

2018

**A 13-YEAR JOURNEY
TOWARDS MORE SECURE
AND EFFICIENT PAYMENTS**

2005

FOREWORD



From left to right: Gijs Boudewijn, Miriam Osten, Renate de Vree, Janwillem Burgering, Henk van den Broek, Jacques Parson

Mission accomplished, foundation dissolved ...

This book takes a look back at thirteen years of the Foundation for Promoting Efficient Payments. During that time, an incredible amount of work has been done and so much has been achieved. The payment system in the Netherlands has become more efficient, secure and reliable. Debit card payments have increased, there is less cash in circulation, there are fewer nationwide disruptions, the costs to society have been reduced and numerous other results have been achieved. This book takes you through them all.

The Foundation is being dissolved and the formal collaborative organisation will cease to exist. So are the banks and the retailers now divorcing? To do that, they would have to have been married. What they had was really more of a steady relationship. Or perhaps even better: a mutual understanding in both

their interests. An understanding that has enabled the parties to contact each other, share information and engage in joint activities.

It is now time for the curtain call. We are bringing it all to an end with festivities and a sense of satisfaction. On 30 October 2018, we had a successful conference and a great celebration. Despite some joking references to the Foundation's funeral, everyone agreed that we have no reason to feel sad. What wonderful results and what a great atmosphere!

We will continue with our steady relationship in a new form. After all, the future will continue to bring challenges that call for information-sharing or concerted action. From 2019, the Dutch Payments Association will be facilitating consultations between the banks and retailers. We have every confidence that the mutual understanding we have developed will continue to achieve great

things and that the banks and point-of-sale institutions will be able to rapidly join forces if and when the interests of secure, efficient and reliable payments demand it.

We are proud to have been able to achieve all of this together!

Henk van den Broek
Jacques Parson
Gijs Boudewijn
Janwillem Burgering
Miriam Osten
Renate de Vree

... onwards to the next round!

The card that fits the bill

‘Business closed due to success’. There are very few stores, businesses or organisations that would happily hang a sign with those words on the front door. Continuity is what businesses are all about, especially when everything is running smoothly. But the Foundation to Encourage Efficient Payments (Stichting Bevorderen Efficiënt Betalen, SBEB) is indeed choosing to close down. It has achieved its objectives and will cease operations after 13 successful years. It is a carefully-considered decision that inevitably raises the question: how did this happen? And is there any glimmer of hope for the future?

It was clear from the outset, in 2005, that SBEB would enjoy only a temporary existence. In the deed of formation, known as the Covenant, a point on the horizon was placed in 2010, originally intended to mark the Foundation's end. Banks and retailers imagined that, in five years' time, they would have achieved sufficient efficiency at points-of-sale. However, influenced by new perceptions and requirements, laws and regulations and advances in technology, the target was twice extended and refocused. First in 2009, with the 'Additional Agreement' and then again in 2014 with the 'second Additional Agreement'.

The first of these proved instrumental in bringing about a rapid migration from 'strip to chip'. The second set strict and measurable performance standards, such as 350,000 terminals (debit card machines) in the Netherlands and a ratio of 60/40 in debit card versus cash payments at the point-of-sale. These thresholds were passed convincingly by 2018, three years after the 50/50 milestone had been achieved.

Sceptics may ask: how can you be sure of that ratio? Debit card payments are all recorded and can be precisely quantified, but what about cash payments? Surely we are not always aware of them all? The Dutch central bank, De Nederlandsche Bank (DNB), has the answer. DNB conducts ongoing research into consumer payments. Every year, a representative group of around 30,000 consumers armed with diaries keep careful records of their payments and how they are made. This research revealed that the ratio of debit card versus cash payments for the period from May 2017 to May 2018 averaged at 60/40 for a full 12 months, with some positive outliers.

Internationally, the ratio comfortably places the Netherlands among the front-runners. The percentage of debit card payments is higher only in the Scandinavian countries. Neighbouring countries, such as Belgium and Germany, are far behind the Netherlands and that gap increases the farther south you go.

Contactless

A major leap forward was achieved in 2014 with the introduction of contactless payments, made possible because almost all debit cards were fitted with chips by then. Contactless is quick and relatively cheap and particularly useful for small amounts, otherwise known as low-value payments. Contactless also proved a solution for catering/hospitality and itinerant trade, two sectors that have previously expressed doubts about debit card payments, but which now switched over en masse. Paying electronically for a doughnut at the fair, a beer in the pub, a coffee at the football club or a fish from the herring stall: never before had it been so fast and at relatively low costs.

For low-value payments, contactless has become the new norm. People love convenience and contactless payment offers optimum convenience. The card that fits the bill, for now at least. Times are changing and cash, having played the leading role for many centuries, is now irrevocably on the wane.

Debit card payment is now so taken for granted that we can easily forget that the digital financial revolution in the Netherlands started only 30 years ago. In the 1980s, it was normal to withdraw cash from an ATM. It was only in 1990 that payment by debit card was introduced. Convenient and fast, but above all

safe and secure. For consumers, who no longer needed to carry cash, but also for retailers who received less cash and were therefore less likely to be attractive targets for thieves. Nothing but advantages, you might think. But there was a darker side to debit card payments that should not be overlooked: it was not free of charge. At least not for the retailer. For every transaction, they had to pay BeaNet (later Interpay), the organisation that facilitated payments with the banks.

Paying for payments? This was not something that point-of-sale institutions were used to and it did not make payment by debit card any more attractive. The reaction was one of incredulity. Why should a debit card transaction cost money? Paying with physical cash was not charged for. Surely printing or minting and distributing money was a government duty, delegated to DNB? In the old days, consumers or retailers did not have to pay for that. Physical money simply existed and the associated costs were borne by government, which guaranteed the circulation of money and with it the payment system. Then progress came in the form of digital payment and suddenly charges applied. Retailers were unable to understand the logic of it. They were also determined not to accept the situation without resistance, especially when the number of debit card payments started to rise and with it the total cost burden.

Cheaper all the time

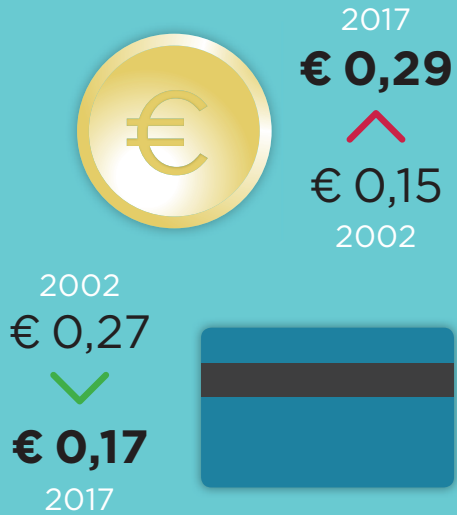
The latest cost survey, dating from September 2018, shows that the cost of a debit card transaction continues to fall. This is mainly due to the rise in contactless payments. An average cash payment now costs a business 29 eurocents, compared to 17 eurocents for an average debit card payment. Compared to 2014, the average cost of cash payments has increased by 16% while the cost of debit card payments has fallen by 11%. For a business, the average cash payment is now 70% more expensive than a standard debit card payment.

Diametrically opposed

The point-of-sale institutions wanted to see what the charges were based on. They had the uncomfortable feeling of being used as a money-spinner for the banks, a feeling that was only intensified when Interpay refused to explain the charges structure. This defensive attitude only made the point-of-sale institutions even more convinced of the need to gain some control over the whole situation. What did the banks and Interpay actually have to hide? There was a total sense of mistrust. The retail sector thought it obvious that the charges were unreasonably high. The banks totally failed to understand this – these were the lowest charges across the whole of Europe. The retailers wanted an insight into the cost structure on which the charges were based (what was being charged between banks, telecom companies and Interpay?) and, armed with that knowledge, to negotiate on reducing the charges. But the banks refused to give ground, or at least very much (volume reductions for large purchases, such as supermarkets, were the only concessions).

RETAILERS

Average cost per transaction
(in eurocent)



Total savings of 1.2 billion euros
from 2005 to 2017

'Interpay, we komen even afrekenen'

In 2004, the retail trade turned to the Netherlands Competition Authority (NMa) to protest against Interpay and the banks monopoly on the (debit card) payment system.



The conflict intensified. From the perspective of the banks, the retailers were little more than street fighters just moaning about discounts. Why was it important to know how the infrastructure fitted together, what mutual settlements were made within the payment chain and how? Retailers did not insist on knowing that in regard to other products. Mutual distrust and misunderstanding reached a peak.

Negotiations failed to achieve anything and the retail trade decided to turn to the Netherlands Competition Authority (NMa). In 2004, it fined Interpay and the banks 47 million euros¹ for the monopoly on the (debit card) payment system and excessive charges. Although the case had now been settled, the parties were condemned to carry on dealing with each other. Whatever happened, they had to move along together and continuing to argue was unlikely to make the journey any more pleasant.

1 The fine was later reduced to 14 million (at the end of 2005).



This realisation led to talks to find a solution and to secure a payment system that worked effectively in their shared interests. Following a declaration of intent in June, the solution was eventually found in late 2005 in the Payment Systems Covenant (Covenant Betalingsverkeer) and the formation of the SBEB. The banks gave the foundation 10 million euros in funding to make the payment system in the Netherlands 'secure, efficient and reliable', in the words of the central objective of the Covenant.

The three key benchmarks may seem straightforward, but they can only make a difference if they are made concrete. Over the course of the years, each of these three catch-all terms became increasingly linked to measurable objectives: the level of acceptance of debit payments in stores, reducing the number of technical disruptions, increasing terminal numbers, the volume of transactions, the switch from 'strip to chip' etc. In 2009, the extension

to the Covenant, the 'Additional Agreement' formulated 85 'traffic lights': measurable objectives that were made concrete in the regular Monitor Survey conducted by Panteia.

Initially, the central question was: what is preventing consumers from paying by debit card and (therefore) paying less in cash and what is stopping retailers from introducing payment terminals? As far as the first group was concerned, a sign saying 'charge applies for low-value debit card payments' on the terminal at the point-of-sale, and countless locations with no terminal at all, were certainly no help. As for the retailers, it was not yet easy to obtain this kind of terminal. The process involved several parties, including the banks, terminal suppliers, resellers and telecom companies. To deal with this, the SBEB developed smart debit card payment packs to make access easier, mainly by reducing the costs. And there were also some sectors that naturally preferred to continue to work with cash, such as catering establishments and markets.

Powers of persuasion

One of the major breakthroughs was the disappearance of the signs saying 'charge applies for low-value debit card payments', which had been a major irritation for the parties to the Covenant. In some stores, a surcharge of 25 eurocents applied to purchases of less than 10 euros. Retailers were working on the assumption that debit card payments were more expensive than cash and were passing the extra costs on to the customer. The image of cash as 'free' versus relatively expensive debit card transactions was as difficult to dispel as it was inaccurate. Great powers of persuasion would prove necessary to change minds in the retail sector and to demonstrate the related costs in the right proportions.

The SBEB's regular surveys of charges played an important role in the process of raising awareness. These showed that cash payments also cost money: a retailer has to count the money (which takes time and therefore costs money) and depositing and collecting from the bank was not (and still isn't) free of charge. The cost differences between debit card payments and cash were not nearly as significant as many businesses thought. It was the supermarket sector that was first to make the turnaround and, after a targeted information campaign, removed the signs from the point-of-sale. The SBEB then focused attention on related sectors, such as chemist's and off-licences. Gradually, the signs were removed across more and more sectors as, convinced by the new understanding of the costs, they became willing to encourage debit card payments, with markets finally following suit. By 2009, the exercise was complete; it had taken two years.





It was immediately followed by the launch of the ‘Small amount? Use your ‘debit card!’ campaign. It had been developed two years previously by Interpay, but then put on hold until businesses were ready for it. A crucial factor in this was that the surveys, which consistently showed that the cost of debit card payments was falling and that of cash increasing, were commissioned by the retail trade itself (in the form of its umbrella organisation, Hoofdbedrijfschap Detailhandel). If the banks had done it, no retailer would have believed it. The various sector organisations communicated the results to their members. This was not an easy process – the notion of free cash and other advantages of

cash proved stubborn and their members put up fierce resistance. The powers of persuasion of sources within their own sector proved invaluable. The cost surveys conducted by Panteia were by then being commissioned by the SBEB.

Switch to EMV

Debit card payments had really taken off in the Netherlands and quickly became popular, leaving much of Europe lagging behind. This turned out to be a problem when plans came to replace the magnetic strip in Europe with the EMV payment chip. Retailers in the Netherlands had previously managed to ensure that the life-cycle of debit card terminals was at least five years. All of this was related to the transition to the euro a few years previously. This had already called for changes to terminals and retailers were reluctant to be saddled with another money-wasting operation so soon afterwards. The banks agreed to the five-year limit and also stipulated this guarantee in European documents.



Various Point-of-Sale items encouraged customers to pay with debit cards.





As a result, the Netherlands, the European leader in debit card payments, was given longer to prepare terminals for EMV than the other European countries. While all the other countries were quickly transitioning to EMV terminals, the Netherlands was still clinging to the magnetic strip. This in turn meant that ‘skimming’ (the copying of the magnetic strip by criminals) became a characteristically Dutch problem. There was a substantial increase in fraud. This thorny situation again brought banks and retailers closer together. Both of them would benefit from a fraud-proof payment system. Of course, banks were reluctant to accept the cost of fraud and retailers did not benefit from every customer wondering whether each debit card payment was secure, or even reverting to payment in cash.

As a consequence of this, the banks invested 24 million euros to help businesses accelerate the introduction of new EMV-com-

patible terminals, so as to give this new form of payment the boost it needed and further encourage payment by debit card. This new strategy was eventually able to start in 2011. The banks also took it on themselves to accelerate the introduction of EMV chips on all payment cards. A win-win situation, and a new link in the chain of growing cooperation and mutual understanding.

Work to be done

In 2014, the original Covenant was again revised. The new objectives, outlined in the second ‘Additional Agreement’ referred to above, have now been achieved. The SBEB can now close its doors, its job done. Its final report looks positive and includes getting on for a quadrupling of the number of debit card payments from 1.3 billion in 2005 to more than 4 billion in 2018. And importantly, it also reveals an estimated saving on payment transactions of 1.3 billion euros for businesses in the Netherlands over the same period!

But just as the Olympic gold medal winner is already looking ahead to the next Olympics during the awards ceremony, the legacy of the SBEB is still very much alive and kicking. In the last 30 years, banks and point-of-sale institutions have become reconciled and now recognise the importance of continued cooperation, even if it is outside the SBEB. Mutual understanding has developed and to abandon this basis for cooperation would not only be a shame but also irrational. Consultations will continue within the Dutch Payments Association. They will be more informal, with fewer set meetings, but still as determined to further simplify the payment system and reduce in a responsible way the use of cash. The Scandinavian countries are living proof that

60/40 can be improved upon. The target for the Netherlands by 2025 has been set at 75/25. If that can be achieved sooner, so much the better. At the same time, efforts still need to be made to ensure that cash remains available for those who need it, especially vulnerable groups. The SBEB may have now been put on hold, but there is still plenty of work to be done.

Debit card refunds

Stores where most payments were made by debit card increasingly faced a problem when customers returned products. The payment amount had to be refunded in cash. Yet the system was intended to ensure there was as little cash as possible in the cash registers. Three years of consultations within SBEB resulted in 2014 in the introduction of debit card refunding: the customer re-enters his or her PIN code and the amount is refunded into his or her account. This development has proved particularly popular in non-food retail and for deposit payments. In other sectors, debit card refunding seems less necessary.



Payment Systems Covenant ends with great results

A 13-year journey towards more secure and efficient payments

At the end of 2005, Dutch banks and point-of-sale institutions (retail, catering & hospitality, petrol stations) signed up to the Payment Systems Covenant (Covenant Betalingsverkeer). Their joint efforts resulted in more secure, efficient and reliable payments in the Netherlands. This year, the Covenant ends. In the auditorium of De Nederlandsche Bank (or DNB, the Dutch central bank) a conference has been held on 30 Oktober on the results of 13 years of cooperation within the Foundation to Promote Efficient Payments. The concerted efforts have led to substantially increased numbers of both debit card terminals and debit card payments. The Netherlands is leading the way in the eurozone. In addition, the costs of debit card payments have fallen significantly for businesses in the Netherlands. Banks and point-of-sale institutions are happy with these results.

Debit card payments everywhere

There are over 360,000 debit card terminals in the Netherlands. Payment by debit card has been standard practice in retail and at petrol stations for many years. In the itinerant trade and in catering and hospitality, the possibility to pay by debit card has increased significantly more recently. Debit cards are accepted at 92% of catering and hospitality outlets, up from just 50% in 2005. In the itinerant trade, 85% of traders now accept debit cards, whereas that figure was just 21% in 2005.

Target achieved: 60% debit card versus 40% cash

Since 2005, the number of debit card transactions has more than tripled, from 1.3 billion in 2005 to over 4 billion in 2018.

Large-scale public campaigns contributed to this significant growth. Signs saying 'charge applies for low-value debit card payments' have virtually disappeared. Thanks to the advent of contactless payment, consumers increasingly use debit cards for small payments. One-third of all debit card payments are now for less than €20. The proportion of 61% debit card payments against 39%² cash payments achieved by mid2018 amply exceeds the target set by the foundation: 60% debit card payments versus 40% cash by the end of 2018.

2 See the bulletin published by the DNB: <https://www.dnb.nl/en/news/news-and-archive/DNBulletin2018/dnb379598.jsp>

Less cash for criminals

Reduced use of cash has made payments in the Netherlands safer and more secure. Empty tills are not attractive to criminals. As a result, the number of thefts at retailers, at hospitality and catering outlets and at petrol stations fell from 1,171 in 2008 to 377 in 2017.

Between 2011 and 2017, losses from skimming debit card mag stripes fell from € 39 million to € 1.5 million, mainly thanks to the introduction of chip cards at the end of 2011. Consumers no longer pay using the magnetic stripe, but instead use the EMV payment chip integrated in the debit card. The foundation helped businesses to replace their payment terminals more quickly. Targeted promotions and commercials ensured that everyone was informed. Meanwhile, the banks fitted all payment cards with the EMV payment chip.

Lower payment costs for businesses

The increasing use of debit cards and innovations such as contactless payment resulted in the cost of the average debit card transaction dropping from 27 eurocents in 2002 to 17 eurocents in 2017. The average cash payment now costs a business 29 eurocents. In 15 years, the average cost of cash payments has increased by 93% while the cost of debit card payments has fallen by 58%. A cash payment is now 70% more expensive than a debit card payment. The frequent use of debit card payments has saved Dutch businesses 1.2 billion euros over 13 years.

Reliability improved

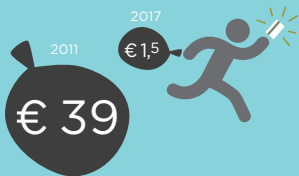
The rise in electronic payments also increases the dependency on the infrastructure. Banks, telecom providers and transaction processors have therefore worked hard to improve the reliability of their systems. The likelihood of a malfunction has fallen sharply. The availability of certified datacom services for debit card payments is currently 99.9%.

DEVELOPMENT OF PAYMENT TYPES IN THE NETHERLANDS



REDUCTION OF SKIMMING FRAUD AND THEFT

Fraud caused by skimming (million euros)



Number of robberies in retail, petrol and catering industry



DEBIT CARDS 12 CENTS CHEAPER THAN CASH FOR RETAILERS, ETC.

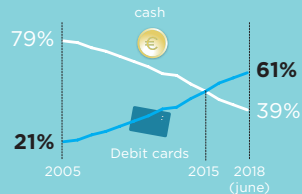
Average costs per transaction (in eurocent)



Total savings of 1.2 billion euros from 2005 to 2017

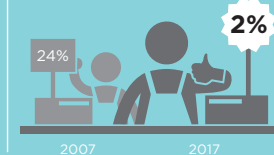
TARGET OF 60% DEBIT CARD PAYMENTS VS 40% CASH ACHIEVED

In %



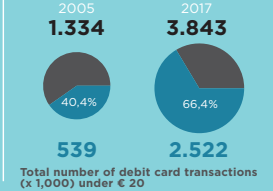
FEES FOR DEBIT CARD PAYMENTS TERMINATED NEARLY EVERYWHERE

Percentage of retailers that charge consumers for minor debit card transactions



INCREASED DEBIT CARDS USE FOR SMALL TRANSACTIONS

Total number of debit card transactions (x 1,000)



FEWER MALFUNCTIONS

Number of malfunctions nation-wide

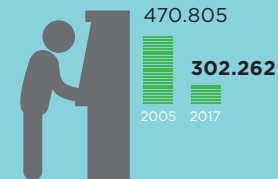


CASHLESS IS SAFER

Debit card payments versus cash (billion euros)



Number of cash withdrawals at ATMs (x 1,000)



Value of cash back transactions in the retail sector (million euros)





STICHTING
BEVORDEREN EFFICIËNT BETALEN