

CURRENT SITUATION OF PAYMENT CARDS IN SLOVAKIA

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The field of payment cards and e-commerce in Slovakia were until 2002 regulated by partial legal regulations. A fundamental qualitative change in legislation of the system of payments occurred in August 2002, when Act No 510/2002 Coll. on the system of payments was adopted. The act represents a comprehensive regulation of the system of payments in Slovakia and is compatible with Directive of the European Union No 97/S/ES on cross-border credit transfers, Directive No 98/26/ES on the settlement finality in payment and securities settlement systems, Directive No 2000/46/ES on taking up, pursuit of and prudential supervision of the business in electronic money institutions, Article 8 of Directive No 97/7/ES on the protection of consumers and Recommendation No 97/489/ES concerning transactions by electronic payment instruments.

The respective provisions of Article 21 of the given act introduced into the legal code of the Slovak Republic basic terms and basic legal regulation from the field of electronic payment instruments and electronic money. Electronic payment instruments are defined as electronic instruments which enable access to electronically recorded or electronically maintained monetary values and which enable, by means of electronic or other technical facilities, the making of deposits, withdrawals, transfers or other operations. Only banks having the respective permit and the National Bank of Slovakia may be issuers of electronic payment instruments. Other entities may issue only e-banking payment applications and this when they are authorised to issue these under a specific act. According to the respective legal regulation a banking payment card is a remote access payment instrument. In case of a banking payment card abuse the authorised holder is responsible for the drawing of financial resources up to the moment of notifying the loss or theft of the banking payment card, up to the amount agreed in writing between the bank and the cardholder and under further conditions agreed in writing. The National Bank of Slovakia has recommended banks to agree with the cardholder an amount of EUR 150 for cases when the holder's identity is not veri-

fied by the PIN. The issuer of the payment card bears responsibility in respect of the cardholder for damage arisen after the moment of notification of the loss or theft of the banking payment card and its holder is entitled to the settlement of compensation for damage arisen in this way.

Payment cards as an instrument in the system of payments have recorded dynamic growth in the conditions of the Slovak Republic. The first real payment cards began to be issued in 1988 by Slovenská štátna sporiteľňa, in 1996 the number of payment cards issued in Slovakia reached 772 692, in 2002 the figure was 2 459 177, and in 2003 had already reached 3 024 825 cards. Currently the number in Slovakia is 0.57 payment cards issued per capita, and 1.16 payment cards per one economically active inhabitant.

On the basis of the given data the following conclusions may be drawn:

1. In the field of the development of the "card environment" for the period of the past five years an evidently penetrating trend of increase was recorded, where the highest growth index was recorded in the field of payment terminals installation and their acceptance from the side of the payment cardholders.

2. In evaluating individual years it is clear that special importance may be attributed to the year 2002 when the fastest growing trends were recorded in payment cards, ATMs, the number and amount of

Development in the field of payment cards and ATMs

Indicators	year				
	1999	2000	2001	2002	2003
Number of payment cards issued	1 542 985	1 719 503	1 974 581	2 459 177	3 024 825
Number of ATMs installed	1 011	1 084	1 182	1 366	1 505
Numbers of transactions at a bank ('000)	52 892	49 478	52 125	58 905	65 060
Amount of transactions at a bank (in mill SKK)	69 002	82 522	95 917	122 160	155 634
Number of payment terminals (PT)	4 623	6 322	9 602	12 265	13 842
Number of transactions via PT ('000)	2 293	5 648	10 603	15 996	20 687
Amount of transaction via PT (in mill. SKK)	3 116	6 844	11 737	17 633	23 175

Source: www.zbk.sk



transactions made at ATMs. The year 2000 saw the highest growth trends in the number and amount of transactions made at payment terminals. A significant increase was recorded by the monitored indicators also in 2003 when the number of payment cards issued exceeded the three-million limit and the growth index of the values mentioned moved from 1.1 to 1.3.

3. The situation in the case of the indicator – acceptance of technological facilities by banking payment cardholders is markedly different. For comparison we will use the data from 2002. The average number of transactions made in the network of ATMs in the given year was 43 229, where the average amount was SKK 2 392. The average number of transactions realised at terminals represented 1 494, the average amount SKK 1 120.

4. From the aspect of defining the current state of the “card environment” it is important to analyse the situation in relation to the cash system of payments. The number of cash transactions made at ATMs – the number of non-cash transactions made via payment terminals in 2003 is in the ratio 3 : 1 and the ratio for the amount of transactions in 2002 was 6.7 : 1. Despite the fact that cash operations still prevail, their share is decreasing, which is proven by the fact that the cash – non-cash transactions ratio in 2002 was 3.7 : 1 (in 2001 the ratio was 5 : 1), the ratio for the amount of transactions this year was 6.9 : 1 (in 2001 it was 8 : 1).

Recommendations for the banking sector

It is indisputable that payment cards represent an important, convenient and attractive payment instrument which has recorded extraordinary growth in the conditions of the transforming Slovak economy. The possibilities of their use however cannot be limited to the system of payments, therefore their substantially broader use must be expected with the ascent of chip payment cards.

The sphere of recommendations in the field of banking payment cards may be summarised into several fields:

- a) the gradual creation of optimal technological platforms for the preferential growth in operations of the non-cash system of payments,
- b) the optimisation of the retail banks' pricing policy in relation to the business network and payment cardholders,
- c) the simplification of the card environment for banking payment cardholders.

Paradoxically, it may be said that the greatest barrier to the development of non-cash payment by means of payment cards lies in the field of the technological platform, even despite the fact that this has recently recorded a boom. The introduction of electronic tech-

nology to the card environment responds to the requirement for a highly secure system of payments, it however, together with the procedure applied in the field of payment card authorisation, does not create the prerequisites for the economic realisation of card transactions in sectors where it is necessary to effect many payments, often for a minimal sum. A typical sector is grocery retail, where currently with regard to the number of payments and the time demands of a payment transaction it is not possible to expect a predominance of non-cash forms of payment.

Another aspect is the still small number of payment terminals installed at stores, or the need to innovate devices introduced in this direction so that they simply, securely and at a low cost level fulfil their function. For example in the retail and wholesale sectors, in hotels and restaurants approximately 146 000 enterprises operated in the year 2000, where the installation of 6 322 payment terminals represents a penetration rate of these devices of 4.3%.

One of the possible alternatives is a gradual transition over to chip cards. Chip projects with regard to price and technological demands however need to be realised in complex and interconnected projects, not as isolated activities of individual retail banks.

A project currently underway in Italy could provide inspiration for the Slovak environment, where over the coming five years Italy's population of more than 40 million should receive a new ID card in the form of a chip card. Its use and the scope of data held on it will be unique. The card will contain data as well as an electronic signature, data on health insurance, identification data necessary for parliamentary and presidential elections.

Optimising the pricing policy of retail banks in relation to the business network and payment cardholders represents one of the forms of supporting non-cash payment, or rather the use of payment cards. While taking account of the objective internal conditions of the banking sector, it is necessary to simplify and make transparent the respective tables of fees charged in the field of payment cards. An example of possible considerations is the application of a set percentage (1 – 3%) of the volume of earnings, increased fees for performing a withdrawal from a different ATM, or using several types of payment cards for a non-commercial payment transaction.

Recently we have seen penetrative activities of retail banks aimed at the expansive growth of payment cards. Despite the fact that there are 0.57 payment cards per inhabitant in the SR, the situation in the sphere of economically active persons is substantially better – 1.16 payment cards for each economically active inhabitant. This situation on the one hand represents a potentially significant market opportunity for the banking sector, and on the other



hand it requires the optimisation of the structure towards the evenly issuing of payment cards. The current trend of the “forced” issuing of payment cards essentially does not create the preconditions for a growth in a non-cash payments, while making the use of payment cards more complicating for clients. If a client is a holder of, for example, five payment cards, simply remembering the PIN of all cards and knowing which PIN goes with what card represents a significant problem. The quality of a payment card should be in balance with the economic, social and personal nature of the client and his/her needs. The practical need for choosing various payment cards in relation to the technical means, or international needs of banks' clients however creates significant room for the issuing of further payment cards.

The field of payment cards, characterised by a boom in the relevant indicators, is the centre of attention for retail banks and the broad consumer public. Despite the problems indicated in the field of security, handling and pricing aspects, a further marked shift in the uptake of this payment system instrument might be expected particularly in the gradually growing share of non-cash payments, in the creation of client projects, in the field of the untraditional use of payment cards, for example, for certain types of retail loans and also in the field of retail banks' other marketing activities. ATMs may in the future be also a means for scanning cheques, transfers between funds, the listing of stocks, or a significantly competitive element in relation to separate internet branches in view of the low costs of their operation.