected at the earliest on the second business day following the day of dispatch. Posta delivers the money to the address indicated, personally to the authorised recipient (payee, authorised agent, substitute recipient), if the amount of the transaction is below 100,000 forints [Figure 3-2: step 12.a)]. If the money cannot be delivered, and the amount is over 100,000 forints, Posta sends a notice to or leaves a notice for the payee, upon which payment takes place at the postal service location indicated in the notice within 10 business days [Figure 3-2: step 12.b)]. The payee has the option – subject to a fee – to have the sum credited to a bank account [Figure 3-2: step 12.c)], in which case Posta transfers the funds to that account (Figure 3-2: step 13).

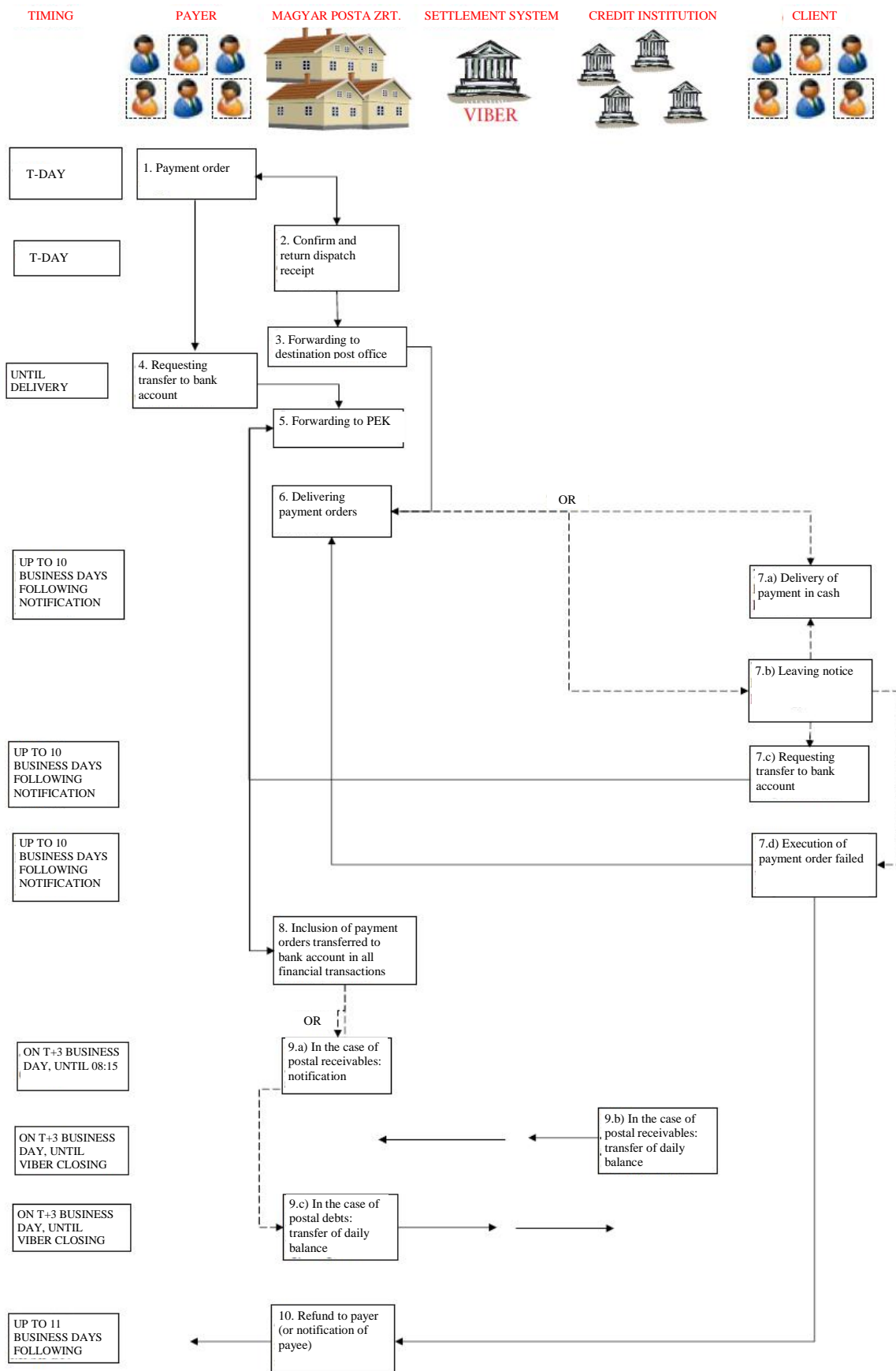
Posta retains the payment order for 10 business days after the date of notice, and if the money is not collected in that timeframe a photocopy of the payment order in question is sent to the credit institution, and the corresponding sum is returned to the credit institution through VIBER within the framework of net settlement mentioned for postal inpayment money orders (Figure 3-2: step 14).

#### 4. DOMESTIC POSTAL MONEY ORDER (“PINK CHEQUE”)

**Figure 4-1**  
“Pink cheque”



**Figure 4-2**  
**Execution of domestic postal money orders**





Within the framework of this service the payer submits a completed domestic postal money order form – prescribed by Magyar Posta – and provides the funds necessary to cover the amount of the transaction in cash. The payee has the option – subject to a fee – to have the sum credited to a forint bank account. (The amount limit for domestic postal money orders is 2 million forints.) (Figure 4-2: step 1.)

Posta confirms receipt of the payment order upon receipt of the funds covering the transaction amount (and the service fee) by endorsement and return of the dispatch receipt (Figure 4-2: step 2). Posta forwards the payment order to the destination post office (Figure 4-2: step 3) and proceeds as instructed by the payer until the order is executed.

The payer may change the order and request to have the funds credited to a bank account, provided that Posta has not yet started to execute the payment order (Figure 4-2: step 4), payment orders designated for transfer are forwarded to PEK by the postal outlets affected (Figure 4-2: step 5).

Posta delivers the payment orders (Figure 4-2: step 6). The payment order is considered executed when Posta pays the sum dispatched to the payee or provides the means for having the sum collected. The standard terms and conditions contain no provisions as to the time limit for having domestic postal money orders delivered, however, Posta usually delivers these orders on the day following the day of dispatch. Posta delivers the money to the address indicated, personally to the authorised recipient (payee, authorised agent, substitute recipient), if the amount of the transaction is below 100,000 forints [Figure 4-2: step 7.a)]. If the money cannot be delivered, and the amount is over 100,000 forints, Posta sends a notice to or leaves a notice for the payee, upon which payment takes place at the postal service location indicated in the notice [Figure 4-2: step 7.b)]. The payee also has the option – subject to a fee payable by way of bank transfer – to have the funds credited to his/her bank account denominated in forint [Figure 4-2: step 7.c)].

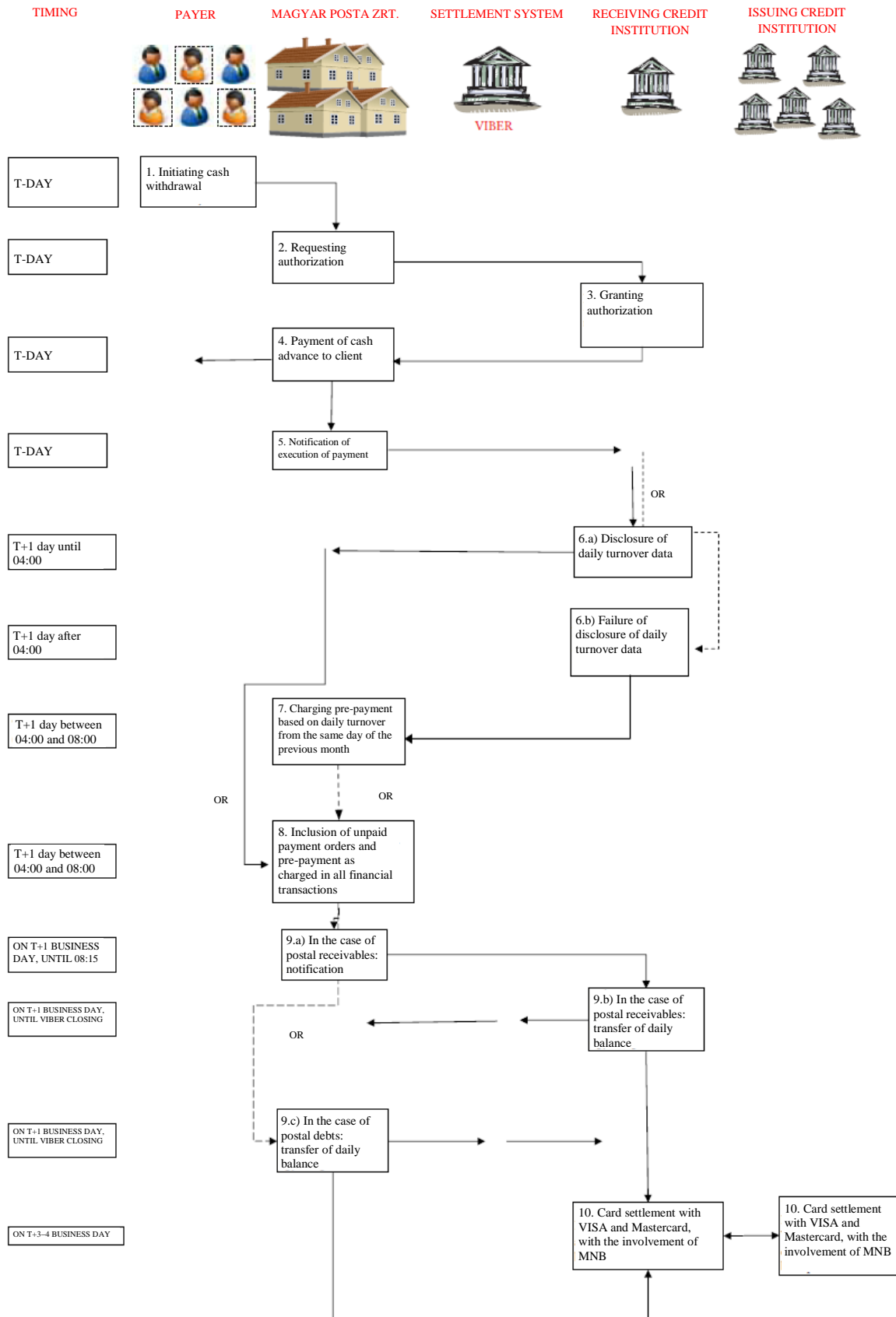
Posta retains the payment order for 10 business days after the date of notice, and if the money is not collected in that timeframe the unpaid payment orders (other than the payment orders designated for transfer) are returned [Figure 4-2: step 7.d)] and the corresponding sums are refunded to the payer (Figure 4-2: step 10).

Magyar Posta transfers the funds of payment orders designated for transfer through VIBER to the credit institution affected within the framework of net settlement mentioned for postal inpayment money orders (on the third business day following delivery of such orders to PEK) (Figure 4-2: step 8).

As regards the so called fast remittance orders, which command a higher fee, Magyar Posta Zrt. delivers the money in priority (within 6 hours from the time of dispatch in communities with permanent post offices, and on the next business day following the time of dispatch elsewhere), however, the transaction amount cannot be higher than 50,000 forints. (Posta sends such payment orders – also referred to as fast remittance orders – by fax or over the phone – with the content conveyed – to the postal service location of destination.)

## 5. CASH WITHDRAWAL AT POSTAL OUTLETS WITH BANK CARDS

**Figure 5-1**  
Cash withdrawals at postal outlets with bank cards



A cash withdrawal transaction is initiated by the client using his/her bank card in a POS terminal located in a post office on T-day (Figure 5-1: step 1).

Magyar Posta Zrt. requests – through its relevant department – authorisation from the acquiring credit institution (Figure 5-1: step 2), and proceeds according to the reply given to execute the transaction on T-day (Figure 5-1: steps 3–4). Simultaneously with the execution of payment to the client Magyar Posta sends notice (in real time) to the acquiring credit institution (Figure 5-1: step 5).

The acquiring credit institution, upon receipt of notice, discloses on T+1 business day by 04:00 hours turnover data on transactions conducted on T-business day (Figure 5-1: step 6).

If Magyar Posta Zrt. does not receive such turnover data on T+1 business day by 04:00 hours, a pre-payment will be charged based on daily turnover from the same day of the previous month (Figure 5-1: step 7).

Settlement of cash withdrawal transactions takes place within the framework of net settlement mentioned for postal inpayment money orders with the acquiring credit institution, by the inclusion of cash payments made through POS terminals located in post offices (or the pre-payment) on the business day following the date of transaction with all other transactions with the credit institution in question (Figure 5-1: step 8). It transfers funds in the case of postal debts through VIBER on the same day before the closing of VIBER, and demands payment in the case of postal receivables through VIBER, before the closing of VIBER [Figure 5-1: steps 9.a)–c)].

## 6. CASH WITHDRAWAL WITH POSTAL ORDERS FOR CASH WITHDRAWAL SERVICE

**Figure 6-1**  
**Postal orders for cash withdrawal service**

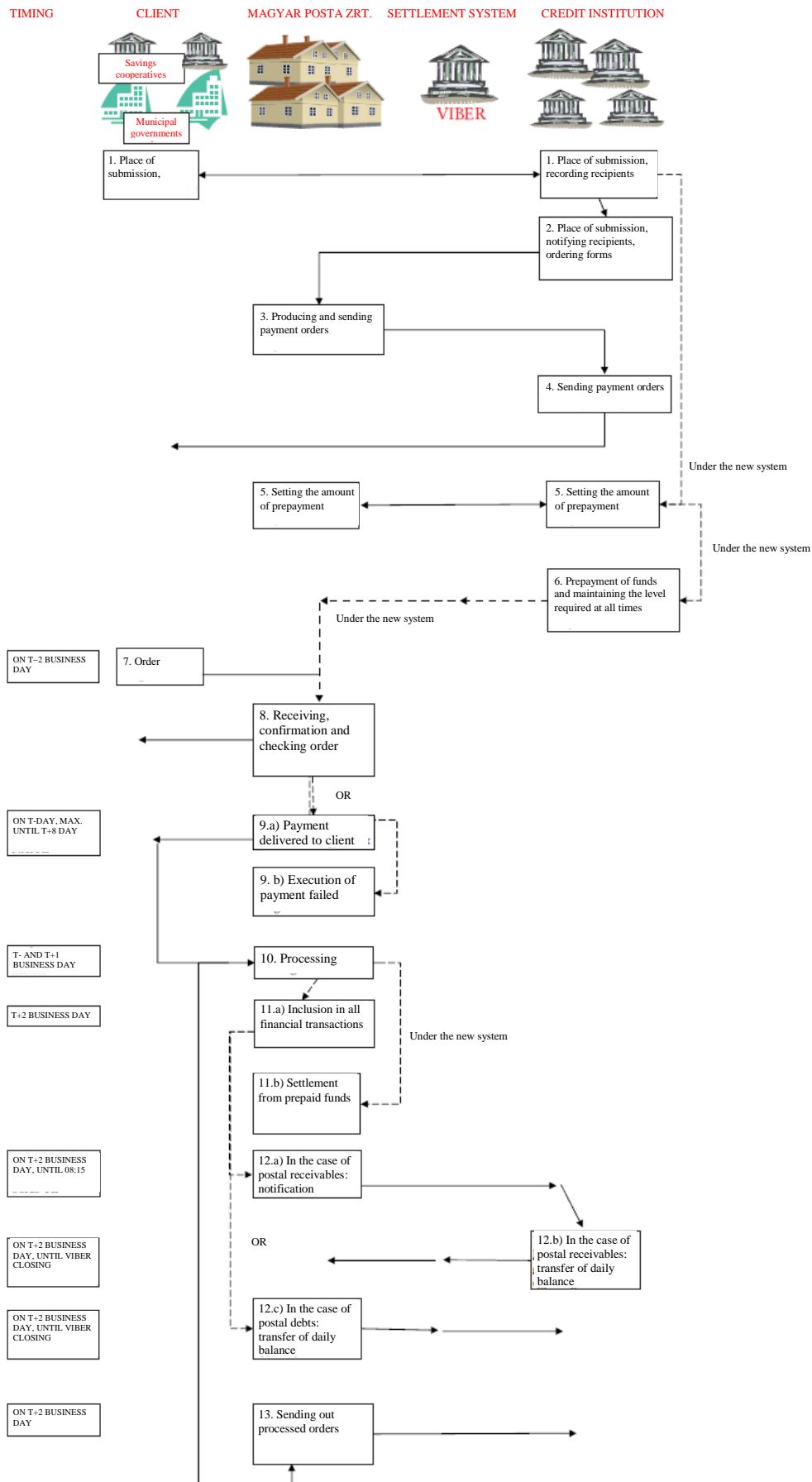


The credit institution and the account holder (client) agree on the postal location where the cash withdrawal will be executed, record the name(s) of the person(s) authorised to withdraw cash, their signatures, and any amount limit for the withdrawal of cash (Figure 6-2: step 1).

The credit institution notifies Posta of the place of the transaction, the particulars of those authorised, the amount limit, if any, and places an order with Posta for postal orders for cash withdrawal service, and then sends the signature card (to PEK) (Figure 6-2: step 2).

Posta (PEK) prepares the order forms, records the particulars of the orders on computer, and then produces the postal order forms for cash withdrawal service based on the data file thus generated, and sends them to the credit institution for having them forwarded to the account holders (Figure 6-2: step 3). The credit institutions forward the postal order forms for cash withdrawal to the account holders (Figure 6-2: step 4).

**Figure 6-2**  
**Execution of postal orders for cash withdrawal service**



Under the new system, credit institutions are required to make available the necessary funds in advance. To this end Magyar Posta and the credit institution affected determine the contribution margin together – based on turnover data estimates – subject to subsequent review – taking actual usage into account – initially after the first month, and on a monthly basis thereafter. (The contribution margin is intended to cover three business day's worth of transactions.) (Figure 6-2: step 5.) The credit institution transfers the sum required to the payment account of Magyar Posta operated by MNB (Figure 6-2: step 6). (The credit institution is required to maintain the contribution margin at all times, meaning that it has to top it up as necessary.)

The client may order cash withdrawal within the limit not more than 2 business days before the execution of payment at the designated postal service locations, that can be made in person or by fax (Figure 6-2: step 7). Clients may withdraw cash above the limit as well, in this case, however, the request for cash withdrawal shall be launched at the credit institution timed to ensure that the credit institution's authorisation is received by PEK on the third business day before the execution of payment, by 14:30 hours. (In both cases, the sum has to be set in thousand forint units, with the exception when the client wishes to terminate his/her bank account and for payments of wages.)

The paying postal outlet confirms receipt of the order (indicating the day, hour and minute), and verifies receipt to the client, including the date and time, on the day when the order is submitted (or on the next business day if the order is submitted through a mobile post operator). Posta checks the order (verifies the signature against the one shown on the signature card, as well as the sum requested to determine whether it is within the limit, if any). Under the new system, due to the requirement of pre-payment of the contribution margin, payments will be executed only if the funds necessary are made available by 10:00 hours on the business day preceding the date of payment (Figure 6-2: step 8).

If everything is found in order, the client will be allowed to withdraw cash from his/her bank account at the designated postal outlet, however, the transaction will be carried out only if the client presents the postal order for cash withdrawal service signed by the authorised signatories. This has to be done by the 8th calendar day following the date of the order, or on the next business day if it falls on a holiday [Figure 6-2: step 9.a)]. If the client cancels on the day of execution the sum – in whole or in part – ordered and approved, or fails to collect it by 11:00 hours for reasons within his/her control, a cancellation fee will be charged in the same amount as the cash withdrawal fee.

PEK checks the executed postal order for cash withdrawal service received from the postal outlets for formal and content requirements, and then records the particulars of the orders and sorts them out according to credit institutions (Figure 6-2: step 10), and, finally, expedites them to the credit institutions (Figure 6-2: step 13). PEK bills for the cancellation fee separately (manually).

Settlement with credit institutions in the traditional system (where funding is provided after the fact) takes place within the framework of net settlement mentioned for postal inpayment money orders by the inclusion of cash payments made under postal orders for cash withdrawal service on the second business day following the date of transaction with all other transactions with the credit institution in question [Figure 6-2: step 11.a)]. Funds are transferred in the case of postal debts through VIBER on the same day before the closing of VIBER, and in the case of postal receivables by VIBER credit, before the closing of VIBER [Figure 6-2: step 11.c)]. Under the new system, due to the requirement of pre-payment of the contribution margin, payments made for postal orders for cash withdrawal service are settled from the funds made available.

## 7. CASH WITHDRAWAL WITH POSTAL ORDERS FOR CASH WITHDRAWAL SERVICE FROM CASH DEPOSIT BOOKS

**Figure 7-1**

Postal orders for cash withdrawal service from cash deposit books

The figure displays three forms used for cash withdrawal from cash deposit books. The first form, 'Igazoló szelvény', shows a withdrawal of 200,000 HUF from a deposit book. The second form, 'PÉNZFORGALMI BETÉTKÖNYV KIVÉTELI BIZONYLAT', shows a withdrawal of 100,000 HUF. The third form is a large '85' stamp indicating a cash withdrawal from a deposit book. All forms include fields for the amount, the name and address of the depositor, and the postal code.

**Igazoló szelvény**  
 A betétkönyvből kivett összeg  
 Összesen: 200 000 Ft  
 Összeg betűvel kiírva: kétszáz ezret  
 A betétkönyvben fennmaradó követelés  
 Összesen: 1 000 000 Ft  
 A betétkönyv tulajdonosának neve, címe:  
**IPH teszt**  
**Érvénytelen**  
**Minta**  
 A pénzforgalmi betétkönyv száma:  
 19999991-19999991  
 09905001 799 85

**PÉNZFORGALMI BETÉTKÖNYV KIVÉTELI BIZONYLAT**  
 Összesen: 100 000 Ft  
 Összeg betűvel kiírva: kétszáz ezret  
 A fenti összeget a pénzforgalmi betétkönyv követeléséből a mai napon felvettük, a betétkönyvben fennmaradó követelés:  
 Összesen: 1 000 000 Ft  
 A betétkönyv tulajdonosának neve, címe:  
**IPH teszt**  
**Érvénytelen**  
**Minta**  
 A pénzforgalmi betétkönyv száma:  
 <81> <1999999119999991>

A betétkönyv tulajdonosának aláírása (a bejelentett módon):  
 2003. év április hó 1. nap  
 Teszt Eszter Árnika Ficsor  
 Aláírások)  
 A betétkönyv tulajdonosának bélyegző lepecskéje (a bejelentett módon):  
**Teszt Kft. bélyegzőlepecskéje**  
 A kifizető posta neve:  
 Posta 1 1999  
 <09905001> <799> <85>

Clients may request cash payments made from their cash deposit books by submitting the above-specified form by 12:00 hours on the business day before the date of execution. Clients may also request to have their cash deposits and payments made to their name credited to their cash deposit book.

Posta notifies the credit institution affected on all transactions going through the cash deposit book on the second business day following the date of execution with the relevant withdrawal and deposit slips attached. This is also the time when financial settlement is effected within the framework of net settlement mentioned for postal inpayment money orders together with all transactions conducted under contract (in the case of postal debts through VIBER, and in the case of postal receivables by VIBER credit, before the closing of VIBER in both cases).

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