

Position paper Payments

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by the Dutch Joint Retail Institutions



Detailhandel Nederland

Koninklijke Horeca Nederland

Vereniging Nederlandse Petroleum Industrie

Position paper Payments

In the field of payments, the Netherlands Retail Association (*Detailhandel Nederland*), The Royal Netherlands Catering Association (*Koninklijke Horeca Nederland*) and the petrol station sectors¹ act jointly as the Joint Retail Institutions ('TBIs'), with the aim of safe, reliable, efficient and cost-effective over-the-counter payments in the Netherlands. The total revenue of the TBIs amounts to about € 120 billion per year.

Payments represent a large cost item for TBIs. Research shows that for some years now, the total transaction costs of the TBIs have shown a downward trend. The diminution in costs is due primarily to the increase in the number of card payments with a PIN code, at the expense of cash payments. Rounding off by one or two euro-cents has also made a substantial contribution to lower costs.

Over-the-counter payments comprise all transactions settled over-the-counter in cash or by card with a PIN code, ChipKnip card and credit card in the Netherlands. In addition, there are the costs of procuring ATMs, networks, etcetera.

The Joint TBIs and the Dutch banks have jointly formed the Promotion of Efficient Payments Foundation (*Stichting Bevorderen Efficiënt Betalen*), with the aim of encouraging efficient payment behaviour. To this end, the foundation develops and promotes initiatives designed to make it easier and cheaper for the TBIs to start or continue card payments with a PIN code. Examples include the '*Klein Bedrag? PINnen mag*' ('PIN for Small Amounts') campaign, www.pinnenzakelijk.nl, www.slimmepinpakketten.nl, and www.slimpinverkeer.nl.

Single Euro Payments Area (SEPA)

The actual integration of all national payment markets in Europe to form a single European payment market began in 2008. In 2013, payment products must comply with European rules, which will result in uniform payment products in Europe with which businesses and consumers can make payments everywhere.

New-style PIN payments

The Netherlands is moving at an accelerated pace towards a safer and more efficient payment system based on EMV chip technology. The magnetic strip on cards, which is relatively easy to copy, will disappear and will be replaced by a new type of chip. This chip is difficult to copy, which will sharply reduce the phenomenon of skimming. The Joint TBIs and the Dutch banks have agreed to bring forward the introduction of the system to the end of 2011. For the switch to new-style PIN payments, all payment cards and ATMs must be adjusted in order to be able to process EMV transactions.

EMV chip technology will not be substantially safe until everyone is enabled to make use of this technology. In order to achieve this, the TBIs have set the following goals:

- the supply and supplier structure must be considerably simplified;
- certification of the PIN chain must be expanded and strengthened. Logically, final responsibility rests with the schemes and acquirers;
- the central incident escalation reporting system (Connect) must also be managed by a neutral party in the future.

Final dates

SEPA relates not only to payment cards, but also to the Giro Payment Slip, Direct Debit and Standing Order payment products. Many large and dominant financial parties want final dates for the national Direct Debit and Credit Transfer products, in order to encourage the market to switch faster to SEPA Direct Debit and SEPA Credit Transfer. The Joint TBIs are not opposed to setting final dates, but believe that the consequences of this for businesses should first be made clear. Furthermore, final dates must not lead to extra costs for businesses and consumers.

- **Setting final dates? The TBIs first want clarity on the consequences for businesses and this must not lead to extra costs.**

iDEAL

More and more people are buying products online. Via the iDEAL system, consumers are connected directly to their online banking programmes during an online sale. In this way, settlement can take place quickly and safely. Furthermore, this payment method is easy for businesses to process. The TBIs believe that a single European payment method in online shops is essential in order to create a single European payment market (SEPA) in practice and warmly welcome such a development.

- **A single online European payment method is essential in order to create a single European payments market.**

Standardisation

There is a great need for standardisation of protocols for payments. In the Netherlands, till connections often prove to be have been developed as local or ATM-specific systems. This limits the choices of businesses and also leads to higher costs. The Joint TBIs want a system that enables them to buy a standardised terminal everywhere in Europe, from all sorts of suppliers, that works everywhere and which all international customers can use to make payments without diversion constructions. For acquiring, they want a choice of more banks than is the case in the current supply. The TBIs are aiming for more competition, not only in the acquiring market but also in the processing and issuing markets. The protocols determining how ATMs and banks communicate in processing payment transactions ('terminal-to-acquirer protocols') are currently still determined on a national level. Each country has its own protocol, which limits the choice of banks and processors for businesses. The Joint TBIs support a model in which European protocols are the norm.

- **Standardised terminals.**
- **More competition in the acquiring, processing and issuing markets**
- **European terminal-to-acquirer protocol should be the norm.**

Central acquiring

Cross-border acquiring can be defined as the activity of an acquirer (a bank that offers retailers payment services) that provides for winning retailers that are located in a different European country than that in which the acquirer is established. From the retailer's point of view, this means an opportunity to acquire their transactions in a different EU country from the one in which they are established. Thanks to cross-border acquiring, retailers established in different EU countries could arrange for their payments to be centralised.

Opening up the market for acquiring would offer many benefits for retailers and consumers. Instead of having to rely on the existing acquirers in the countries in which they are established, retailers could shop around for better prices and services. Because competition in most retail sectors is fierce, cost savings by retailers could be translated into better prices for consumers.

Removing constraints to cross-border acquiring activities would give retailers more power in relation to the banks and in relation to the existing duopoly of

the 'card schemes'. New possibilities would arise for all European retailers and furthermore, this would give dynamic banks a strong stimulus to innovate.

In economic terms, it can be said that as long as the current Multilateral Interchange Fee (MIF) remains permissible, removing constraints is the only way to ensure that the competition principle between banks leads to lower prices. Ultimately, it is the consumers who will benefit from this.

End-to-end certification

For businesses, the switch to SEPA means that they need ATMs that can be used for EMV transactions. For timely EMV certification, all terminals must be modified or replaced. However, the number of certifications needed is often very high, making certification a lengthy, costly and complex process that often leads to legal (liability) problems and high costs.

Retailers deal with the shortcomings in payment systems every day. They cannot buy terminals in other countries than in which they operate, cannot process services from foreign banks and have no access to foreign processors. Until this changes, the Joint TBIs will have to pay higher prices due to the lack of competition in the payment systems market. Ultimately, it will once again be the consumer that foots the bill for this.

The Joint TBIs call for the creation of an independent national authority that provides for end-to-end certification ('from terminal to bank'). It is extremely important that transparent and balanced governance is achieved for this future organisation and that the interests of the different stakeholders are protected on an equal basis.

- **An independent national authority that provides for end-to-end certification.**
- **Opening up the European market in order to make central acquiring possible.**

Cash

Social costs of cash

The social costs of cash are substantial. In addition to the settlement costs of TBIs, securing store premises, parking ticket machines, ATMs and card machines against criminals is associated with extremely high costs. The costs resulting from a burglary or crash raid, however, are yet far higher. This often leads to protracted and direct emotional damage for the victims. Businesses and their employees often suffer

¹ The Netherlands Petroleum Industry Association (Vereniging Nederlandse Petroleum Industrie - VNPI), the Netherlands Organisation for the Energy Sector (Nederlandse Organisatie voor de Energiebranche - NOVE), the petrol stations interest group (BETA) and the Petrol Stations section of the BOVAG sectoral organisation.

life-long traumas and must rely on care and social services for long periods. The direct and the social costs of this run into hundreds of millions of euros or more each year, are not directly visible and are indirectly funded by the taxpayer.

In principle, the Joint TBIs want consumers to be able to make payments electronically at all conceivable points. Specifically, we are aiming to expand the number of ATMs to 270,000 by year-end 2012. In our view, PIN code payments should grow from 1.7 billion transactions in 2008 to 2.7 billion in 2012. This calls for annual growth of 11%. Reducing the amount of cash in tills remains a priority for the TBIs.

- Consumers should be able to pay electronically everywhere.
- Cash in tills must be reduced.

Payments of small amounts

In certain sectors, payments of small amounts are extremely important. These include sectors with many low receipt amounts and low margins (e.g. a pack of cigarettes, a sandwich, a telephone card and a beer). Payments with a card and PIN code are costly for small amounts, because the banks charge a fixed sum per transaction, which makes the payment method unattractive for small amounts. We therefore asked the banks to present a concrete solution for this problem. The Joint TBIs will remain alert to the need for the solutions offered to lead to a permanent substantial reduction in the costs of all payments of small amounts, enabling a rapid reduction in cash transactions.

- Substantial reduction in the costs of payments of small amounts is needed.

Credit cards

The total costs of the TBIs for credit card transactions fluctuate around a level of € 90 million. The costs of every credit card transaction are around € 3 or more (source: EIM 2007). The TBIs believe that it is not businesses that should bear the costs if customers pay by credit card, but the parties that benefit from the credit facility. These are the customers, who after all, choose to pay by credit card themselves. Consumers often think that it makes no difference whether they pay by debit card, in cash or with a credit card, because there are no direct costs involved for them. However, the costs for credit cards are several euros per transaction.

In a European setting, the TBIs will continue to work for a transparent and realistic composition of credit card charges that is related to the same goals that we pursue for debit cards: safe, reliable and efficient.

- Composition of credit card charges should be transparent and businesses should not bear the costs.



Detailhandel Nederland
PO Box 262
2260 AG Leidschendam
+31(0)70 3202345
info@dedetailhandel.nl
www.dedetailhandel.nl



Koninklijke Horeca Nederland
PO Box 566
3440 AN Woerden
+31(0)348 489489
info@horeca.org
www.horeca.org

NETHERLANDS
PETROLEUM
INDUSTRY
ASSOCIATION

VERENIGING
NEDERLANDSE
PETROLEUM
INDUSTRIE

**Vereniging Nederlandse
Petroleum Industrie**
PO Box 29764
2502 LT The Hague
+31(0)33 4220080
info@vnpi.nl
www.vnpi.nl