

Country profile - CZECH REPUBLIC

The Czech Republic according to its surface area of 78 867 km² and the number of inhabitants of 10 627 448 mil. (est. 2014-07) belongs to small countries, with inhabitant density of 130 inhabitants/km² (compare with UK - 250, France - 111 inhab/km²). The lowest point is the river Elbe outflow (115 m), the highest point is Sněžka Mountain (1 602 m), and the medium above sea level in the Czech Republic is 430 m. State holiday commemorating the origin of the republic is on 28th October (1918, Formation day of Czechoslovakia).



Historic overview: At the close of World War I, the Czechs and Slovaks of the former Austro-Hungarian Empire merged to form a new common state, Czechoslovakia. During the interwar years, having rejected a federal system, the new country's leaders were frequently preoccupied with meeting the demands of other ethnic minorities within the republic, most notably the Sudeten Germans and the Ruthenians (Ukrainians). On the eve of World War II, the Czech part of the country was forcibly annexed to the Third Reich, and the Slovaks declared independence as an ally of Nazi Germany. After the war, a reunited but truncated Czechoslovakia (less Ruthenia) fell within the Soviet sphere of influence. In 1968, an invasion by Warsaw Pact troops ended the efforts of the country's leaders to liberalize Communist Party rule and create "socialism with a human face." The following year ushered in a period of harsh repression known as "normalization." With the collapse of Soviet-backed authority in 1989, Czechoslovakia regained its democracy through a peaceful "Velvet Revolution." On 1 January 1993, the country underwent a "velvet divorce" into its two national components, the Czech Republic and Slovakia. The Czech Republic joined NATO in 1999 and the European Union in 2004.

Nationally the population is very homogeneous: Czechs 63.7 %, Moravians 4.9 %, Slovaks 1.4 %, others 30 %. From language point of view the society is also equable: Czech language 95.4 %, Slovak language 1.4 %, other 3 %. Religions: Roman-Catholic 10.3 %, Protestants (Czech Brethren and husites) 0.8 %, others and not specified 54.6 %, no faith 34.2 % (Census 2001). Population rate of growth is -0.15 % (estimate 2013), i.e. decrease by 15 244 inhab/year. Rate of migration (2013 estim.) is 0.97 migrants/1000 inhab., i.e. increase by 9 858 inhab. Share of inhabitants living in cities: 73.4 % (7.46 mil. inhab).

The Czech Republic is a stable and prosperous market economy closely integrated with the EU, especially since the country's EU accession in 2004. The auto industry is the largest single industry, and, together with its upstream suppliers, accounts for nearly 24% of Czech manufacturing. The Czech Republic produced more than a million cars for the first time in 2010, over 80% of which were exported. While the conservative, inward-looking Czech financial system has remained relatively healthy, the small, open, export-driven Czech economy remains sensitive to changes in the economic performance of its main export markets, especially Germany. When Western Europe and Germany fell into recession in late 2008, demand for Czech goods plunged, leading to double digit drops in industrial production and exports. As a result, real GDP fell sharply in 2009. The economy slowly recovered in the second half of 2009 and registered weak growth in the next two years. In 2012, however, the economy fell into a recession again, due both to a slump in external demand and to the government's austerity measures. The country pulled out of recession in the second half of 2013, and most analysts expect modest, but steady, growth through 2014. Foreign and domestic businesses alike voice concerns about corruption, especially in public procurement. Other long term challenges include dealing with a rapidly aging population, funding an unsustainable pension and health care system, and diversifying away from manufacturing and toward a more high-tech, services-based, knowledge economy.

Labour force amounts to 5.404 mil. (53.2 % inhabitants, 2012), population share in age 15-64 years is 69 % of the total number of inhabitants, i.e. 7.012 mil. Composition of labour force by sector: agriculture 3.1 %, industry 38.6 % and services 58.3 % inhabitants (2009). Education expenditures were in the amount of 4.4 % of GDP (2009). Unemployment was 6.8 % (691 000 inhab.) Public debt in 2012 increased to 46.6 % (from 40.7 % in 2011). Inflation rate reached 3.3 % (2012).

Among main agriculture products belong wheat, potatoes, sugar beets, hops, fruit; pigs and poultry. Industry sectors cover motor vehicles, metallurgy, machinery and equipment, glass and armaments.

From the payment card sector view the advancement of communication infrastructure is important: number of fixed lines declined to: 2 289 000 (2011), number of mobile numbers amounts to: 13 mil. (2011). Privatization of the telecommunication system took place rather late (2005), but the network is still modernized. All exchanges are now digital, existing copper subscriber systems were enhanced with Asymmetric Digital Subscriber Line (ADSL) equipment to accommodate Internet and other digital signals (lately also VDSL); number of trunk fibre-optic cables and microwave radio relay is increasing. Number of internet servers (.cz) reached to 4.148 mil. (2012) and number of internet users to 6.681 millions (2009). Another communication infrastructure is no so much interesting from financial services point of view but for citizens life style comfort: railway network declined from 9 620 km to 9 469 km, roads length is 127 797 km (including city streets, down from 128 512 km in 2009, including 730 km of motorways, 2008). Water corridors cover 664 km.

The following table describes the economic data for the Czech Republic.

Czech economics, 2012 estimates	Czechia
GDP (purchasing power parity):	291.7 mld. USD 5558 mld. CZK 221 mld. EUR
Number of inhabitants	10 162 921
GDP per person (purchasing power parity, 2009)	27 600 USD 525 918 CZK 20 920 EUR
Labour force	5.404 mil.
Unemployment	6.8 %
Inflation rate	3.3 %

Payment cards history

Detailed history year by year of card developments in ČR can be found in articles "Historie SBK" (Bank Card Association - History) in CardMag, however let's recall few important dates.

- 1968 The very first cards accepted in the Czechoslovak socialist republic were Diners Club cards, intermediate by the travel agency CEDOK.
- 1988 The very first plastic card issued in the Czechoslovak Socialist Federative Republic. Živnostenská banka, n.p. (n.p. = national enterprise), issued so called "dispositional cards" to Tuzex accounts enabling Tuzex voucher withdrawals at bank branches. (Tuzex accounts were accounts into which foreign "western" currencies were converted as Tuzex crown, paper money called "Tuzex vouchers".)
- 1989 Česká státní spořitelna (Czech state saving bank) in Prague and Slovak státní spořitelna (Slovak state saving bank) in Bratislava issue domestic cards enabling cash withdrawals from off-line cash dispensers.
- 1990 The first international card in the Czech Republic bearing VISA logo was issued by Živnostenská banka, n.p.
- 1991 The first international card in CR bearing Eurocard/Mastercard logo was issued by Komerční banka, a.s.
- 1991 On 2nd February the "Interbank association for payment cards" (Mezibankovní asociace pro platební karty), predecessor of "Bank Card Association" (Sdružení pro bankovní karty), was established and contributed to overcome over competition between banks, at least in field of cooperation in combating card fraud and creating working groups connecting to police investigation. Founding members were 7 banks - Agrobanka, Investiční banka, I.S.C. Muza, Komerční banka, Poštovní banka, Tatra banka, a Všeobecná úverova banka).
- 1991 Establishing of company American Express, s. r.o., (28. února), and representative office of Diners Club Austria
- 1991 The first VISA Business cards issued in the middle Europe by Živnostenská banka, a.s.

- 1992 The first ATMs connected to international network Eurocard/MasterCard (19.2.1992) and VISA/Plus.
- 1992 The first authorization terminal (Živnostenská banka) installed to prevent frauds in a restaurant.
- 1992 In 2nd half: Česká státní spořitelna opened network of 7 ATMs.
- 1992 Summer: designation change of Interbank association for payment cards to "Bank Card Association" (SBK).
- 1993 The first payment terminals (Komerční banka)
- 1994 Česká spořitelna joins SBK; ČSOB a Komerční banka enter to association VISA Int. and become the first "dual" banks.
- 1995 The first VISA GOLD cards in the Czech Republic issued by Živnostenská banka, a.s.
- 1998 July: Maestro cards issued. Česká spořitelna incorporated its ATMs into Europay/MasterCard network, and commenced to issue Maestro cards and began to exchange proprietary cards Variant for domestic Eurocard/MasterCard cards.
- 1998 Company Diners Club Czech, s.r.o., established (26. October).
- 1998 Number of issuing banks reached 7 active banks and number of issued cards reached 1 693 500 cards.

Bank	Number of cards
Česká spořitelna	1 200 000
Komerční banka	300 000
IPB	130 000
ČSOB	30 000
Agrobanka	20 000
Živnostenská banka	7 500
Union banka	6 000

- 2000 The first VISA PLATINUM card issued in the Czech Republic (Živnostenská banka).
- 2003 SBK associates 18 regular banks a 9 other non-banking observers.
- 2007 SBK associates 18 banks a 10 other companies contributing to card payments developments with observers' status.
- 2009 SBK initiates implementation of PCI DSS (Payment Card Industry Data Security Standards) for increase of security processing of data transferred from merchants.
- 2010 After recession period SBK associates 16 banks and 19 affiliated companies.
- 2013 SBK associates 18 banks and 23 affiliated companies (2013), there exists strong co-operation with the Slovak ZBK.

Card issuance in Czech Republic

The total of 14 banks entered the market of payment cards (2006), in 2007 a new bank occurred, Polish BRE Bank S.A., org. unit, in 2011 entered ZUNO bank, AXA bank and AirBank. In 2013, out of total number of banks and foreign bank branches of 44 the payment cards were issued by 19 banking subjects and 8 payment institutions and 2 card companies (CCS and Euronet).

In 2013, the statistics information is contributed to SBK by 18 banking subjects and 8 non-banking subjects. Besides, cards are issued by other banks which are neither members nor associates of SBK and not even supplying data on their issued cards (e.g. ABN AMRO bank). Many non-banking subjects are issuing especially credit cards. A complete overview supplies the following tables.

SBK members - banks, issuing cards and contributing to statistics	Rok vzniku	Splacený Kapitál
Air Bank, a.s. (PPF Group N.V.)	2010	500 004 000 Kč
CETELEM ČR, a.s.	1996	180 000 000 Kč
Citibank Europe plc, organizační složka	2008	n/a
COMMERZBANK Aktiengesellschaft	1992	n/a
Česká spořitelna, a.s.	1991	15 200 000 000 Kč
ČSOB	1964	5 855 000 000 Kč
Equa Bank, a.s. (Equa Group Limited, Maltská republika)	1993	2 260 000 000 Kč
Expobanka CZ a.s. (dř. LBBW Banka CZ)	1991	1 708 700 000 Kč
FIO banka	1994	560 000 000 Kč
GE Money Bank a.s.	1998	510 000 000 Kč
ING Bank N.V.	1993	n/a
J&T Banka	1992	3 358 127 000 Kč
Komerční Banka a.s.	1992	19 004 926 000 Kč
mBank (BRE Bank S.A., organizační složka)	2007	n/a
PPF banka	1992	769 004 327 Kč
Raiffeisenbank a.s.	1993	9 357 000 000 Kč
Sberbank CZ, a.s.	1996	2 005 380 000 Kč
Unicredit Bank a.s., Czech Republic	1996	5 124 716 000 Kč

SBK Members and Observers - payment institutions and companies issuing cards and contributing to statistics	Rok vzniku	Splacený Kapitál
CCS - Česká společnost pro platební karty, a.s.	2007	52 920 000 Kč
CETELEM ČR, a.s. (PI)		170 000 000 Kč
Citfin, spořitelní družstvo (PI)	1999	35 000 000 Kč
COFIDIS s.r.o. (PI)	2004	391 614 000 Kč
Diners Club CS, s.r.o., org. složka (Slovensko)	2010	n/a
ESSOX s.r.o. (PI)	2003	2 288 086 000 Kč
EURONET Services, spol. s r.o.	1997	169 990 000 Kč
Home Credit a.s. (PI)	2005	300 000 000 Kč
Zuno Bank AG, org. složka	2010	n/a

SBK Observers, issuing cards and not contributing to statistics	Rok vzniku	Splacený Kapitál
American Express s r.o.	1991	150 100 000 Kč

Subjects outside SBK, issuing cards and not contributing to statistics	Rok vzniku	Splacený Kapitál
Oberbank AG, pobočka Česká republika	2004	n/a

Diners Club and American Express Companies belong among non-banking subjects (payment institutions) who issue charge cards under their own trademarks (3 sided scheme) and provide authorization and payment settlements. Credit cards are issued by other credit companies as well.

Growth of card popularity in Czechia is documented by the graph of card number growth during the last 13 years (2001 - 2013). Concurrently domestic, international, debit and charge cards are being issued. Since 1998 banks started to issue credit cards generating higher yields than debit cards; benefiting in reducing costs and increasing client's comfort in cash retrieval. The card were issued firstly with magnetic stripe technology and then from 1999 also as chip cards (IPB bank issued the "MAX card" as the first domestic chip card as well as the first international chip card Maestro under MasterCard association). Moreover, at first an instrument for cash withdrawals gradually became an effective mean for cashless payments. Speed of development and different aspects of cards in Czechia are outlined in the following tables and graphs describing compounded information for issuers of bank cards (the list of statistics' suppliers is shown above). Currently, all banking cards are issued as chip cards with EMV technology and they are mostly suitable for contactless payments (NFC technology).

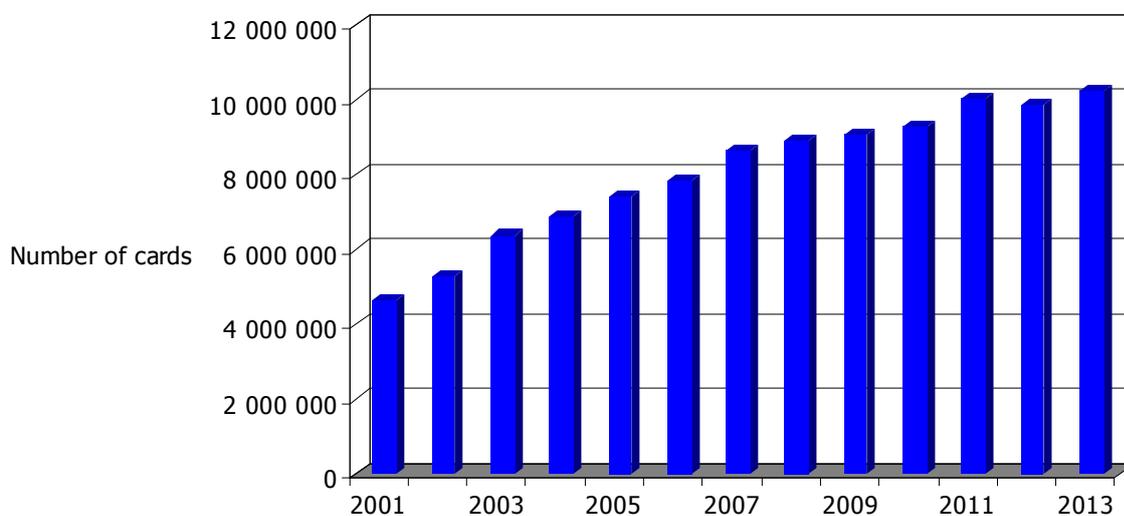
Development of number of payment cards issued in CR during the last 13 years (2001 - 2013)

Issued cards	2001	2002	2003	2004	2005	2006	2007
Cards total	4 658 890	5 296 067	6 373 591	6 867 733	7 390 357	7 865 453	8 623 124
Debit	n/a	n/a	5 829 857	5 873 728	6 418 446	6 602 775	6 974 147
Credit	n/a	n/a	203 274	372 933	614 542	885 266	1 212 401
Charge	n/a	n/a	335 269	327 115	357 369	377 412	436 576

Issued cards	2008	2009	2010	2011	2012	2013	Year to year %
Cards total	8 931 872	9 054 308	9 268 914	10 030 193	9 853 681	10 250 651	4.03
Debit	7 220 667	7 372 327	7 400 919	7 454 543	7 533 938	7 945 804	5.47
Credit	1 276 714	1 224 814	1 564 430	2 288 981	2 073 352	2 075 106	0,08
Charge	434 491	457 167	303 565	286 669	246 388	229 741	-6.75

Recalculated annual card increase according to parameter CAGR for years 2001 – 2013 corresponds to the value of 6.25 %. In Graph "Trend of payment cards issued in CR 2001 – 2013" a permanent increase of inhabitants which succumbed to wonder of payment colourful card is apparent; the number of cards from 2001 has increased by 220 %. The reason for this strong increase can be seen in the increase of number of banks issuing cards (from 13 in 2000 to 24 in 2012) and concurrently all major banks become dual, i.e. are issuing cards under trademarks of both VISA and MasterCard associations. The year 2003 was a breaking year in charge and credit cards issuance, when number of charge cards rapidly increased, and immediately from the next year, 2004, the number of credit cards started permanently to exceed the number of charge cards, it reached nearly tenfold.

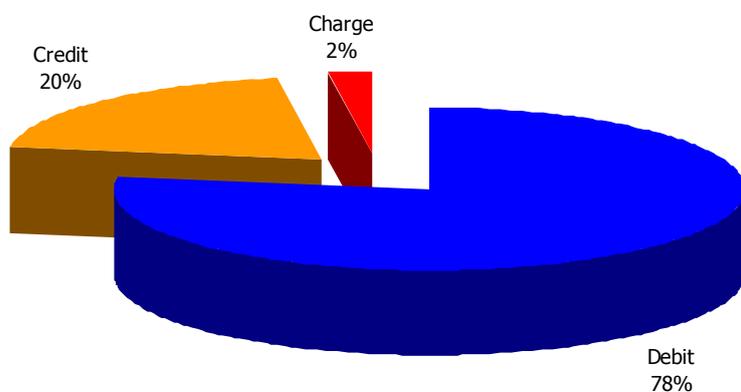
Trend in number of cards in ČR 2001 - 2013



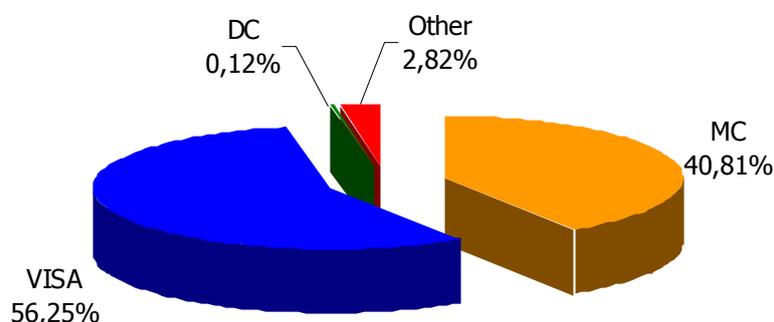
Structure of issued cards

The statistics of issued cards documents that share of debit cards (77.52 % in 2013) persistently decreases (drop from 81 % in 2009 and from 84 % in 2006), but it still dominates the credit cards (20.24 %) and charge cards (2,24 %) (in 2006: 11 % a 5 %). It is worth noting that the share of credit cards is ever increasing at the expense of debit cards (year-to-year by approx. 3 %), and share of charge cards ever decreases (in 2009 it was 5 %). See details in Graph "Total number of issued cards by brands".

Payment card types in CR 2013



Issued cards by brands 2013



Number of cards per inhabitant

One parameter, enabling comparison of development of card market and card popularity with consumers, is the number of payment cards per inhabitant esp. per inhabitant in the age group of 15 - 64 years. The table "Number of cards per inhabitant" documents an increase of cards per inhabitant in both categories to double during the past 13 years; at the same time the relation to the most developed market in Europe is given.

	Number of cards per inhabitant				UK 2011
	2000	2008	2012	2013	
number of cards per inhabitant	0.43	0.85	0.97	0.96	2.32
number of cards per inhabitant in age 15 - 64 years	0.60	1.20	1.40	1.43	3.37

The mentioned trend in number of cards and the comparison of the number of cards per inhabitant document in essence the market saturation by standard debit and charge cards and ever increasing attention of issuers and its customers to credit cards. By number of cards the Czech Republic belongs among foremost countries in the Central and East Europe.

Should the Czech Republic come closer to the developed card countries then the issuers must concentrate more on chip cards offering to clients a promise of higher payment security and other added value services, and also more on credit cards, combining advantage of cashless payment with better managing family financial flow using easily available loans. Further expansion can be reached by card issuing in cooperation with other partners as co-branded, partner, cards bearing logos of both the issuer and the partner organization.

Card payments in ČR

During times the "card" became a usual payment mean, firstly for cash withdrawals in ATMs, currently it serves not only for purchasing of luxury goods but also at supermarkets and for purchases of everyday goods, and in bookstores and pharmacies.

ATMs

ATMs are inevitably connected to payments cards, first cards enabled only withdrawals of money deposited at accounts. After first ATMs of the Czech Saving Bank were introduced other institutions developed their networks of ATMs, too. Nowadays the ATMs are controlled by several providers, either big banks or independent providers of specialized services (operating ATMs for individual banks) or specialized companies.

ATMs providers

Company	Founded
Česká spořitelna	1825
Global Payments Europe (dř. MUZO, est. 1990)	2004
Euronet Worldwide	1997
Pharro (+Fio banka)	2004

Trend in overall number of bankomats is very positive, with year to year increase of 134 ATMs (3.1 %) to total 4 433 pieces of bankomats. Number of ATMs during 2001 - 2013 has increased by 2524 (coefficient CAGR = 45.9 %). Apart of withdrawals, bankomats offer also information on balances, enable to enter payment orders and serves as a marketing channel for propagation of banking (esp. credit and insurance) products - on a standard level noticeable in „developed“ countries.

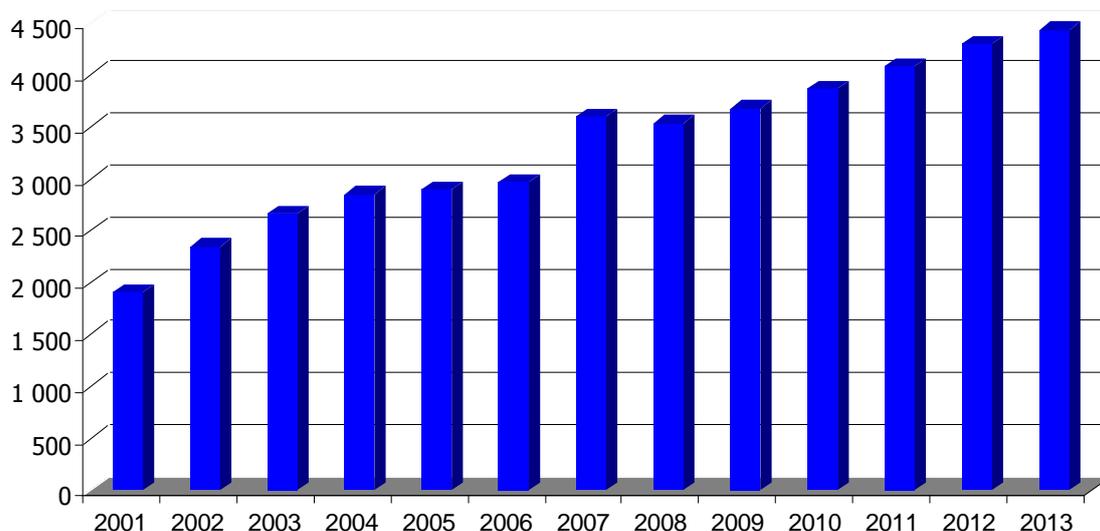
Trend in number of cash dispensers 2001 - 2013

ATM	2001	2002	2003	2004	2005	2006	2007
Number	1909	2 350	2 669	2 850	2 892	3 096	3 599
No. of trns (mil.)	21.886	108.249	116.825	126.816	133.508	146.005	152.098
Volume of trns (mil. Kč)	32 896	292 493	352 253	401 818	447 277	510 310	554 990

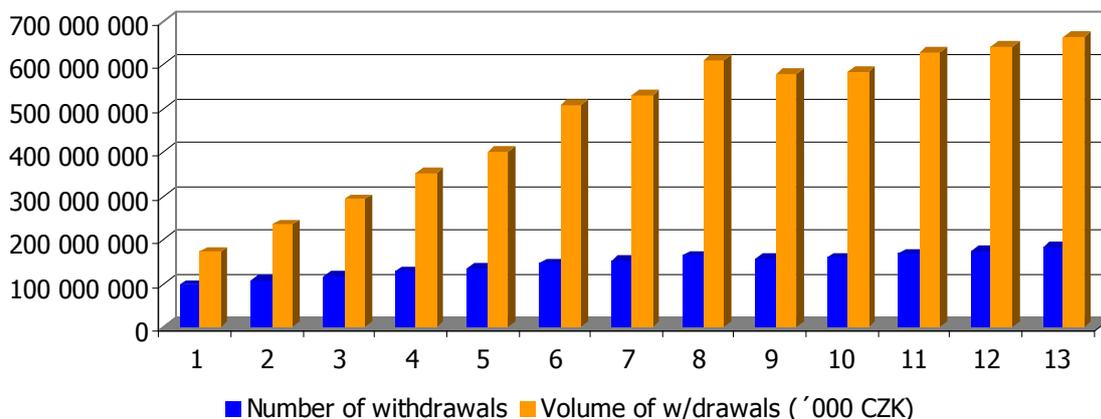
ATM	2008	2009	2010	2011	2012	2013	year to year %
Number	3 534	3 679	3 868	4 082	4 299	4433	3.12
No. of trns (mil.)	162.688	156.490	158.676	167.872	175.352	182 469	4,06
Volume of trns (mil. Kč)	609 466	579 401	585 279	626 967	641 140	664 252	3.60

One of the indicators showing the maturity of ATMs infrastructure is number of ATMs per million inhabitants; in 2013 it has reached 417 ATMs/mil. inhabitants (in 2008 only 338, in 2011 already 401, 2012 up to 423; most ATMs in this category are deployed in Spain - around 1350). From the point of view of geographical region, CR has density of 56 ATMs /1 000 km².

Number of ATMs 2001 - 2013



Number and volume of ATM withdrawals 2001 - 2013



Usage of ATMs

From the deployment of Czech bankomats it is apparent, that in no single year their number did not fall (in the year 2008 it could be a statistical error), and number of realized transactions ever rose up. Volume of cash withdrawals from ATMs grew more rapidly than the increase of number of transaction, therefore the value of the average withdrawal increased from 2 105 CZK (in 2000) to 3 746 CZK in 2008, then it slightly decreases: 3 735 CZK in 2011, 3 656 CZK in 2012 to 3 650 in 2013). The increase in average amount of withdrawals was definitely influenced by introduction of higher cash advance fees from ATMs operated by other providers than the issuing bank).

Merchant location, including POS terminals

Merchants were contractually acquired by 5 main banks:

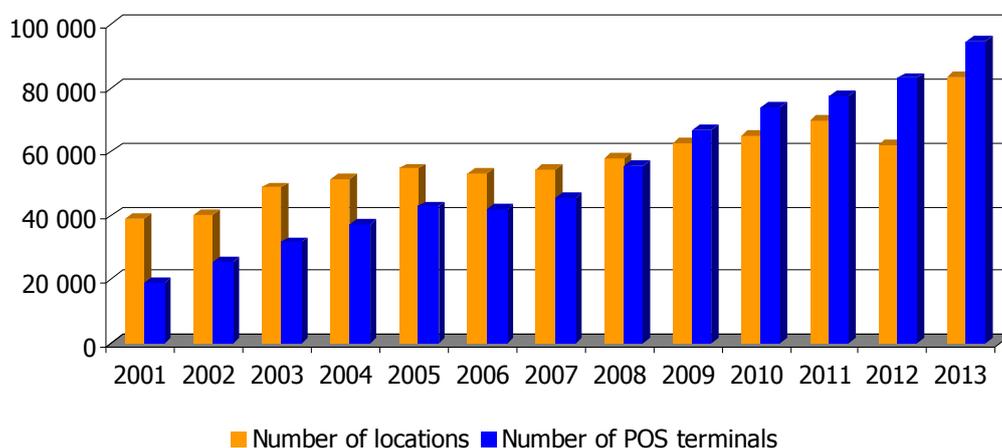
Česká spořitelna, a.s.
ČSOB
Raiffeisenbank, a.s.
Komerční banka, a.s.
UniCredit Bank CR, a.s.

During the last 13 years the number of merchant locations (outlets) accepting cards underwent a remarkable leap, from 38 956 outlets (18 998 terminals) to 83 500 outlets (94 914 terminals), the parameter CAGR = 49.7. The number of outlets gradually increased up to year 2011, by end of 2012 the number of locations dropped to 62 181 locations (decrease by 7.02 % from 69 878 in 2011). In 2006-7 the number of terminal fell down due to consolidation of merchant locations (merchant closures or mergers), termination of contracts with risky merchants and cancellation of non-productive merchant locations. The number of POS terminals managed by acquirers reached 94 914 terminals in 2013 (increase of 23 % from 83 302 pieces in 2012). The difference in relation to number of outlets is given by utilization of more terminals in one location, i.e. in supermarkets).

Merchants	2001	2002	2003	2004	2005	2006	2007
No. of outlets	38 956	40 224	48 723	51 393	54 667	53 265	54 340
No. of POS terminals	18 998	25 439	31 678	37 394	42 909	41 875	45 539

Merchants	2008	2009	2010	2011	2012	2013	Year to year %
No. of outlets	58 007	62 614	65 293	69 878	62 181	83 500	34.3 %
No. of POS terminals	55 783	66 901	74 041	77 651	83 302	94 914	14.0 %

Number of merchant locations and POS terminals 2013



Number and volume of transactions at merchants

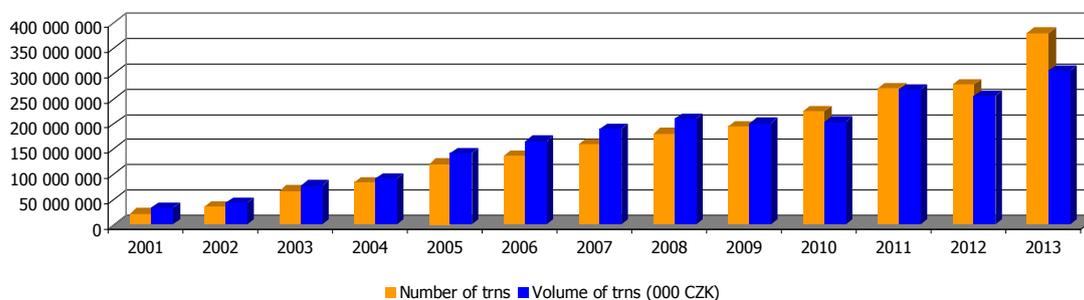
Increase in number of merchant locations and POS terminals, where a card can be used, corresponds with an increase in number and volume of payment transactions. In 2013, the number of merchant locations has increase (by 34.3 %) which lead to the increase in number of card payments by 36 % and the volume increased by 20 %.

The development of the Internet caused popularity of payments with internet merchants (i.e. e-commerce), in 2013 there were made 12 027 679 transactions with the total volume of 11.662 mil. CZK.

Merchants	2001	2002	2003	2004	2005	2006	2007
No. of payments (mil.)	21.886	35.815	67.652	83.493	120.342	132.082	159.110
Volume of payments (mil. CZK)	32 896	42 484	77 588	91 727	142 735	157 066	190 019

Merchants	2008	2009	2010	2011	2012	2013	Year to year %
No. of payments (mil.)	181.228	194.231	224.409	270.008	278.938	380.378	36.37 %
Volume of payments (mil. CZK)	210 374	200 924	203 591	269 077	255 922	306 001	19.57 %

Number and volume of POS trns 2013



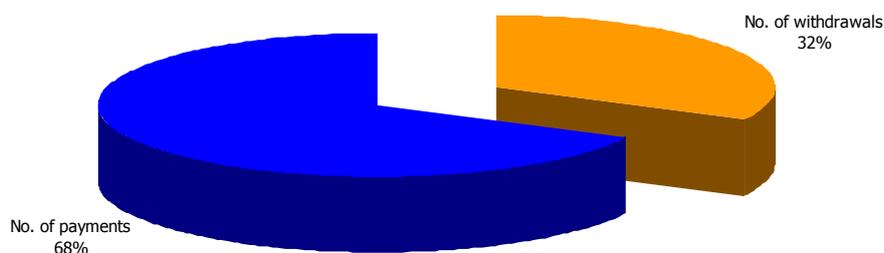
The trend of average payment amount shows a decrease from 1 877 CZK (2000) to 917 Kč (2012), and in end up in 2013 on 804 CZK, which corresponds to cardholders willingness to use their cards for usual, non-exclusive shopping; and willingness of banks to conclude contracts with wide palette of merchants. Popularity of payments with internet merchants has grown; the internet shops in 2013 realized 12 027 679 payments in volume of 11 662 mil. CZK, with the average payment amount of 970 CZK (cf. 2008 - 2 003 CZK).

Comparison of cashless payments to cash withdrawals

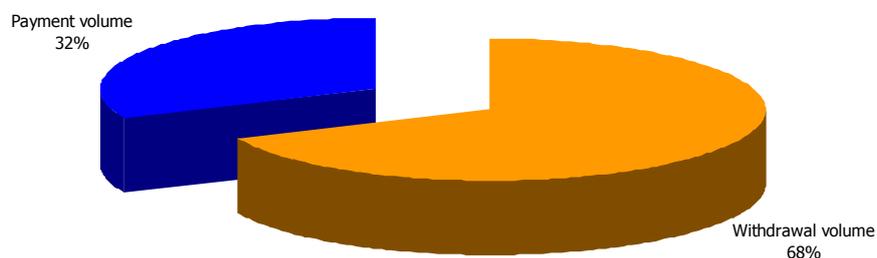
The share of cashless payments to the total transactions increased from 12 % (2000) to 68 % in 2013 (it is worse noting that in 2007 the number of payments for the first time exceeded the number of cash withdrawals). It corresponds with the ratio of volume of cashless payments to volume of withdrawals - 32 % in 2013 (increase by 3 percent points comparing to 2012). This proportion has increased during the last 11 years from 11 % in 2000 to current 32 %, as share of cash withdrawal's volume grew faster - which demonstrates continuous popularity of cash with population. When

recalculating to the number of transactions/per year/per one card, we reach the required and satisfactory ratio 17.8 to 37.1 - number of cash withdrawals per year was less than half then was the number of card payments per year. The number of payments per year was, for the first time, higher than the number of cash withdrawals per year in 2006, when the ratio was 17.6 : 18.4).

Ratio of number of withdrawals and payment 2013



Ratio of volume of withdrawals and payments



The average payment amount in 2013 was 804 CZK (decrease from 1 161 CZK in 2008) with a decrease of the average amount of withdrawals to 3 640 CZK (from 3 764 CZK in 2008).

The following table shows the overall Czech card market characteristics.

2013	ČR	%
No. of bank cards	10 250 651	
No. of payments/card/year	37.1	
No. of withdrawals/card/year	17.8	
No. of transactions		
No. of payments	380 378 182	68 %
No. of withdrawals	182 469 036	32 %
Volume of transactions		
Volume of payments (CZK)	306 001 450	32 %
Volume of withdrawals (CZK)	664 252 317	68 %
Average payment (CZK)	804 CZK	

	(40 USD) (29 EUR)	
Average withdrawal (CZK)	3 640 CZK (183 USD) 133 EUR	

PAYMENTS	CR
No. of outlets	83 500
No. of POS terminals	94 914
WITHDRAWALS	
No. of ATMs	4 433

Card usage practices

The manners in which the VISA and MasterCard bank cards are utilized in CR in comparison to worldwide trends are shown in the table "Card usage". It is apparent that in spite of the positive growth the consumers in the Czech Republic are getting used to payments for goods and services rather slowly and relation of the volume of payments to the volume of withdrawals = 0.4 : 1 (volume of payments is 2.5 times smaller then the volume of cash withdrawals, a slight improvement comparing with 2011 when volume of payments was 3 times smaller).

	Volume of payments	Volume of withdrawals
World	65 %	35 %
CR (2013)	32 %	68 %

Although the trend of growth of the volume of cashless payments is growing (increase of 3% from 2008), perhaps its growth will accelerate by the growth of number of credit card, which - for cash withdrawals - represent for the client a higher cost (interest and fees) than non-cash payments. According to MasterCard association survey advantages the 70% of the population are not aware of the concept of credit cards (2011).

Chip cards, migration to EMV cards and contactless cards

In the area of chip technology, the ever increasing share of chip and hybrid payment cards as compared to cards relying only on its magnetic stripe offer higher security, faster service at terminals through lesser number of on-line authorizations and wider range of added services. Chip cards are also called EMV cards according to the standard providing communication with other equipment (the standard was created by the consortium Eurocard-Mastercard-VISA). The chip cards were introduced in the Czech Republic in 1998. Contrary to France, where chip cards received a strong government support, all investments and processing costs connected with chip cards deployment in CR are sustained by the domestic banks.

1998 - The first chip card issued by IPB bank.

2006 - A considerable number of chip cards and equipments for their acceptance were migrated to EMV standard in the Czech Republic by end of 2006:
97.5 % of ATMs,
84.3 % of POS terminals and
44.2 % of debit and 32.6 % of credit cards in circulation.

2011 - In Czechia by end of 2010 the significant number of cards and equipments for their acceptance were migrated under the EMV standard:
9 464 549 čipových karet (96.94 %)
4 082 bankomatů (100 %)
77 597 POS terminálů (99.93 %).

Since 2011 new chip cards are being issued enabling contactless payments (under standards for NFC - Near Field Communication), as the card contains an antenna for radio communication on short distance with a payment terminal. It enables e.g. fast payments for fare in underground turnstiles and we can soon expect further applications.

Beside contactless card payments initiated by cards, so called mobile payments started to take place; i.e. mobile phones contains an application for NFC payments. An application is stored in the "secured area" of the SIM card and thus direct competition arises for payment cards in the form as they are known since the 60's. This area is very dynamic and ever new applications and technical solutions are mushrooming.

Card security

There is no such a payment instrument to which a counterfeit would not exist nor fraudulent transactions would be made. Luckily, due to infrastructure and slowly and considerably evolving market and interbank cooperation, the situation in the Czech Republic is better then in other countries. As early as in 1992 we succeeded in incorporating new provisions into the Criminal code concerning punishability of counterfeiting payment cards, their unlawful possession and fraud.

In autumn 1997, the Security Committee under the Bank Card Association (BV SBK) was established which brings together experts from banks and other institutions and organizations acting for prevention of fraudulent transactions. Their cooperation with law enforcing agencies is vital in fighting organized attacks of fraudsters and brings positive results in lowering fraud losses. Decreasing is apparent in the table "Suspicious transactions" describing "affected criminal activities", not the actual losses to Czech issuers. Basis points express ratio of the total volume of fraud cases reported by the banks to the total volume generated at merchant network (not at ATMs) on the territory of the Czech Republic by MasterCard and VISA cards made. The real amount of financial loss suffered by banks or merchants in CR was in numerous cases considerably lowered by described and timely cooperation.

Conclusions

Above description of the world of cards in the Czech Republic focused on bank cards, in numbers and volumes were also incorporated cards issued by Diners Club (but not American Express cards). Further development of payment cards will depend on mass deployment of contactless cards. Behind the door there are awaiting prepaid cards for those consumers which for various reasons do not prefer banking via a current account. Number of card transactions will be further increased by introduction of cards utilizing new technology of contactless communication with payment terminals. Concurrently, the payment functions of mobile phones shall soon compete with payment cards with application of electronic wallets.

Czech banks, through their membership in the Czech Bank Association (ČBA) and Bank Card Association (Sdružení pro bankovní karty - SBK), are taking active part in payment system development and advancement of payment cards in the European Union within the project of Single Euro Payments Area (SEPA). ČBA is a member of European Banking Association and is represented in the European Payments Council and its working groups focused on preparation and implementation of payment products SEPA, i.e. Credit Transfer, Direct Debit, Cards and Cash. Owing to the co-operation between ČBA, SBK, ČNB a MF ČR the Czech financial industry is well prepared for implementation of these products. SBK is also cooperating on processing of documents from European Central Bank for implementation by banks in the Czech Republic.

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