

Keynote speech Frank Elderson “Towards an efficient payment market: Dutch experiences”, Joint NMB-ECB conference “Cost and efficiency of retail payments: evidence, policy actions and role of central banks”, Budapest, 16 November 2012

Dear colleagues, good morning,

1.

Being the first speaker on this second day of the seminar, I’d like to start by thanking and complimenting our host for last night’s wonderful dinner.

I really enjoyed it very much.

Also, I won’t mind telling you how pleased I am to be here in Budapest at the central bank of Hungary.

We are living through very challenging times.

All of us, in our difficult roles, must contribute to solving the daunting problems we are presently facing.

I can make a contribution to the process in my capacity as a central banker; a central banker responsible for optimising the efficiency of payments and payment systems and working towards an efficient Single Euro Payments Area.

And it’s about these two areas that I want to talk to you today, to share with you our experiences in our attempt to achieve greater payment efficiency.

2.

If you check our mission statement on our website, you will find that we are committed to a safe, reliable and efficient payment system, in that particular order.

Today, I'll focus on efficiency.

By "efficient" I mean low-cost, convenient and accessible.

Our efforts to increase the efficiency of safe and reliable payments have borne fruit, I'm glad to say.

And when I say "*our* efforts" I include all Dutch stakeholders, with the Dutch central bank mainly in a 'catalyst' or facilitating role.

Over the past decade, the use of cash for point-of-sale payments has markedly declined in the Netherlands, in favour of the debit card.

In the period from 2002 to 2009, this development brought down the cost of point-of-sale payments by 9%, from 2.6 to 2.4 billion euro.

And the latest ECB study concludes that, together with Sweden, Finland and Denmark, the Netherlands has one of the most efficient point-of-sale payment systems of the European Union.

Debit card use has by now reached such a scale that the social costs of debit card

payments are clearly lower than those of cash payments, for practically any transaction amount.

We will continue to encourage debit card use.

However, we are also working on improving the efficiency of our cash cycle, because the Dutch also continue to use cash.

In remote payments, electronic payment orders have all but completely replaced paper-based instruments.

And now the next step is taking place, as highly convenient Internet banking apps for smartphones are rapidly becoming popular.

So much for the facts.

3.

We know that similar or even much bigger cost reductions can be achieved in other countries as well.

In a scenario analysis assuming less cash and no use of paper-based means of payment, the Hungarian central bank shows, for example, that it could reduce social cost for its retail payment system by about 27% or 103 billion forints.

So you may want to learn about the Dutch experience, just to see if there is anything in it for you.

While I'm well aware that conditions differ from one country to another, and that the Dutch approach cannot automatically serve as a blueprint for other countries, I will

now explain some of the circumstances, factors and measures that have helped enhance the efficiency of the Dutch payment system, focusing on point-of-sale payments.

4.

To begin with, our banking sector and retail sector both have strong representative organizations – as do many other sectors, I might add.

And they are used to cooperating together, when necessary.

It is a feature of Dutch society, and it has its roots in our centuries-old battle against the water.

The only problem was that the banking and retail sectors were not exactly on speaking terms, at the time of say the turn of the century.

However, they had to cooperate to facilitate the introduction of the cash euro in 2002.

It was, so to speak, a kind of 'armed peace', while below the surface there was a conflict raging between banks and retailers about banking fees for retailers and the market structure of debit card acquiring services.

This conflict was ready to escalate once the euro introduction was completed.

Realizing this, DNB took the initiative to form a high-level working group, under the chairmanship of its Governor, Nout Wellink, to study possibilities for reform of the payment system.

Based on the results of this work, DNB issued a set of recommendations that won the

support of the Minister of Finance, and of the Dutch Parliament.

This resulted in the creation of the National Forum on the Payment System, chaired and facilitated by DNB.

This forum offers stakeholders on both the demand and the supply side a platform for a broad dialogue on ways to improve the efficiency and safety of the payment system.

Another recommendation by DNB was to conduct a study into the costs of point-of-sale payment instruments, with the aim to get objective information on the costs of payments to society, so moving away from discussions just on fees.

The study was carried out by DNB in the context of the new National Forum.

The study showed that at that moment, the cost associated with a single cash payment was lower, on average, than the cost of a debit card payment, but that the total cost to society would actually go down if *all* cash payments were replaced by debit card payments.

This finding persuaded especially the smaller retailers to accept electronic means of payment, now that they could see for themselves that debit card payments didn't cost them more than cash payments.

And consumer organizations joined the emerging consensus, as lower cost to society in the end means lower prices on condition, of course, that there is competition both on the banks' and on the merchants' side.

*[als een terzijde:] I see a similar influential role in Hungary for the highly insightful and detailed cost study by our colleagues of the Hungarian central*

*bank or the cross-country study by the ECB.*

But I don't want to make this sound easier than it was.

The road towards greater efficiency gave us a bumpy ride at times.

The conflict between banks and merchants over acquiring fees was not over yet.

The fees were considered too high, but part of the problem was that fees were set by one sole acquirer, the automated clearing house, that acted on behalf of all banks.

On the basis of the report by the Wellink working group which I mentioned, DNB recommended changing the market model into a true four-corner model, where individual acquiring banks would set their own fees and compete amongst each other for contracts with merchants instead of using one single card acquirer.

More or less at the same time, the Dutch competition authority began an anti-trust case against the banks and the clearing house, on the basis of complaints by merchants.

Whether it was the looming anti-trust case or the recommendation, or a combination of the two, the market model was changed.

And the anti-trust case was settled out of court.

Finally, conditions were created in which real peace could come.

Banks and retail organizations now engaged in productive talks.

In 2005 and 2009 banks and retail organizations signed covenants by which they

agreed to join forces in encouraging consumers and merchants to step up the use of the debit card.

Banks agreed to give a discount on the merchant fees, and put in a substantial amount of money to finance promotion actions.

And the story goes on. In recent years, DNB and other stakeholders conducted surveys of payment behaviour, payment cost and drivers of payment choice at the counter.

These studies identified barriers for retailers to accept debit cards and for consumers to use them-

They taught that one of the keys to successful adoption is simplicity.

Payment instruments should be made easy to obtain, install and use, since most consumers and retailers don't want to spend much time learning how to use them.

Small retailers in particular need simple and, of course, affordable solutions to accept debit card payments.

These, broadly speaking, are the circumstances that helped increase efficiency in payments. The promotion of debit card payments has been a process that was largely initiated and managed by the market, and facilitated by the National Forum on the Payment System.

But, as said, DNB did have a role, too, in this process.

This role consisted in:

- conducting or contributing to studies into cost or payment behaviour, and publishing the results of these studies;
- serving as a catalyst by acting as chair and secretary of the National Forum;
- acting as an 'honest broker' in conflicts between banks and merchants, or between banks and consumers;
- acting as a safekeeper of the public interest, in close contacts with other authorities, including the Ministry of Finance and the competition authority.

5.

On the basis of the brief survey I have just presented, I have formulated a list of seven actions that national and supervisory authorities might take in order to promote efficiency. It's our lessons learned and, who knows, it might help you a bit.

1. Ensure that the banking sector, retail sector and consumers form effective lobby groups. Representative organizations are needed to make sure that the real interests of the groups they represent are made explicit. Only then can they work towards a national consensus.
2. See to the establishment of something like our National Forum on the Payment System, in which all these lobby groups are represented. For the Europeans amongst us, and especially those in the euro area, the consultative fora

established to implement SEPA might perhaps be transformed into more permanent national fora.

3. Give such a forum a mandate to enhance the efficiency of payments.
4. Conduct a joint study into the social cost of point-of-sale payment instruments.
5. Conduct a survey among retailers and consumers on reasons for using different means of payment and barriers that stand in the way of debit card use or acceptance.
6. Ask the banking sector and the retail sector to take measures to remove the obstacles identified through the above study and survey.
7. Perform periodic evaluations of the progress and make subsequent adjustments to this process where necessary.

6.

The process I described is not finished in the Netherlands, and the efficiency of point-of-sale payments is as high on the agenda as it was ten years ago.

At the same time, our payment system has embarked on another far-reaching endeavour: the Single Euro Payment Area, SEPA.

A fully integrated euro payments market for point-of-sale and remote payments.

By 1 February 2014, SEPA migration is scheduled to be completed.

But perhaps that is just the beginning.

The final and full harmonization of our payment systems may require a follow-up of the SEPA project, say SEPA 2.0.

7.

To me, SEPA is an encouraging prospect, because it points to possibilities for creating an even more efficient, safe and reliable payment system than we have today.

Clearly, the creation of SEPA will dismantle the borders between the national payment markets.

And within SEPA, providers and processors of payments will no longer be protected against foreign competition.

New players are coming to the fore, while more and more non-banks enter the payment market.

This will inevitably set a process of consolidation and specialization in motion, with the resulting economies of scale leading to a lower cost price for payments.

Within SEPA, companies will have a much wider choice of payment service providers, while even consumers can look to foreign providers.

Moreover, this competitive euro payment market creates fertile ground for European innovation in such areas as the expansion and improvement of payment options, with new technologies.

8

It was a long and cumbersome process to create SEPA.

At a late stage, an attempt was made to strengthen the governance of this process, by the establishment of the SEPA Council.

So far, this Council, which I attended for the first time a few months ago, has not had a strong impact.

But, as I see 1 February 2014 as a starting date rather than an end date, and as there is still so much to gain for Europe in terms of efficiency and good quality payments services, I do think now is the time to make strong improvements.

I will certainly not hesitate to bring our vision to the current evaluation process. For I think the Dutch governance model could definitely serve as an example for improvement elsewhere.

Particularly, of course, our National Forum on the Payment System.

I believe that elements of the Forum can be quite useful at the European level, as the Forum works well and to the satisfaction of all stakeholders.

However, I also fully realise that implementing the Dutch governance model at a European level may not be easy.

First of all, close cooperation between different stakeholders may not be so deeply rooted elsewhere as it is in Dutch culture.

Furthermore, European cooperation does not only require cooperation between the retail sector and the banking sector, but it also requires cooperation between different countries.

Countries which differ strongly in many ways, such as size and organization of the payment system, and payment habits of its citizens.

And last but not least, not all groups of stakeholders are as well organised at the European level as they are on a national level.

9.

Anyway, allow me to describe what a European governance model based on Dutch principles could look like.

Firstly, it is important that the European Council and the European Parliament provide the SEPA Council with a clear mandate – a mandate that is unambiguously aimed at promoting safe, efficient and reliable euro payments in SEPA.

Another requirement is that users and providers are properly and proportionally represented in this Council.

To achieve this, the composition of the present SEPA Council needs to be improved on the user side.

Important is that the Council should stake out strategic objectives, and initiate work streams that realize those objectives.

We should convince stakeholders to engage in constructive dialogue and work together towards concrete results.

Work on specific issues could start right away.

Examples could be some outstanding issues with regard to the SEPA Direct Debit, like the future introduction of e-mandates.

Or better e-payment services.

I come from a country where a very successful, convenient and cheap e-payments scheme based on online banking is in place, called iDEAL.

It's a pity that so far attempts to develop such a service on a European level haven't come off the ground.

Such subjects could very well be taken up by a renewed SEPA Council.

The preparatory work, or perhaps I should say the real work, can be done in working groups consisting of providers, users and experts.

In order to improve its accountability, the SEPA Council could report on its progress to the European Council and the European Parliament.

But the SEPA Council itself, headed and facilitated by the European Commission and the ECB, should always be in the driver's seat.

European political involvement – reinforced by the threat of legislation – can help to galvanise market parties into working together voluntarily to give the payments market more tangible shape.

In short, such a strengthened Council should assume ownership of not just the current SEPA, but of the future of the European payments market.

10.

Ladies and gentlemen, dear colleagues,

I'm going to conclude.

I've just sketched some Dutch experiences in the process towards improved efficiency in payments.

And I've explained why I think that a main driver in this process, our National Forum on the Payments System, might well serve as a model for the SEPA Council.

If all EU Member States succeed in completing the implementation of SEPA by 1 February 2014, we will have accomplished a major feat.

For then the Single Euro Payments Market will be a fact.

And if we have a SEPA governance model in place by that time, along the lines I have suggested, we are ready for a promising future.

And we will have completed another stage in the laborious but crucial European project.

Thank you.