

27. Serbia

Market Overview

Payment Organizations	Association of Serbian Banks, DinaCard
Market Structure	<p>DinaCard, the domestic scheme, was launched in 2003 as a debit card scheme and was extended to credit cards in 2005. There are six companies processing DinaCard, including First Data.</p> <p>Exceptionally for an emerging market, there are more POS payments than ATM withdrawals in Serbia, reflecting the advanced nature of the card business in the former Yugoslavia.</p>
Major Issuers	Raiffeisen, Banca Intesa, Komercijalna, Hypo Alpe-Adria Bank, NBG, Alpha.
Consumer Finance	Domestic credit extended to households reached RSD 305.5 billion (approximately €3.85 billion) by end-2007. Cetelem has been present since 2005 with the takeover of Nova Banka by Findomestic, its Italian joint venture with CR Firenze.

Key Statistics 2007

Population	10 million
Cards	Debit: 4.6 million Credit: 1,039,000 Total: 5.7 million
POS Terminals	55,340 (retail outlets with a POS terminal)
ATMs	2,074
Payments	Total 39.2 million; value RSD 91.3bn (€1.2bn)
ATM Withdrawals	35.8 million; value RSD 166bn (€2.1bn)

Source: National Bank of Serbia.

Banking Sector

As the dominant member of the former Yugoslavia, Serbia (which includes Montenegro in this profile) was the most advanced cards market in the Comecon bloc. Enjoying relative freedom in ability to travel and operate bank accounts, Serbians were well-versed in card usage and more cards were issued in Yugoslavia than in the whole of the Soviet Union and eastern Europe in 1991-2. During the years of civil war and ensuing sanctions, the Serbian economy fell behind the rest of the region. Driven by European bank capital, the banking sector and the payment cards industry have recovered well. With the country's 10 million population, the card business in Serbia has the potential at least to rival countries like Czech Republic and Hungary in size.

According to Erste Bank, Serbia's banking sector is now firmly on track to catch up with its central and east European peers. Erste reports that the ratio of assets to GDP reached an estimated 70% at end-2007, compared with 48% two years ago.

As in most of the rest of CEE, Austrian and Italian banks are major investors in Serbian banks, headed by Intesa Sanpaolo, Raiffeisenbank, Hypo Alpe-Adria (now majority-owned by BayernLB) and UniCredit. All the large Greek banks have also made acquisitions in Serbia.

Raiffeisen banka, was the first foreign entrant following the political changes in 2000. Raiffeisen banka's balance sheet rose 29% in 2007 to €2.7 billion, with over 0.5 million clients at year-end. In consumer banking, the value of its credit portfolio rose 25% to €442 million during 2007, while clients numbers surpassed 485,000.

Of the large Greek banks, Eurobank EFG owns Eurobank EFG stedionica, the fifth-largest bank by total assets as of 2006. This follows its acquisition of 100% of the Nacionalna Stedionica Banka (NSB) in March 2006. Eurobank EFG completed the operational merger of NSB during 2007. By late 2007, the new merged bank, which had been renamed Eurobank EFG stedionica, comprised 101 branches and five business centres.

Alpha reinforced its presence in 2005 through the acquisition of Jubanka. On June 1 2006, Jubanka was renamed Alpha Bank Beograd, which also includes three Alpha Bank branches operating in Serbia since 2002. In October 2006 Alpha Bank Beograd was renamed Alpha Bank Srbija. By 2007, its network reached 130 branches with a 5.7% share in the domestic market for loans.

In September 2006, National Bank of Greece purchased the government-owned Vojvodjanska banka (VB), the seventh-largest bank, in which 10 other banks originally expressed interest. According to NBG, the combined market share of VB and NBG Beograd in retail banking at end-2007 reached 7%.

Leading Cypriot bank Marfin Popular Bank has also entered the market. In January 2006, it acquired 90.43% of the Serbian bank Centrobanka a.d. (later renamed Laiki

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Bank a.d.), followed by a €30 million capital increase in May 2007. Its Serbian network currently comprises 20 branches. By end-2010, Marfin expects Laiki's network to reach 74 branches and cover the entire country.

Main Serbian Banks			
Bank	Ownership	Assets (€bn)	Market share %
Banca Intesa Beograd	Intesa Sanpaolo	2.6	12.5
Raiffeisen banka Beograd	Raiffeisen International	2.1	10.1
Komercijalna banka	State	2.0	9.4
Hypo Alpe-Adria Beograd	Hypo Alpe-Adria-Group	1.8	8.5
Eurobank EFG stedionica	EFG Eurobank	1.1	5.4
AIK banka Nis	Majority local capital	1.1	5.0
UniCredit Bank	UniCredit	1.0	4.7
Société Générale Yugoslav	Société Générale	0.9	4.2
ProCredit Bank Beograd	ProCredit	0.8	3.9
Vojvodjanska banka	National Bank of Greece	0.8	3.8
Note: market share in terms of total assets (according to local accounting standard, unconsolidated figures); total banking assets €21bn at end-2007. Table excludes Postanska stedionica, the postal savings bank,			
Source: UniCredit Group.			

Other investors in the market are Société Générale, Commerzbank, Crédit Agricole, Erste, Piraeus, Nova Ljubljanska banka of Slovenia and OTP of Hungary. In June 2007, KBC finalized acquisition of 100% of A Banka in Serbia.

Several banks, including Erste and NLB, gained entry to Serbia as a result of the government's privatization policy, which led to the disposal of five small banks in 2004-5. Komercijalna banka, the fourth-biggest bank, remains state-controlled and scheduled for privatization. The EBRD bought a 25% stake in Komercijalna Banka in March 2006. Postanska stedionica, the postal savings bank, does not form part of current privatization plans, but with 2 million customers, a presence in 1,500 post offices in Serbia and over 4,000 cash withdrawal places, it is potentially a major player if it can modernize and compete with private banks. Primarily a domestic DinaCard issuer, Postanska recently began issuing Visa Electron cards.

Erste reported that Erste Bank Serbia has some 260,000 clients and a network of 63 branches for retail business as well as 15 centres for corporate business by 2007. The bank is focused on the retail and mid-market corporate client base. Though the bank's current market share is only some 2.5% in key product segments, Erste reports a market share of some 10% in electronic payments in Serbia.

In March 2008, Bank of Moscow announced it had received approval from the National Bank of Serbia (NBS) to set up a subsidiary in the country. According to

Significant Events in Serbian Banking

March 2008	Bank of Moscow announces establishment of a subsidiary in Serbia.
June 2007	KBC finalizes acquisition of A Banka.
January 2007	KBC announces agreement to acquire a majority stake in A Banka through a public takeover bid.
September 2006	National Bank of Greece (NBG) announces agreement on acquisition of Vojvodjanska Banka.
September 2006	Crédit Agricole acquires minority interests (29%) in its Serbian subsidiary Meridian Bank.
August 2006	OTP Bank bids for majority shareholding in the Montenegrin Crnogorska komercijalna banka AD (CKB), the largest player in the Montenegrin banking sector.
July 2006	Sanpaolo IMI signs agreement for the acquisition of a 87.39% stake in Panonska Banka from the Serbia Finance Department.
March 2006	EFG Eurobank acquires 100% of the Nacionalna stedionica Banka (NSB).
January 2006	Marfin Popular Bank acquires 90% of Centrobanka a.d.
October 2005	Société Générale announces acquisition of 64.44% of Podgoricka Banka from Republic of Montenegro.
July 2005	Cetelem's Italian joint-venture Findomestic acquires Nova Banka.
May 2005	Erste Bank receives approval to buy Serbia's Novosadska banka.
April 2005	Crédit Agricole SA announces talks on taking majority stake in Serbian bank Meridian Bank A.D.
January 2005	Banca Intesa announces exclusive negotiations for the acquisition of Delta Banka in Serbia and Montenegro.
November 2004	Bank Austria Creditanstalt (BA-CA) signs agreement to purchase Eksimbanka, headquartered in Belgrade.

Source: ECR research.

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Bank of Moscow, it is the first foreign financial institution over the last seven years to receive permission to open a subsidiary bank in Serbia. Bank of Moscow says its new subsidiary Moskovska banka will become a universal bank, serving individuals and corporates.

The market is comparatively fragmented. According to the recent analysis by UniCredit, the largest bank accounted for only 12.5% of total assets in 2007, with only two banks accounting for more than 10% of total assets.

Overall, there were 35 banks at end-2007, according to the Association of Serbian Banks. Foreign capital held a majority stake in 23 of the banks, which collectively accounted for 81% of total assets and 81% of total capital.

Market Infrastructure

DinaCard

DinaCard, the national payment card system, was formed by National Bank of Serbia, the central bank, and the commercial banks in 2003. Its stated goals are to step up the development of non-cash payments, decrease the amount of cash in the monetary system and fight 'grey' economy activity. The DinaCard system represents more than 40% of total ATM and POS transactions in Serbia. At end-2007, 2.5 million DinaCards, nearly half of all cards, had been issued and 24 million transactions were reported, just over one-third the total number of card transactions in Serbia; scheme rules allow co-branding with MasterCard and Visa, but the proportion co-branded is not disclosed.

DinaCard says establishment of a national payment card has enabled domestic banks which are not members of international payment systems to offer clients a payment card which can be used in the largest acquiring network in Serbia, without major upfront investments. The basic DinaCard is issued free of charge, while merchant service fees are held at low levels to match conditions on the Serbian market.

PostCard DinaCards issued by Postanska stedionica have 11-digit current account numbers embossed on the front of the card and require cardholder ID to be presented at the POS. All other cards have 16-digit account numbers.

The DinaCard system comprises 31 banks, 27 of which actively issue DinaCard cards, and eight processing companies. Though DinaCard began as a debit card system, it launched credit cards in 2005. In addition to the debit card, 23 banks issue the DinaCard credit card; there is also a DinaCard business card and a prepaid card.

Raiffeisenbank, Volksbank, Hypo-Alpe-Adria bank and Société Générale Yugoslav Bank accept DinaCard at their ATMs, but do not issue DinaCard.

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There are also eight processors in the DinaCard system, including First Data International, MBU from Zagreb and PayNet from Romania; the remaining five are the Belgrade-based companies Arius, Certus, Chip Card, EuroPlanet and Mellon Transaction Solutions.

Demand for credit cards was boosted in 2006 by the NBS decision to phase out post-dated cheques, the means by which many consumers previously obtained credit. From December 2005, post-dated cheques were effectively banned by the NBS requirement that any cheques issued must be immediately collected.

Most DinaCard credit cards are instalment cards, whose cardholders opt to pay for a purchase on a pre-defined period, typically over three, six or 12 months, so mimicking closely the post-dated cheques they have replaced. NBS noted last October that although the first DinaCard credit cards were activated only in March 2005, they accounted for 20% of turnover in the system within six months.

NBS performs the clearing and settlement for the domestic payment cards DinaCard and YubaCard. Dinar Visa and MasterCard payment clearing positions are settled in the NBS's RTGS system.

As of early 2007, Visa Electron was the only chip-based card issued by banks, although several banks are planning to issue DinaCards as chip cards. One of the projects for the National Payment Card centre in 2008 is the technical specification of the DinaCard chip to meet the EMV standard.

Additional services are being developed and rolled out for DinaCard customers. During 2006, DinaCard launched mobile phone top-ups in association with Mobilna telefonija Srbije (MTS), the main network operator (see below). Other developments planned include the introduction of on-line DinaCard transactions, in cooperation with the national airline company JAT. Since January 2008, it has been possible to remit money from a foreign country to a DinaCard account in Serbia at low cost - €5 for transfers of under €200, with the transfer carried out in a single day.

DinaCard - Key Figures		
	2006	2007
Cards issued (m)	2.6	2.7
Transactions volume (m)	17.7	24.0
Turnover (RSD bn)	48	67
Acquiring network: ATMs	1,450	2,000
POS terminals	48,000	53,000
Source: DinaCard.		

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Domestic Interchange

In September 2007, National Bank of Serbia introduced interchange into the DinaCard system. For the majority of merchants, interchange is 0.7% of the purchase value, with rates of 0.25% for petrol and 0.4% for utilities.

However, in a speech in June 2008, the governor of the central bank said the measure is deemed only temporary. He added that the NBS has completed a study on interchange in Serbia and the EU countries and is cooperating closely with international card systems, including Visa, and European institutions to move Serbia closer to the European level of interchange for all bank cards issued in the country.

In the same speech, governor warned on payment card charges in Serbia: "It will not be an overstatement to say that payment card charges are excessive and out of proportion to the actual operational costs." He said the current level of prices and margins deterred merchants from using payment cards and so inhibited the development of a more efficient payment and banking system. The NBS wants to see lower margins to stimulate more rapid growth in the volume of transactions.

Card Processors

First Data International is active in Serbia, initially through its purchase of Delta Singular, now First Data Hellas, in Greece, and also through its subsidiary Euro-Processing International; it now has an office in Belgrade, with Intesa as a key customer. Mellon Transaction Solutions (MTS), part of Athens-based Mellon Group, was founded in 2001 and is based in Belgrade. MTS provides issuing and acquiring processing services to 14 banks in Serbia and elsewhere, as well as retailers and fuel companies. Other processors present in the market are the Belgrade-based companies Astra Simit, Chip Card and EuroPlanet, along with PayNet from Romania.

ATM and POS Networks

As might be expected, ATM and POS networks are expanding rapidly off a small base. At present, they remain concentrated in Belgrade, the capital, and in bigger cities such as Novi Sad and Nis.

Summary of ATM/POS Networks					
	2004	2005	2006	2007	Q1 08
Cash-dispensing ATMs	450	837	1,348	2,074	2,173
Retail outlets with POS terminals	16,266	31,816	48,194	55,340	58,225
Source: National Bank of Serbia.					

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Mobile Payments

As noted above, in 2006 holders of DinaCards were offered the possibility to top up their prepaid mobile phone accounts via SMS. In April 2008, in cooperation with Telekom Srbija, DinaCard introduced payment via mobile phone. DinaCard holders can pay their post-paid bills as well as order and pay for the issuing of copies of documents from municipal registers. The DinaCard system plans to extend the service, enabling payment via mobile phone of fees for copies of birth certificates and other documents in more than 50 municipalities, not later than end-2008.

A mobile service has also been launched for Visa cardholders. In October 2006, mobile payments provider Upaid announced the deployment of a Visa Mobile Service (VMS) with Serbian mobile operator Telekom Serbia (MTS). Based on the existing payment infrastructure in use by MTS, the service enabled customers to top up their mobile phones via SMS text message, which then authorized payment from a Visa debit or credit card. All clients of Raiffeisen Bank, Banca Intesa, Alpha Bank, NLB Continental Banka with Visa payment cards and MTS prepaid mobile accounts were eligible to sign up to this service.

A year later, in October 2007, Upaid announced an expansion of the service. Mobile operators Telenor and Vip mobile have followed MTS in offering the service while the number of participating banks has increased to ten.

The intention with both mobile services is to roll out additional functions in the future, such as mobile bill payment and utility payments. By mid-2008, there were around 9 million mobile phones registered in Serbia, according to the central bank.

Market Size and Dynamics

Payment Card Issuance

By Q1 2008, the number of cards issued had fallen slightly from 5.7 million at end-2007 to 5.5 million. DinaCards accounted for almost half of the issued cards. Debit cards in turn account for over 80% of cards issued. All debit cards are payment cards that can be used to pay for goods and services at POS terminals as well as to draw cash at ATMs.

Payment Cards in Serbia					
000s	2004	2005	2006	2007	Q1 08
Payment cards	2,137	3,825	5,186	5,653	5,466
Debit cards	2,109	3,443	4,328	4,614	4,412
Credit cards	28	382	858	1,039	1,054
Note: figures exclude business cards.					
Source: National Bank of Serbia.					

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Though small relative to debit cards, credit card issuance had grown to 1,054,183 by end-Q1 2008 compared with only 28,224 cards at end-2004. Issuance and use of credit cards expanded rapidly from 2005 when many banks began issuing credit DinaCards. Until then, credit cards had mainly been issued under the Visa and MasterCard brands or through cooperation with Diners Club Serbia.

Visa claims market leadership in Serbia. As at end-October 2007, there were 2.2 million Visa cardholders in Serbia.

Payment Card Use

The remarkable feature of the card business in Serbia, to anyone familiar with CEE and FSU markets, is that there are more POS payments than there are ATM withdrawals. Though the card industry, in its modern form, is only four years old in Serbia, there were 39.2 million POS payments in 2007 compared with 35.8 million ATM transactions, a ratio unusual in CEE and SEE countries. The explanation goes back to the days when Yugoslavia enjoyed the most liberalized banking system in the old Comecon bloc and when foreign travel was allowed, allowing familiarity with cards to develop.

Summary of ATM Transactions in Serbia

	2004	2005	2006	2007	Q1 08
ATM transactions (m)	5.7	13.1	25.3	35.8	10.2
ATM withdrawals (RSD bn)	20.2	52.0	109.0	165.5	48.4
Note: figures include foreign cards in Serbia.					
Source: National Bank of Serbia.					

Throughout CEE markets, the pattern of development in the card industry has been for ATM withdrawals to predominate over POS payments. Typically, the card industry was kick-started by public and private sector employers making payroll transfers into bank accounts which employees accessed with their cards. In the early days, ATM withdrawals represented the vast majority of card transactions, and though the proportion has moved in favour of payments, in Bulgaria ATM withdrawals are still over 75% of transactions, while in Romania the figure is more than 85%.

Summary of POS Payments in Serbia

	2004	2005	2006	2007	Q1 08
Number of payments (m)	5.1	12.3	27.1	39.2	11.7
Value of payments (RSDbn)	12.3	32.0	65.0	91.3	26.1
Note: figures include debit cards, credit cards and foreign cards in Serbia.					
Source: National Bank of Serbia.					

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NBS figures show that POS payments increased by 45% in 2007 over 2006, marginally more than ATM withdrawals. The average transaction was RSD 4,622 at the ATM and RSD 2,329 at the POS (€58 and €29 respectively).

Summary of All Card Transactions in Serbia					
	2004	2005	2006	2007	Q1 08
Debit cards					
-number (m)	9.47	20.63	39.31	58.11	17.35
-value (RSD bn)	23.93	58.79	118.05	186.22	56.16
Credit cards					
-number (m)	0.33	2.82	10.00	12.33	3.19
-value (RSD bn)	1.21	10.55	32.87	39.62	10.34
All payment cards					
-number (m)	9.80	23.45	49.31	70.44	20.54
-value (RSD bn)	25.13	69.34	150.92	225.84	66.50
Note: figures are for ATM withdrawals and POS payments in Serbia, and exclude business cards.					
Source: National Bank of Serbia.					

Card Payments Per Capita in Serbia				
	2004	2005	2006	2007
Total card payments	0.5	1.5	2.7	3.9
Total card value (€)	15.5	37.4	82.3	115.3
Source: National Bank of Serbia.				

Business DinaCards are linked to the account of a company, with provision for cards to be personalized for all employees. The cards allow access to ATMs and POS outlets in the normal way and usually operate as debit or charge cards.

Business Cards in Serbia					
	2004	2005	2006	2007	Q1 08
Number of cards	20,642	33,129	55,237	72,975	69,723
-transactions (000s)	139	687	1,274	1,920	625
-value (RSD m)	662	2,843	6,288	9,628	2,964
Source: National Bank of Serbia.					

Card Issuers

Since no single bank has an overall market share larger than 15%, there is no dominant card issuer. Led by Intesa Sanpaolo and Raiffeisen, however, all the major banks are vigorously pursuing card issuance as a strategic business area.

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Raiffeisen banka reported that its Visa revolving cards doubled to almost 127,000 in 2006, equivalent to a market share of 15%. It had more than 425,000 customers in total, up 37% on the figure for 2005. Raiffeisen banka is now both a Visa and MasterCard issuer. In June 2007, it launched its MasterCard instalments card, a credit card that, like many of the DinaCard credit cards, functions by enabling cardholders to repay purchases in equal monthly instalments.

Established in Yugoslavia since the early 1980s, Diners Club is an important player in Serbia. In May 2006, Intesa announced an agreement with American Express to issue cards in Serbia and to act as exclusive acquirer of AmEx transactions in Serbia; Intesa, through PBZ, also issues AmEx cards in Croatia.

NBG describes its Serbian acquisition Vojvodjanska Banka as “a leading issuer of payment cards -Visa and DinaCards,” though without disclosing actual numbers. Similarly, Alpha Bank describes Alpha Bank Srbija as “one of the major issuers of Visa cards in Serbia” without disclosing actual numbers.

Erste Bank Serbia almost doubled the number of issued cards in 2007 to over 150,000, with the cards business a key development area for the bank. Among its innovations, Erste Bank Serbia was the first to offer a pre-paid gift card in the market. It continues to extend its product range, launching a Visa Gold Card in June 2008.

Cetelem has been present in the Serbian consumer finance market since 2005 with the takeover of Nova Banka by Findomestic, its Italian joint venture with CR Firenze, the Florence savings bank. In July 2005, Findomestic acquired 97% of Nova Banka Beograd AD, a Belgrade-based bank with a network of 20 branches throughout Serbia. It is now a 100% subsidiary of Findomestic, called Findomestic Banka.

In 2006, Findomestic Banka signed a partnership with Gorenje, a leading producer of large household appliances in Serbia. It is also working with Telekom Srbija, the national telco, and ComTrade, a leading IT retailer.

Findomestic says Findomestic Banka’s strategy is to position itself as a full service bank, supported by its role as consumer credit specialist where it claims to be market leader. In the consumer credit sector, it offers credit cards (where it is a MasterCard issuer), personal loans and, from H2 2007, POS finance. However, particularly for consumer credit, Findomestic says development of the market is still limited by restrictive measures imposed on the market by the central bank and by politics.

Financing supplied in consumer credit during 2007 totalled €24.2 million, with 39,786 transactions. Findomestic Banka’s gross assets at December 31 2007 reached €51.7 million, an increase of 84% compared to December 31 2006, with shares of approximately 46% in consumer credit and 54% in traditional banking.

SocGen does not disclose card numbers for its Serbian business, though it did launch a Visa revolving credit card branded “O-la-la” in 2007 to celebrate 30 years in the country. The card is also available to non-SocGen customers.

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In March 2008, Société Générale Consumer Finance announced the launch of PartnerKredit. Located in Belgrade, PartnerKredit is a department of Société Générale Banka Srbija, SocGen's local subsidiary. It operates through direct distribution and through partnerships.

Consumer Finance

Though the figures are not broken down between mortgages, credit cards and other consumer finance, data from National Bank of Serbia shows rapid growth in consumer borrowing during recent years. Domestic credit to households extended by commercial banks rose from RSD 29.3 billion at the end-2003 to RSD 305.5 billion at end-2007 (approximately €3.85 billion).

Commercial Banks - Domestic Credit to Households					
RSD billions	2003	2004	2005	2006	2007
Value	29.3	66.4	131.9	203.3	305.5
Note: includes dinar and foreign currency credits and other claims of banks on households; claims are disclosed in gross amounts, i.e. they are not reduced by allowances for impairment.					
Source: National Bank of Serbia.					

The Association of Serbian Banks operates a credit bureau for the market. During 2007, banks accessed some 3 million credit bureau reports, according to the ASB. These were used for assessing the credit rating of citizens when deciding to offer services to the retail sector, mainly in loan approval procedures.

Cashless Payment Transactions in Serbia					
Millions	2001	2002	2003	2004	2005
Payment cards	nav	0.9	3.5	9.9	24.1
Cheques issued	nav	nav	31.7	37.5	30.4
Credit transfers	nav	nav	182.4	225.5	272.7
Direct debits	nav	nav	nav	nav	nav
Total	nav	nav	217.6	272.9	327.3
Source: BIS, 'Payment Systems in Serbia.'					

Exchange Rates

Exchange Rates at Year-end					
Dinar to the :	2003	2004	2005	2006	2007
Euro	68.5	79.1	85.5	79.0	79.2
Source: National Bank of Serbia.					
