

Hungarian Clearing Turnover in the Context of the Past Fifteen Years

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SUMMARY

The past fifteen years have been decisive in terms of the appearance and development of one of the most significant background systems serving as a foundation for the economy, the clearing services. In November 1994 the automatic clearing system was introduced in Hungary, and the past two decades saw a well-balanced operation, continuous development and more or less uniform increase in turnover. The paper presents the events of this period, the present of clearing services, and the changes in the near future which are expected to have significant impacts.

Key words: clearing turnover, money, transfer, ACH, GIRO

Journal of Economic Literature (JEL) code: E42, G20

INTRODUCTION

For the up-to-date operation of the economy it is essential that there is a stable and reliable clearing service in operation. The clearing service practically provides the 'circulation' for modern economic life. Hungary has been using an automated interbank clearing system since the end of 1994. The clearing house of credit institutions operating the system, i.e. Giro Elszámolásforgalmi Részvénytársaság, was established as early as 1988. However, the start-up of the Interbank Giro System can be regarded as a more significant event, changing the domestic clearing turnover dramatically. The fact that the services offered by the clearing system that has been established are indispensable for the economy is shown by the National Bank of Hungary qualifying the system as 'an important payment system in terms of systems' and continuously controlling and overseeing its operation.

The paper – joining in with the topic of the volume – will present first of all the events of the past more than fifteen years, with particular emphasis on the operation of the clearing house, the widening of its range of services, the technical innovations and developments. Based on the information available today, a picture will also be drawn of the major plans, projects and expected tendencies affecting the near future.

PRELIMINARIES

There are three periods in the history of clearing services in Hungary:

The first period lasted from 1893, when the legal predecessor of today's GIRO Zrt. and KELER Zrt., the Budapesti Giro és Pénztáregylet Rt. was established and operated as a result of the accelerating development of financial institutions in Hungary in the years following the Austro-Hungarian Compromise, until 1948.

The second period lasted from 1948 to 1994. In this period the operation of the nationalised Budapesti Giro és Pénztáregylet Rt. came under the rule of the National Bank of Hungary, where the specialised staff performed this activity primarily manually.

The third period is considered to start in 1988 (establishment of the company), or rather in 1994 (start of the clearing services), which is called the period of automatic clearing. From that time on, clearing between credit institutions is performed fully automatically, electronically by GIRO Elszámolásforgalmi Rt. (today GIRO Zrt.) established specifically for the purpose. The following will present information on the clearing history of the period. (Ferber-Nagy, 1990)

The emergence of the two-tier banking system, which appeared in Hungary on January 1st, 1987, can be regarded as the trigger of the demand for automatic clearing. Three commercial banks were established from the credit

directorates of the National Bank of Hungary, its institute in Budapest and part of the Állami Fejlesztési Bank (State Development Bank): Magyar Hitelbank, Országos Kereskedelmi és Hitelbank, Budapest Bank; and Országos Takarékpénztár, Magyar Külkereskedelmi Bank as well as Általános Értékforgalmi Bank, which became independent of Pénzügyintézet Központ, were connected by less tight links than previously to the central bank. Regarding the main elements, this meant that the commercial bank functions were practically separated from those of the central bank.

„Simultaneously with the establishment of the new financial institutions there appeared the demand for a payment system of the technology level of the age to be developed, in which a clearing house for credit institutions offered its services by means of computerised informatics and telecommunications systems. In this way the clearing of money turnover between banks will be completely electronically based; the computation and clearing of the interbank positions will be up-to-date; the amount of money in transit will decrease; the information on payment turnover will be more accurate and will appear faster.” (Angyal)

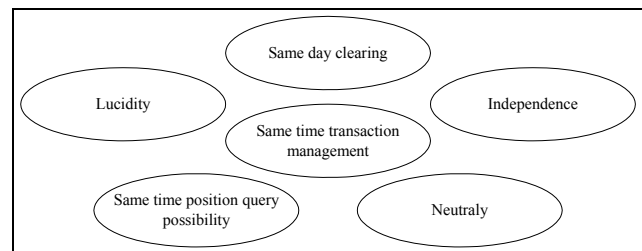
BEGINNING OF THE PERIOD OF AUTOMATIC CLEARING

GIRO Rt. was established in December 1988 by 12 financial institutions, including the National Bank of Hungary. Between 1988 and 1994, GIRO Rt. worked on designing a clearing system meeting the interest and demand of the owner financial institutions and their clients and keeping the risks of the payment system low, on reconciling the interests and on building up the interbank clearing system. The main professional task was presented by solving the problem of the individual banks being capable of data processing according to the requirements of the giro system. (Fogarás, 1997)

Developing the Interbank Giro System (Bankközi Zsíró Rendszer – BZSR)

The switch to the new giro system (under Péter Ákos Bod as president of the National Bank of Hungary - MNB) was aimed at replacing the then paper-based accounting.¹ The tender announced by the central bank was won by a French company, which completed the development of the real-time, net clearing system,² called GIRONET, in 1992, but the planned start of January 1st, 1993 did not materialize. The management of MNB made the decision, in order to eliminate the risk arising from the

uncovered position of the banks, on the introduction of the gross principle: only full bodied items could be discharged in the system. This involved a complete transformation of GIRONET, therefore a new start date was given for 1 January 1994. The system, however, had not been completed by then; neither the banks nor MNB were ready for joining. Installing GIRONET was taken off the agenda, instead, a resolution was made on the implementation of the Interbank Giro System (BZSR) with a batch system but capable of making the coverage audit and operating on the gross principle, which would have been a background solution of the original online system. BZSR started operation on 18 November 1994. (Kovács 2010)



Source: authors' own work based on Fogarás (1997)

Figure 1. Operation principles of the Interbank Giro System (Bankközi Zsíró Rendszer)

DEVELOPMENT OF CLEARING SERVICES

Activities of GIRO Zrt.

1995 was the first full year of operation of the automatic clearing. The switch to the new bank account numbers was an event of outstanding significance for the complete banking system and the clearing services, and the clearing house played a considerable role in its smooth implementation.

That year saw the establishment of the Hungarian Treasury (Magyar Államkincstár – MÁK), which became involved in the clearing system. The role of MÁK in the clearing system became significant by 1998, for by then several hundreds of its institutions also became members of the clearing system and provided the majority of the group (wages) transfer transactions.

The activity of the background institution – as an interbank service provider – became of decisive significance in the first years and its efficiency affected the efficiency of the complete banking system. 1996 was the second full year in which the new system of clearing was tested in live operation.

¹ Accounting for the six clearing banks was done by MNB.

² The net principle of giro clearing meant that payments were performed during the day without any conditions, and it will turn out only at the end of the day whether the bank sufficient coverage in its account for discharging its payment turnover.

The Interbank Giro System – thanks also to the efficient collaboration with the participants of the domestic money turnover – continued to operate without any problems. Further development and updating of the clearing system, the continuous widening of the range of services and raising their standards, and the performance of its fundamental function were implemented with great operational security.

In 1997 the service of group transfers and collecting was started, the first type with 1013 transactions, while there was no transaction in the second one.

It was at this time that experts first drew attention to the fact of the concentration: 5% of the orders accounted for 82.5% of the amount of turnover.

In 1998 the clearing house established in 1988 closed a jubilee year. Summing up the experience of the period completed, it was established that GIRO Rt. – on the basis of its order of operation developed, its personal and material conditions and its informatics and security system – was suitable for the reliable performance of the clearing services.

In 1998 the majority of the group transfers originated in institutions belonging to the scope of account management of the Hungarian Treasury. More than seven hundred institutions joined the service started at the beginning of the year.

The increase in the number of group collecting orders lagged behind that of the group transfers in the beginning. At the end of 1998 only 7 members of the clearing house sent collecting initiatives and the number of companies registered as collectors was only 81.

On 25 November 1998 GIRO Rt. was awarded ISO 9002 certification. GIRO Rt. was continuously awarded ISO 9002 qualification for the operation of BKR from November 1998 on, and from 2002 on the company has had ISO 9001:2000 certification as well.

In 1999 mutual savings associations outside the integration (TÉSZ) joined the clearing system as direct clearing members.

In that time the majority of transactions was still accounted for by traditional individual transfers (73%), while the share of group orders increased dramatically and accounted for 26% of all transactions.

In a joint development with the Hungarian Treasury, GIRO Rt. introduced a system for admitting and processing postal orders in March 2001. Group payments were further improved by the introduction of the gross principle clearing system. 2001 also saw an updating in the authorisation for sending and receiving messages.

The general objectives of the following years included improving transparency, developing a client-centred operation, improving efficiency and smooth performance of the clearing services. Development through projects was introduced.

Two new functions were included into the clearing services. One was late sending, which has since then enabled clearing members to send items to be processed

without special consideration as late as six am. The other new function was the formal verification of bank account numbers, which took over considerable reconciliation work from the banks making the performance of credit entries more accurate and faster.

GIRO Rt. began authentic (authentication of electronic signatures) service for two banks and a financial organisation.

In 2003 the number of individual transactions – continuing to increase – came close to 100 million. Although the increase in the number of individual transactions lagged behind the increase in the number of group transactions, the share of individual transactions continued to be larger. This ratio – on the basis of trends – was soon to turn, for group solutions continued to gain more ground and simultaneously, the share of individual transactions decreased. Among the types of group transactions, the significant difference experienced so far between the HUF sums of transfers and collecting remained.

In 2003 the number of institutions under the Hungarian Treasury exceeded 800.

In December 2004 GIRO Elszámolásforgalmi Rt. closed a jubilee year (the company was about 15 years old, and the clearing services were 10 years old). Ten years passed since on 18 November 1994 the first electronic transaction was performed. The clearing turnover exceeded the annual limit of 200 million items.

In terms of the average value of transactions, a difference between group transfers and group collecting could be seen in a similar order to that between individual and group transactions. This can be explained by the fact that while collecting is used fundamentally for discharging utilities bills, group transfers are mostly a means of payment of wages of larger amounts for employees.

GIRO Rt. played an active part in the work of the working groups established by the Payment System Council. Pursuant to a resolution by the Council, one of the most important tasks was to proliferate group collecting, to increase its share and to reduce the use of ‘yellow cheques’ for payments.

In 2005 the activities of GIRO Rt. broke records in every field. In the field of clearing services the largest number of transactions processed in one day exceeded three million items. In that year the company cleared a total of 222 million transactions with a value of 55.6 billion HUF without a mistake.

Accession to the cross-border EBASTEP2 system, that of the transfer of small sums in euro, was also implemented in Hungary, which (HUNSTEP2) was performed jointly by GIRO Rt. and the National Bank of Hungary. In addition to its faultless domestic HUF-based operation in clearing, with the accession of Hungary to the EBASTEP2 system in 2005, the activities of the company also encompassed cross-border payments in euro. One of the greatest challenges of the years to come would be the accession to SEPA (Single Euro Payment Area).

In accordance with legislation requirements,³ the name of the company was changed from Rt. (joint stock company) to Zrt. (closed joint stock company) showing the mode of its operation in 2006. From that year on, GIRO Zrt. and BISZ Zrt. made their joint annual report only in electronic format.

The increasing number and value of the transactions processed showed that the Hungarian payment culture kept getting more and more up-to-date gradually and changed over from cash to bank transfer. In the light of the changes in European payment processes and the tasks in connection with the introduction of the euro, GIRO Zrt. began elaborating the long-term strategy conception of the company with the involvement of Roland Berger Consulting.

The use of the services of GIRO Zrt. broke records in every field in that year. The daily average number of transactions performed exceeded one million in the year with the value of transactions performed daily exceeding 262 billion HUF. The number of transactions on some outstanding days in November and December exceeded 3.2–3.3 million items.

At BISZ Zrt. harmonisation of the business administration system and the Central Credit Information System (Központi Hitelinformációs Rendszer - KHR) was begun with the services, systems, and instruments of GIRO Zrt., as a result of which the concept group could offer more cost-efficient and up-to-date services for its clients.

The management of GIRO Zrt. adopted the long-term strategy drafted with the involvement of Roland Berger Consulting (GIRO, 2/2007/3). The mission of GIRO Zrt. is: It is primarily a priority clearing and credit management service provider of the Hungarian financial sector, and is differentiated by its confidential data management and reliability. Besides the primary task of performing clearing services, the Strategy highlights the preparation for the introduction of the euro in Hungary, the services supporting credit reference and risk management, as well as efficiency of scale, competition under equal terms, secure operation, transparency and – in accordance with the trends of the age – client-centeredness and services with added value.

GIRO Zrt. joined the Hungarian SEPA Association established in 2008, thus the company took an active part in the professional preparation of the domestic introduction of SEPA⁴ as in the previous year.

Its services development plan focused on the implementation of the replacement of the basis software of the clearing system, i.e. the implementation of the first phase of the InterGIRO project. In harmony with the medium- and long-term strategies, the company transformed its services structure to a considerable extent,

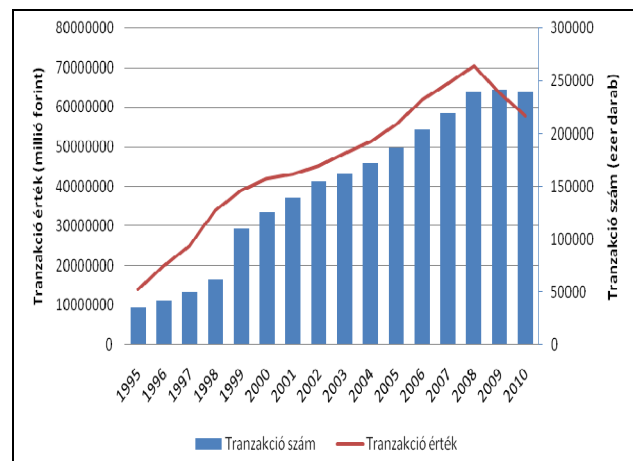
as a result of which it achieved a clarified, transparent and predictable operation, a minimisation of the business risks, a definition of availability and a more efficient performance of its services.

In 2008 – contrasted with the previous year – the rate of increase of individual transactions was lower than that of the group payments.

At BISZ Zrt. the increase in the retail system exceeded the previous year by 15% and in the enterprise system by 31%. The global economic crisis made itself felt also in the clearing turnover (Figure 2). The number of items of 289 million of the clearing turnover showed only an increase of 2 % in comparison with 8 % in the previous years, while the total value of 63.5 billion HUF of the clearing transactions processed decreased by 9.7% .

BISZ Zrt. also reported the negative effects of the crisis: the number of live contracts with companies decreased by 5.4%, the existing credit defaults of residents (this system runs a negative list) increased by 56%, and thus the system encompassed a total of 790 thousand natural persons.

The synergy effects prepared with BISZ Zrt. in the previous years were implemented, thus the activities of informatics operation were also taken over by GIRO after finances and HR.



Source: Authors' own work on the basis of GIRO Zrt. data

Figure 2. Development of clearing transactions

In 2010 the experts expected a positive development in terms of clearing turnover, but the actual turnover did not justify the expectations, although the causes lay mainly in the characteristics of the clearing transactions. Despite the negative effects of the crisis that could be observed, in 2010 a new daily turnover record was born (4,218,455 items). The daily turnover exceeded three million items on three further occasions and the 2 million limit on 21 occasions.

³ Act CXLIV of 1997, §177, paragraph /4/ amended by Act LXII of 2005, § 165

⁴ Single European Payments Area

Clearing clientele

The clearing member clientele continuously increased in the beginning (from 43 in the start-up year to 55 in 2000), then stagnation could be observed. Due to the cessation or withdrawal of certain credit institutions, and to new financial institutions entering the market, mergers, separations, etc. the number and composition of the members changed to a small extent from year to year. The early increase was largely the result of the mutual savings associations withdrawing from Takarékbank and belonging to TÉSZ joining individually in 1999. The number of clearing members was 54 on 1 April 2011 (Figure 3).

Alsónémedi és Vidéke Takarékszövetkezet	Magyar Cetelem Bank Zrt.
AXA Bank Europe SA Magyarországi Fióktelepe	Magyar Export-Import Bank Zrt.
Banco Popolare Hungary Bank Zrt.	Magyar Nemzeti Bank
Bank Of China (Hungária) Zrt.	Magyarországi Voiksbank Zrt.
BNP PARIBAS Magyarországi Fióktelepe	Mecsekörnyék Hitelszövetkezet
Budapest Hitel- és Fejlesztési Bank Nyrt.	Mecsekvidéke Takarékszövetkezet
CIB Közép - európai Nemzetközi Bank Zrt.	Merkatil Bank Zrt.
Citibank Europe Plc. Magyarországi Fióktelepe	MFB Magyar Fejlesztési Bank Zrt.
Commerzbank (Budapest) Zrt.	MKB Bank Zrt.
Credigen Bank Zrt.	Nagykátai és Vidéke Takarékszövetkezet
Crédit Agricole Corporate and Investment Bank Mo.-i Fióktelepe	Országos Takarékpénztár és Kereskedelmi Bank Nyrt.
Dél-Dunántúli Regionális Bank Zrt.	Oberbank AG Magyarországi Fióktelep
Deutsche Bank Zrt.	Örkényi Takarékszövetkezet
Erste Bank Hungary Zrt.	Pilisvörösvár és Vidéke Takarékszövetkezet
FHB Földhitel- és Jelzálogbank Nyrt.	Porsche Bank Zrt.
FHB Kereskedelmi Bank Zrt.	Raiffeisen Bank Zrt.
Fundamenta-Lakáskassza Lakástakarékpénztár Zrt.	Soltvadkert és Vidéke Takarékszövetkezet
FÜZES Takarékszövetkezet Hitelintézet	SOPRON BANK BURGENLAND Zrt.
Gránit Bank Zrt.	Szarvas és Vidéke Takarékszövetkezet
Hajdúdorog és Vidéke Takarékszövetkezet	Széchenyi István Hitelszövetkezet
Hanwha Bank Magyarország Zrt.	Szegvár és Vidéke Takarékszövetkezet
ING Bank N.V. Magyarországi Fióktelepe	Szentesi Hitelszövetkezet
KDB Bank (Magyarország) Zrt.	Takarékbank Zrt.
Kereskedelmi és Hitelbank Zrt.	TISZA Takarékszövetkezet
Központi Elszámolóház és Értéktár (Budapest) Zrt.	Tiszántúli Első Hitelszövetkezet
MagNet Magyar Közösségi Bank Zrt.	Turai Takarékszövetkezet
Magyar Államkincstár	UniCredit Bank Hungary Zrt.

Source: Authors' own work on the basis of GIRO Zrt. data

Figure 3. Members of the Interbank Clearing System (1 April 2011)

In addition to the clearing members there exist also 'non-clearing-member credit institutions' – approximately two hundred institutions – which as respondent banks may indirectly join BKR through a clearing member, i.e. a correspondent bank.

Charges

In the first year of operation, sufficient experience was accumulated on the basis of clearing data on the development of money turnover, trends and the rates of transaction types. Thus it was possible to introduce a reduction of charges that was easy to model and was of appreciable amount on 1 January 1996.

In 1997 the clearing charges were modified several times, with the minimum charges rising from 5 HUF to 8 HUF to better reflect the transaction costs, while value dependence decreased from 0.25‰ to 0.21‰, but the % charge remained, for a higher value involved higher financial responsibility.

In 1999 the charges continued to decrease, the % charge decreased from 0.21‰ to 0.11‰, and the maximum charge from the then 1,000 HUF to 800 HUF.

In 2000 the charges decreased again, with the % charge decreasing from 0.11‰ to 0.1‰, the maximum charge from 800 HUF to 400 HUF, while the collecting order charge rose from the then 4 HUF to 5 HUF. In group order charges the minimum charge rose from the then 5 HUF to 6 HUF, and the % charge followed the % charges of the clearing structure closely, and the order charge rose from the then 14 HUF to 16 HUF, with the charge for direct admission (this refers to the Hungarian Treasury) rising from 0.33‰ in 1998 to 0.3‰ in 1999 and then decreasing to 0.29‰ in 2000.

In 2001 the following charges decreased: maximum charge, and the direct submission minimum and the % charge.

In 2002 the clearing charges continued to decrease, the minimum charges increased, the maximum charges decreased by close to 50%; the charges load decreased all in all. A plan was made for the introduction of a uniform transaction charge in 2006.

In 2003 there was further progress towards a uniform charges policy for clearing services: minimum charges increased and maximum charges decreased.

From the beginning of clearing services to 2006, the clearing members paid charges according to the amounts of transactions transferred. In 2006 GIRO Zrt. introduced a charging system independent of amounts and with a uniform transaction basis (20 HUF/item) (GIRO, Igazgatósági Előterjesztés, 7/2009/2). The transaction charge of 2010 (17 HUF/item) is more than 150 times lower than the maximum charge of 1995.

BISZ Zrt.

BISZ Zrt. was founded as a closed joint stock company by eight leading banks on 15 February 1994 with the purpose of establishing a credit information databank reducing the risk of credit accommodation. Due to a share capital increase in 1996, the circle of proprietors was increased by five new financial companies.

The Interbank Debtor and Credit Information System (Bankközi Adós- és Hitelinformációs Rendszer – BAR) became operational in 1995 with an overall register of the credit and credit-type contracts of businesses. The system was uploaded by the financial institutions with credit information data on businesses and residents and was used by them in their credit assessment processes.

Act CXII of 1996 (Hpt.) increased the scope of the users of the database to a significant extent, for it stipulated that in addition to credit institutions and specialised credit institutions also all financial institutions and investment trust companies offering investment credits join it.

In 1997 an amendment of Act CXII of 1996 (on Credit Institutions and Financial Services - Hpt.) created the legal foundations for a negative list register of natural person credit debtors. As a result, BISZ Zrt. opened its

system for registering the credit defaulting of natural persons in 1998.

The next milestone in the development of the system was represented by Act CXXIV of 2000. This amendment of the Act again increased the range of data belonging under the effect of BAR, which thus was extended by a register of businesses waiting in line, malpractices at credit card outlets and misuse of bankcards by residents.

In May 2003 the proprietor financial institutions sold their stocks to GIRO Elszámolásforgalmi Rt., which was also owned by financial institutions and in this way GIRO Rt. became the sole proprietor of BISZ Rt.

Previously the circles of owners and ownership rates of BISZ Zrt. and GIRO Rt. were almost identical. It was as a result of recognising this and of the possible synergy effects that Péter Legeza initiated the purchase of BISZ Rt. Due to the almost identical ownership rates it was possible to keep the purchase price low. (See the high profitability of the following years.) By purchasing BISZ Rt., GIRO Rt. made its data supply complete with the information from the debtor register system. And its service of authenticating electronic signatures and relevant experience supported the introduction of higher electronic security solutions in credit institutions.

In 2005 BISZ Zrt. offered a new service in the BAR credit report, which presented the credit reference data of a client in the form of a complete client report.

The Act on Credit Institutions and Financial Services in effect as of 1 January 2006 defined in detail and enacted the rules on the Central Credit Information System. As a result, the rules and data of the business and retail systems also changed. In addition, the Act introduced a register of resident credit requests rejected due to deliberate false data provision as well as of the institutions of legal action connected with reference data and of transfer of reference data. After complying with the stipulations of the Act, BAR was transformed and continued to operate as Central Credit Information System (Központi Hitelinformációs Rendszer – KHR).

Technical, IT Developments

In the period under examination two important IT systems, first the BKR, and then the InterGIRO system served the domestic clearing services. The following is a presentation of these systems.

BZSR/BKR

In August 1992 the French company BULL presented and delivered its completed clearing services system. The GIRONET mainframe (DPS8) system delivered by them used net clearing without coverage audit and had no background solution, therefore a decision was made on the establishment of a reserve system to be developed for a PC network and called Reserve Giro Centre (Tartalék Zsíró Központ –TZSK), the development of which was begun in October 1993. Following the decision on gross clearing, this system, originally meant as a reserve

system, came into the foreground and started operation first under the names Interbank Giro System (Bankközi Zsíró Rendszer – BZSR), and then Interbank Clearing System (Bankközi Klíring Rendszer – BKR). Starting with its live start-up in 1994, BKR did not make a mistake on a single day until it was closed in 1998 and processed 2 billion transactions.

InterGIRO

In 2009 after a long preparation and overall thorough testing, InterGIRO, the new clearing system of GIRO Zrt. (GIRO, Igazgatósági határozat, 7/2009/4) was introduced as of clearing day 2 November. Following a few weeks of pilot operation and four weeks of defaultless parallel operation, the previous clearing system was closed down definitely. The up-to-date, Java-based application, which offers good foundations for further development, was supplied by Montran Corporation (New York, United States), whose clearing software are operational in more than 35 countries.

The InterGIRO platform started operation in November 2009 and so far has come up to expectations with favourable operation experience. The availability of the clearing service has met the expected levels.

Further improvement of InterGIRO, within the InterGIRO2 project, will facilitate multiple clearing within a day in Hungary, which will be discussed in Part 5 in more detail.

Development of services in terms of IT in the past fifteen years

In 1995 the clearing house prepared on commission by the National Bank of Hungary a database distributed on CD and computer program facilitating the reconciliation of old and new account numbers primarily for banks and economic organisations with large clientele, and developed and operated the GIROPHONE service for phone queries of individual account numbers. Another important event of the year was the introduction of the GIROMAIL correspondence system.

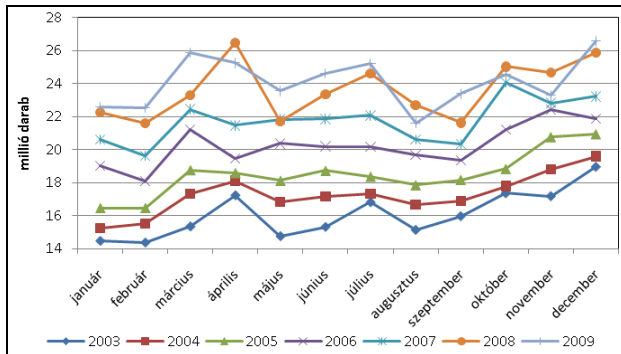
The banking system switched over to new bank account numbers that year. Based on an MNB conception, the standardised central solution of direct debiting (group collecting) was elaborated in the same year.

In 1998 preparations were begun for the IT solutions of the change of millennium (Y2K), and then in 1999 the banking part of the financial sector made preparations supported by GIRO Elszámolásforgalmi Rt. for the payments turnover to be continued in the same way also in the year of the millennium.

The company counted with the seasonality of annual clearing turnover from this time on (Figure 4), and the turnover of group payments increased with a bang (increased by thirty times in the course of one year).

Although the paper is not aimed at analysing seasonality, it should be noted in connection with the monthly development of the number of transactions that it is

influenced by a number of factors. One such fundamental factor is the fact of how many working days there are in a given month (number of weekends, state and religious holidays, etc.). In addition, the tendencies emerging may be caused by deadlines for tax payment, pensions for months 13 and 14 as well as other effects.



Source: GIRO Zrt.

Figure 4. Monthly development of the number of transactions processed

Year 2000 brought important developments: the introduction of periodical clearing at the end of September and a reconstruction following the change in communication service provider and the development of a data management centre. The company increased the banking reception time by 4 hours with the introduction of periodical clearing. Thirty clearing members had their end-point instruments older than three years replaced. With the integration of GIRODAT Rt. at the beginning of 2002, GIRO Rt. created GIRinfo Data Supply with the purpose that it should promote reducing the credit risks of financial institutions by providing access to authentic and public databases.

In 2003 there were several significant developments in clearing services. An enlargement of the functions of direct submission group payments was implemented. In addition to updating the endpoints in the banks, the construction of a new network monitoring system was completed. GIRO elaborated a Plan for Continuous Course of Business concerning the clearing services, and its live operation was tested in the middle of the year. The IT Security Conception and Policy was drafted, the Ethics Code including the norms of conduct and behaviour expected by the company was published in the first half of the year.

In September 2004 a decision was taken on Hungary joining the cross-border small amount euro transfer system, STEP2. The technical implementation was taken on by GIRO Rt. at the express request of MNB.

The Company Management System introduced during the year brought a new colour to the internal life of the company. Electronic document management and archiving was implemented, and the creation of a data storehouse eliminated a considerable part of paper-based work from everyday work.

In 2005 GIRinfo Data Supply successfully completed a switchover to a more up-to-date platform.

An outstanding project of the year was the replacement of the complete infrastructure of the clearing system. Development of GIRONet (today GIROHáló), the data transmission system built on the company's own copyright communication network was continued. Preparations were begun for the replacement of the BKR clearing system operating for a decade.

The services of GIRinfo were used by 80 clients already in 2007, and close to one and a half million queries were performed. The partners of the company used the information obtained from here to make their own risk evaluation systems much more reliable.

In 2008 the transaction turnover of GIRinfo Data Processing Service increased by 20 % in spite of the unfavourable macro-economic processes with an increase in the clientele at the same time: by the end of the year 87 clients used the service with its single-counter, on-line access. Under the effect of the crisis, however, the query transactions of GIRinfo data supply decreased to a significant extent. The spectacular increase in the past 7 years was followed by a huge decline. The average monthly number of queries in 2008 was 146,737, in 2009 it was only 98,798, and in the first five months of 2010 it was only 83,523 due to further decrease.

In 2009 after a long preparation and overall thorough testing, InterGIRO, the new clearing system of GIRO Zrt. (GIRO, Igazgatósági határozat, 7/2009/4) was introduced as of clearing day 2 November. Following a few weeks of pilot operation and four weeks of defaultless parallel operation, the previous clearing system operating for 15 years nearly to the day was closed down definitely. .

MANAGEMENT AND PROPRIETORS OF GIRO ZRT.

György Vasvári, managing director – later chief executive officer - (1988-1992), made the preparations for the foundation of the company, started the company and prepared the introduction of the SG2-BULL-based clearing system. The system did not become operational due to the cost requirements of certain banking functional demands and banking interests.

László Szamosi, chief executive officer (1992-2001), implemented BKR, the first clearing software that became operated live, in own development and led the company to a successful economic/growth path.

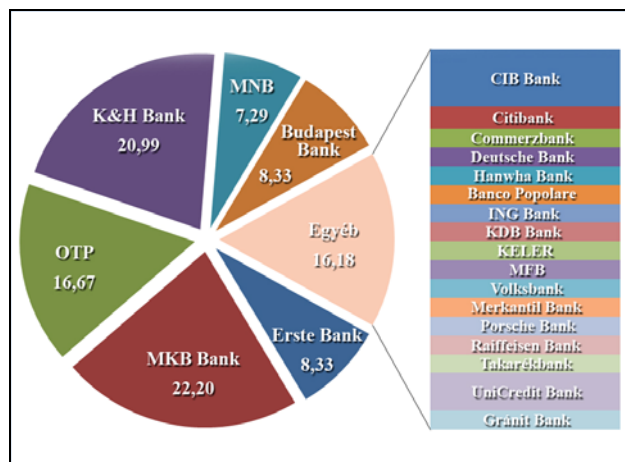
Péter Legeza, chairman – chief executive officer, has been directing the operation of the clearing house since 1 November 2001. His election was initiated by the National Bank of Hungary with the intention that the operation of the company should be more transparent and cost-efficient. Péter Legeza used to work for Interinvest (the predecessor of Inter-Európa Bank), Citibank, Westdeutsche Landesbank, Postabank, and then as a consultant for the National Bank of Hungary.

At Giro Zrt. he expanded the activities of the company by several new services, including data supply service (GIRinfo) and central credit information services (purchase of BISZ Zrt.). Based on new IT foundations and in cooperation with Montran Co he introduced new clearing software (InterGiro). Clearing services developed dramatically under his leadership and at present preparations are being made for the most significant development so far, same-day clearing and the introduction of the SEPA format.

Ownership structure

In 1988 at the time of its foundation, Giro Rt. had capital stocks of 504 million HUF. This increased continuously through further equity issue: equities in the face value of 50 million HUF in 1992, 30 million HUF in 1993, 30 million HUF in 1994, 5 million HUF in 1995, and again 5 million HUF in 1996. In 1996 the company increased its capital called up to the account of its equities threefold, to 1,872 million HUF. In 1997 the capital stock was again raised to the account of the company's equities, and from that year on the called up share capital of the company is made up of 2496 personal shares with a nominal value of 1,000,000 Ft HUF each.

The shareholders of GIRO Zrt. increased the capital stock of the company to close to 2.5 billion HUF in the past years (a total of 2496 shares with a nominal value of 1 million HUF each).



Source: authors' own work on the basis of GIRO Zrt. data

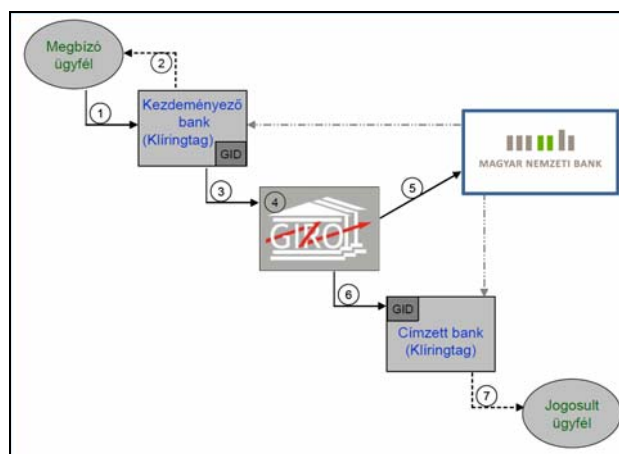
Figure 5. Share of the proprietors each of the shares of GIRO Zrt. (%)

Although the number of the clearing members (credit institutions joining BKR directly) is constant on the whole, the number of shareholders has been continuously decreasing since 2000 as a result of mergers and closures. Compared with the 43 share holders in 1995, GIRO Zrt. had 23 shareholders in 2011.

Current operation of BKR

Clearing of the interbank payments in Hungary is performed to its complete extent electronically. This is implemented in two ways: using BKR and VIBER (Real Time Gross Clearing System - Valós Idejű Bruttó Elszámolásforgalmi Rendszer) introduced in 1999 and operated by MNB.

BKR operated by GIRO Zrt. is a clearing system satisfying international directives and best practice, the structure of which facilitates the smooth everyday operation of domestic interbank payments. BKR ensures that credit institutions can offer their clients up-to-date and high standard payments services. In accordance with demand by the credit institutions, transaction of the day are cleared in the accounts of the clearing members by the morning of the following clearing day, thus they can be credited in the account of the client. (GIRO Zrt.)



Source: GIRO Zrt.

Figure 6. Process of individual transactions in BKR

Steps in the process:

1. Submission of order [for day T-1].
2. Debiting the client account of the client [on day T-1] (display on the bank statement).
3. Starting interbank transaction [day T-1].
4. Receiving and clearing the transaction (with regard to frame) and calculating the interbank position [for clearing day T] in BKR.
5. Forwarding interbank position and receiving it [for clearing day T], debiting and crediting the bank accounts, informing the banks.
6. Forwarding and receiving the transaction [for clearing day T].
7. Crediting the account of the entitled client (display on the bank statement).

BKR clears only transaction where the accounts of the commissioning client and of the entitled client are managed by different clearing members.

THE FUTURE OF CLEARING IN HUNGARY

The period between 2002 and 2010 can be regarded as the most active period in the history of clearing in Hungary. In this time the Hungarian clearing house for credit institutions, GIRO Zrt., was successful in expanding its activities with data supply (GIRinfo) and central credit information services (purchase of BISZ Rt.), decreased drastically the clearing charges and introduced new clearing software (InterGiro) based on new IT foundations. Through their activities the company and its management actively participated in determining the Hungarian and EU development directives concerning clearing services.

Today the clearing house and perhaps the whole of the domestic banking sector are faced with perhaps their greatest challenge so far. Concerning the introduction of BKR and VIBER, we can say that the Hungarian clearing services system belonged to the forefront of Europe at the time, however, by today a considerable number of the European countries are ahead of us in several respects, which in itself makes catching up justified.

In the near future Hungary, as the 18th country in the European Union, will achieve same day clearing concerning domestic transfers in terms of all the clearing members and, simultaneously with that, introduce the SEPA format. The new clearing system created in the framework of the nationwide project InterGIRO2 will be operational as of 2 July 2012. This change may be a milestone in the history of clearing in Hungary and is expected to exert significant influence not only on the banking sector, but the whole of the economy as well.

The introduction of the euro will also cause considerable changes beyond doubt and require serious preparation in terms of clearing as well, but it seems to be a long way away as indicated by current trends. At the same time the use of the SEPA payment standards in the HUF-based payments will make overcoming the difficulties arising from the change of currency considerably easier.

Same day clearing

At present there are several payment systems operating in Europe. Their operators also show a great variety from the small and/or national clearing houses to the pan-European EBA STEP2 clearing house. In several EU member states these organisations also offer same day clearing services, which, however, may differ to great extents (e.g. in terms of clientele or charges). As regards the current situation, Hungary can be considered to be backward in this respect, for this service does not exist in Hungary.

This may be changed by the 'introduction of during-the-day clearing connected to the use of the SEPA standards' started on 2 July 2010, also called the InterGIRO2 (IG2) project, with the aim of introducing same-day clearing for domestic, non-paper-based transfers concerning all clearing members by 1 July 2012 and the SEPA format. This is a new challenge for the whole of the Hungarian banking sector which it has not been faced with since the establishment of the modern automated clearing house, GIRO Rt. The expectations are that if the project is implemented, transfers will be processed according to the SEPA standard and the majority will be credited to the relevant accounts within 1-2 hours, which will represent a major transformation of the money and clearing turnover. The necessary developments will affect the complete IT, operation and process organisation of the banks.

Single European Payments Area (SEPA)

The economic integration of the member states is one of the most essential objectives of the European Union. The free movement of capital, goods and services is an important element in the realisation of this objective. However, it was experienced in the EU that the money turnover between the member states is slow and expensive compared to the internal money turnover within the individual countries, which seemed to be a barrier to the deepening of the economic integration. Furthermore, despite the introduction of the euro in 1999 and despite the establishment of the common payment system performing large amount euro payment transactions, TARGET,⁵ small amount euro electrical payment transactions continue to be administered in different ways in the euro zone. This was the reason for creating a single European payments area, SEPA. (Bartha, 2003.)

In Hungary SEPA transfers (HCT⁶) can predictably be introduced at the same time as same-day clearing, the two tasks have been combined in the ongoing InterGIRO2 project. (InterGIRO2 Üzleti kézikönyv v0.1, 2010)

From the day of starting the new system, it will be possible to clear only SEPA transfers for some time, and this will later be joined by SEPA collecting constructions. As far as can be foreseen, between 2012 and 2015 the old and new payments and clearing processes can be both used side by side, although with severe limitations.

SUMMARY

The past fifteen years have been decisive in the history of clearing services in Hungary, in the emergence and development of automatic clearing. The paper attempted to present the events in this period.

⁵ Trans-European Automated Real-time Gross Settlement Express Transfer System

⁶ Hungarian Credit Transfer: forint-based SCT (SEPA Credit Transfer)

Since its first full year, 1995, the Interbank Clearing System (BKR) intended for the administration of transfer and collecting orders requiring clearing between banks has been practically faultless in its operation providing the money turnover necessary for the operation of the economy. Until the economic crisis originating in the property market of the United States and spreading all over the world, the clearing turnover in Hungary achieved an outstanding growth rate year by year. Behind this success is the clearing house, GIRO Zrt., which is performing its tasks with a continuously growing number of services and rising technical standards. Several audits by internationally recognised professional organisations bear witness to its reliable operation. Today its activities

are regarded as a public service and their development (e.g. SEPA) represents an essential element in reviving the economy.

After presenting the successes of the past and present, the challenges of the future cannot remain without mention, for several ongoing and future changes make us look forward to the years to come. By means of the InterGIRO2 project we can get back into the vanguard of Europe, where we belonged at the beginning of the past 15 years. At the same time due to the complete European Union standardisation, issues of efficiency may make small clearing houses like the one in Hungary face tasks that seem unsolvable.

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