

Learning from the Netherlands Payments Experience

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Making more possible



ABN·AMRO

Agenda

- Some facts about the Netherlands and its Payments Landscape
- Lessons learned
- The Future of Payments in NL

Some facts about the Netherlands and its Payments Landscape

Comparing Netherlands and Ireland

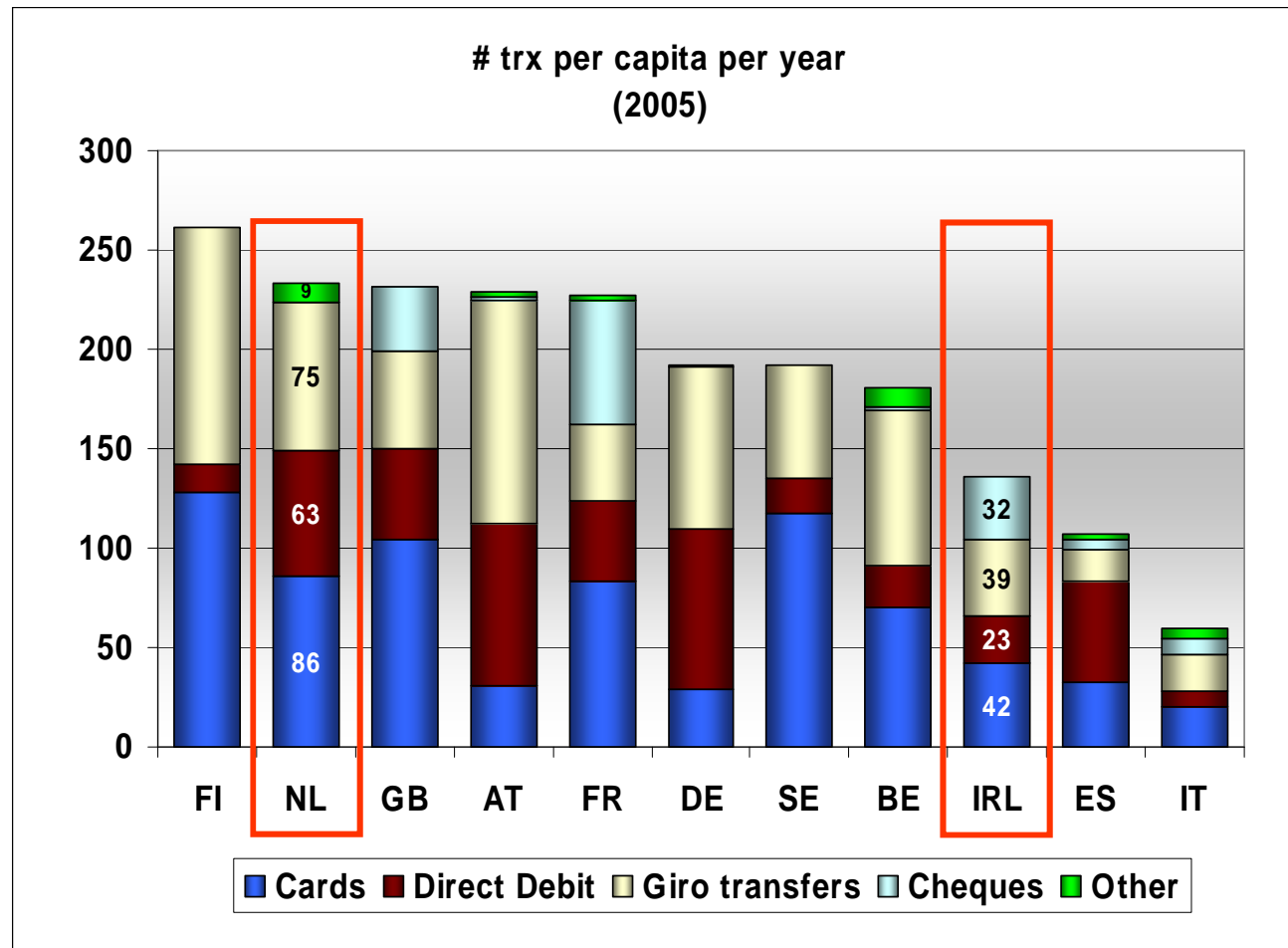


- Population 4 million
- Area 70k km²
- Pop. density 59/km²
- GDP per capita EUR 27k



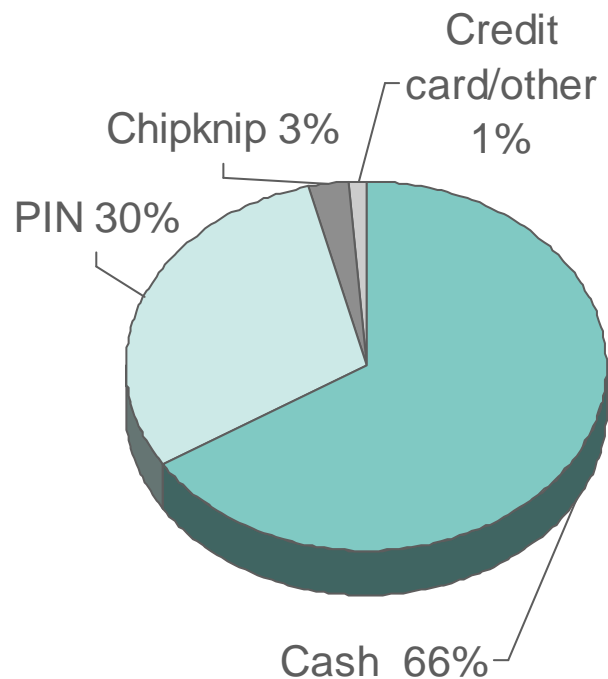
- Population 16 million
- Area 41k km²
- Pop. density 392/km²
- GDP per capita EUR 24k

Comparing Netherlands and Ireland (2)



Source: Currence and ECB Blue Book december 2006

Point-of-sale payments in NL make up around 66% of all payments



NL POS payments

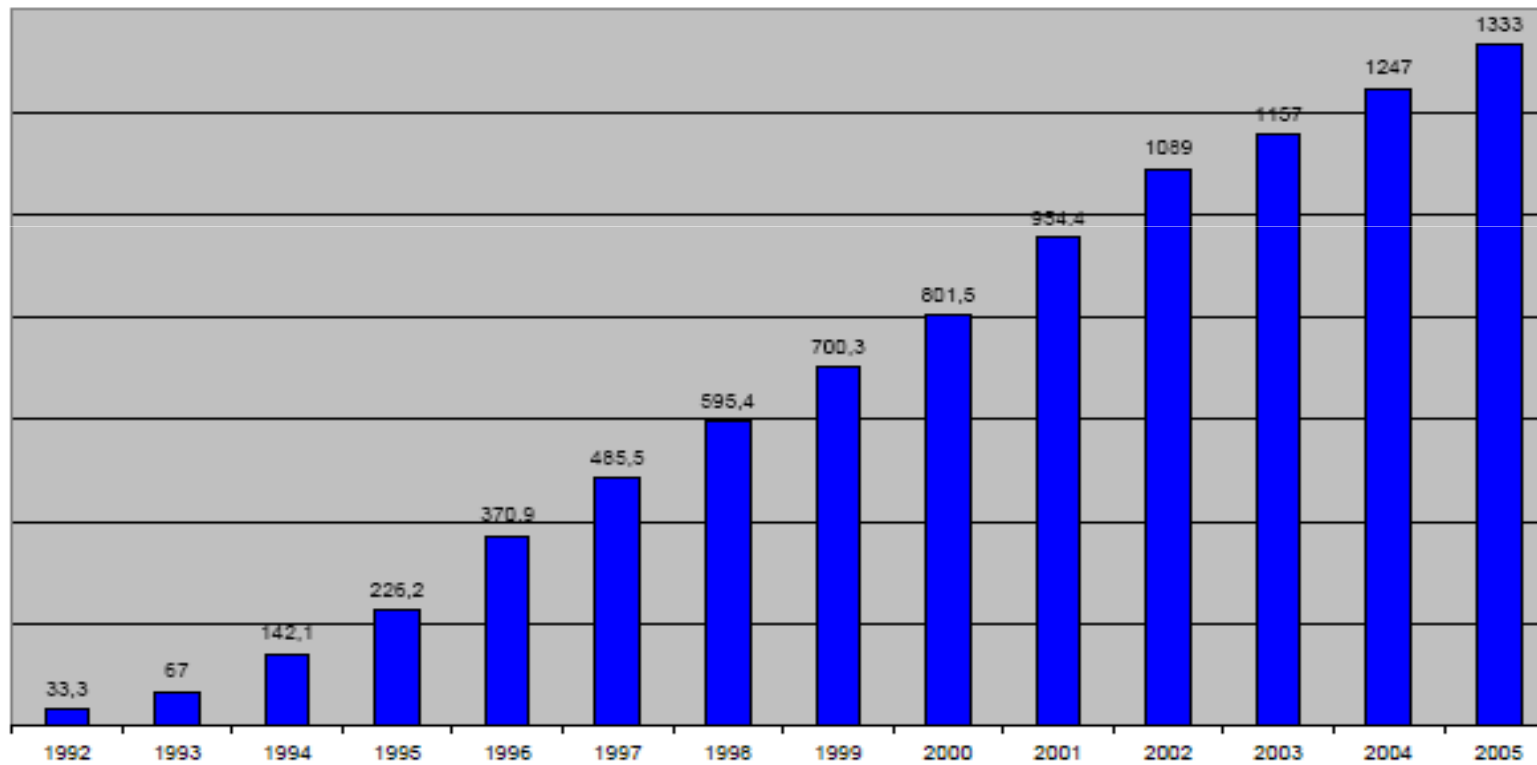
- Cash dominant (2/3rd of POS payments) but slowly declining
- PIN usage growing steadily (7-9% yearly) surpassing 1.5 bn tx in 2007
- Cash usage correlated with transaction amount:
 - <€20: 78% cash
 - >€20: 35% cash
- Lower amount transactions main focus for efficiency gains
- PIN is an efficient, low cost product in European context



Source: DNB, Currence Gfk Monitor Consumptieve Toonbankbetalingen in the Netherlands

The rise of debit card payments in NL

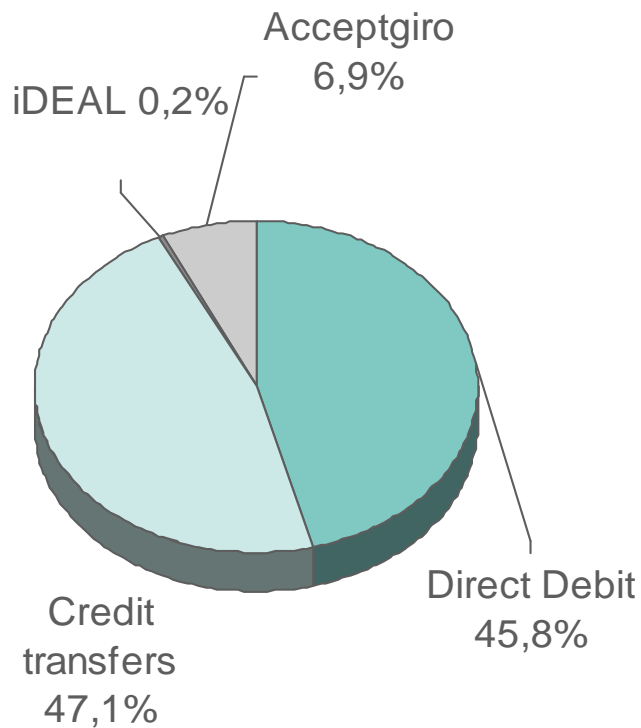
Debitcard transactions x 1 million



2006: 1,435 million



Giro payments characterised by high speed and quality




Source: DNB, Currence

NL giro payments

- Around 2,4 bn payments of which <10% paper-based
- Biggest paper-based product Acceptgiro declining steadily; substitution by direct debit
- High growth rates in electronic payments and internet banking
- High quality: transactions processed D+0 with final settlement (clearing/settlement cycle every half hour)



Lessons learned



**Payment Services in the Netherlands:
an analysis of revenues and
costs for banks**

Final report
10 July 2006

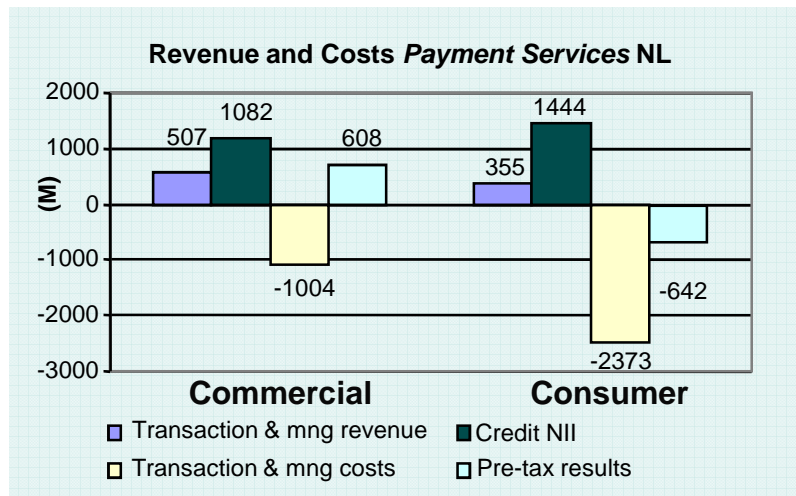
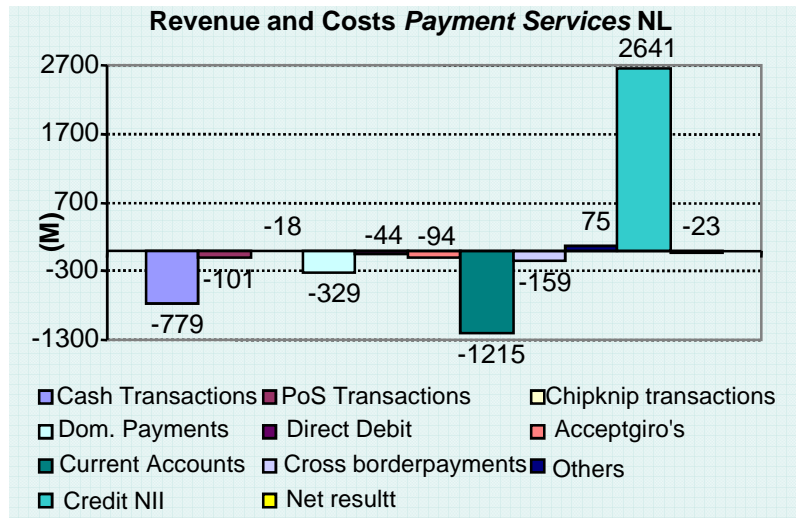
McKinsey&Company

The McKinsey findings on payments profitability

Context

- In 2002 the Dutch central bank calculated EUR 100 million could be saved on the societal cost of POS payments, especially by substituting cash with electronic payments
- Retailers hesitant to massively support electronic payments because they fear future price increase due to Single Euro Payments Area (SEPA)
- Consumer organisations think banks make massive profits on payments and plead for “free” basic banking services
- To break this deadlock banks and central bank decided to jointly commission McKinsey&Company

McKinsey Key findings



Across Products

- Cash transactions and current account-related cost are the largest cost maker for banks
- All payments products are loss making, especially Cash transactions and Current Accounts.
- Nearly full compensation from Net Interest Income (NII), resulting in a nearly break-even net result (-23M).

Across Segments

- Revenue (3,996M) and costs (4,019M) of Dutch payments are break even (-23M)
- Commercial payments subsidizes Consumer payments (Pre tax profit commercial is 708M, pre-tax loss of Consumer -643M)

Source: ABN AMRO and McKinsey 07-06

McKinsey recommendations

- (1) the deployment of a change in mix towards means of payment that for the banks are less loss-making and are more cost-efficient to society (i.e. substitute cash and paper with electronic payments)
- (2) the reconsideration of the tariff structure for payment services. The reconsideration of the tariff structure should relate to both the division of charges between firms and consumers and the ratio between direct transaction pricing and balance-related income.

Strategies to save cost

1. **Migrate** to cost efficient payment methods. Migrate from cash to non-cash (cards and e-payments).
2. **Shorten** the chain of parties/processes involved in handling cash.
3. Make the **processing** chain more **efficient**
 - Within the banking organisation
 - By working together with parties involved (Cash Centers).
4. **Phasing out** inefficient payment methods – example the phasing out of the (euro)cheque (finished 2001).

1) Migrate cash to non-cash

ABN AMRO is taking the initiative in pushing transaction behaviour to a non-cash environment.

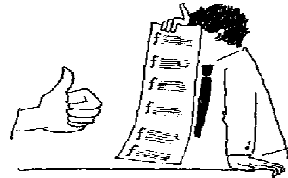
- Covenant Betalingsverkeer, overall discount of 1 Eurocent (+/- 20% cost) for retailer debitcard transaction costs.
- PIN-Module, offer retailers an integrated solution to accept debitcard trxs (Terminal, connection and transaction for a fixed monthly fee)
- In close cooperation with large retailers promoting non-cash by offering the retailer higher PIN discounts
- Contactless payments

We are influencing both consumer, retailer and supplier



**Banks &
Retailers**

1 May 2005



Agreement

17 Nov 2005

Action plans

Foundation (fund 10 million)

Discount PIN fee, 1 cent/trx.

McKinsey

Market Share Report DNB

1 Jan 2006

1 Jan 2007

Main features

- Considerable reduction of Merchant Service Fees PIN (local debit cards). By way of compensation, claims and complaints about exorbitant PIN fees will be withdrawn
- Jointly develop plans to increase the use of efficient payments by consumers' and retailers' "war on cash"
- Establishment of a Foundation to increase the efficiency of Point of Sales payments. The fund will be controlled by *Platform Detailhandel* (retailers organisation) and the Dutch Banking Community (NvB)

Status Payments Pact

- Action plans are being prepared by banks together with retailers

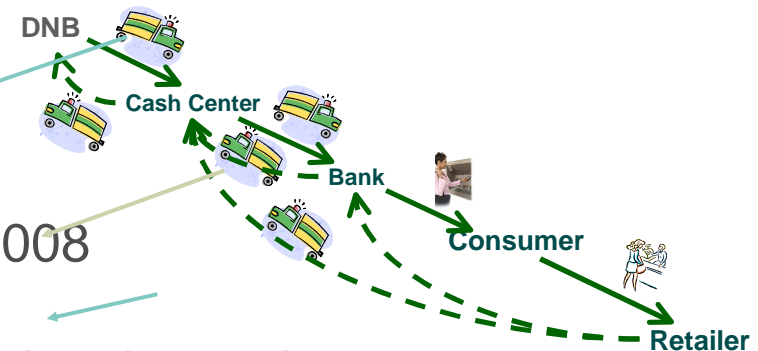
Deliverables

- Fund established
- McKinsey results supported by participants
- Discount for Telephone Connections
- First Results

2) Shorten the chain

The current chain of processing parties is too long..

ABN AMRO is the 1st bank to outsource its complete cash Processing & Counting process and complies already with the DNB/ECB recycling regulations as from 2008



ABN AMRO is actively promoting and piloting the cash Recycling Concept at the various stages in the recycling Concept:

1. At register level; Cash Back
2. At retail level; ATM Recycling units
3. At shoppingmall level; Cashferium

3) Processing cash more efficiently

Outsourcing; ABN AMRO is the first major bank which outsourced the servicing and replenishment of its cash machinepark to a single company.

Ink & dye; Both at cashregister level (cashbox) and ATM level all transport and storage must be ink & dye protected to reduce safety costs for both CIT transport and bankbranche storage.

Migrating cashproducts and services to 3rd parties

- Close cooperation with CIT's for coin (exchange) delivery
- Partner with independent financial service companies for notes & coins (Cashferium)

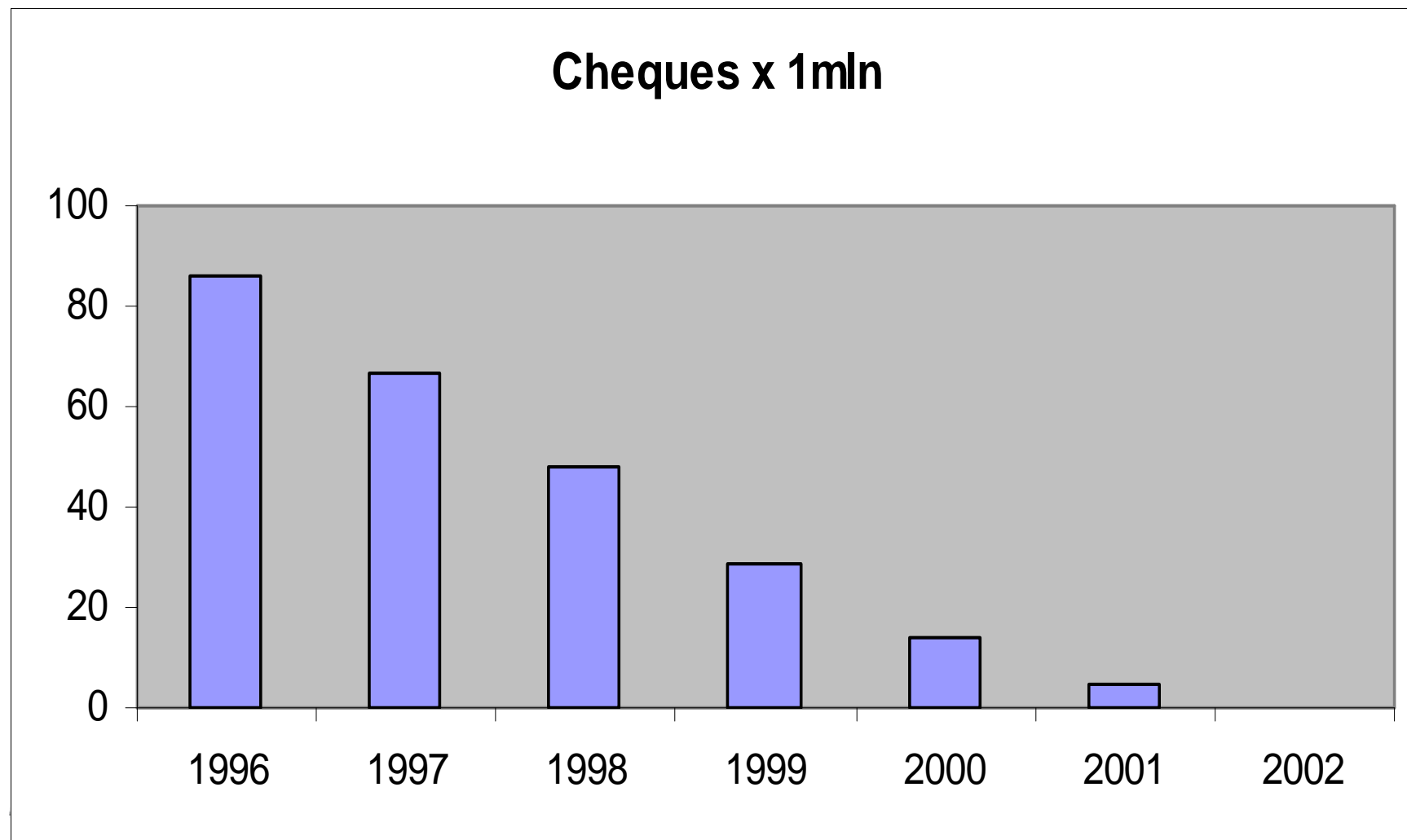
Migrating cashhandling to more efficient channels/ATM's

- Differentiate pricing cash for manual vs automated handling
- Internet module as primary channel for sealbag registration

4. Phasing out inefficient payment methods – example the phasing out of the (euro)cheque (finished 2001).

1. In the eighties and nineties the euro-cheque was the most popular payment product in the shops.
2. By the introduction of electronic payment (PIN) the usage of euro-cheques substantially decreased.
3. Banks discouraged the usage by introduction of tariffs and reducing the number of available cheques.
4. Furthermore Banks decided not to make the cheque-systems euro-compliant.
5. At last in the beginning of the year 2000 Banks stopped to issue euro-cheques.

The fall of cheques



Recap – Lessons learned

- ANALYSE the revenue/cost structure of the payments business. Understand the key drivers to make payments more efficient.
- MIGRATE actively the less efficient (paper based) payment instruments to efficient ones.
- RE-ENGINEER the current processes to reduce cost.
- INVOLVE all stakeholders: banks, central bank, consumers, merchants, special interest organisations. Develop a shared action plan.
- DECOMMISSION inefficient payment instruments. Required compliancy with for instance SEPA and PSD offers an excellent opportunity.

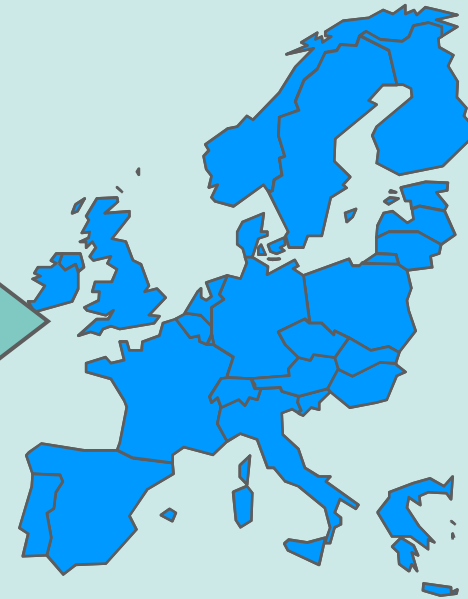
The Future of Payments in NL

SEPA – The future landscape

Europe now



Future: SEPA



Cashless? Less Cash !

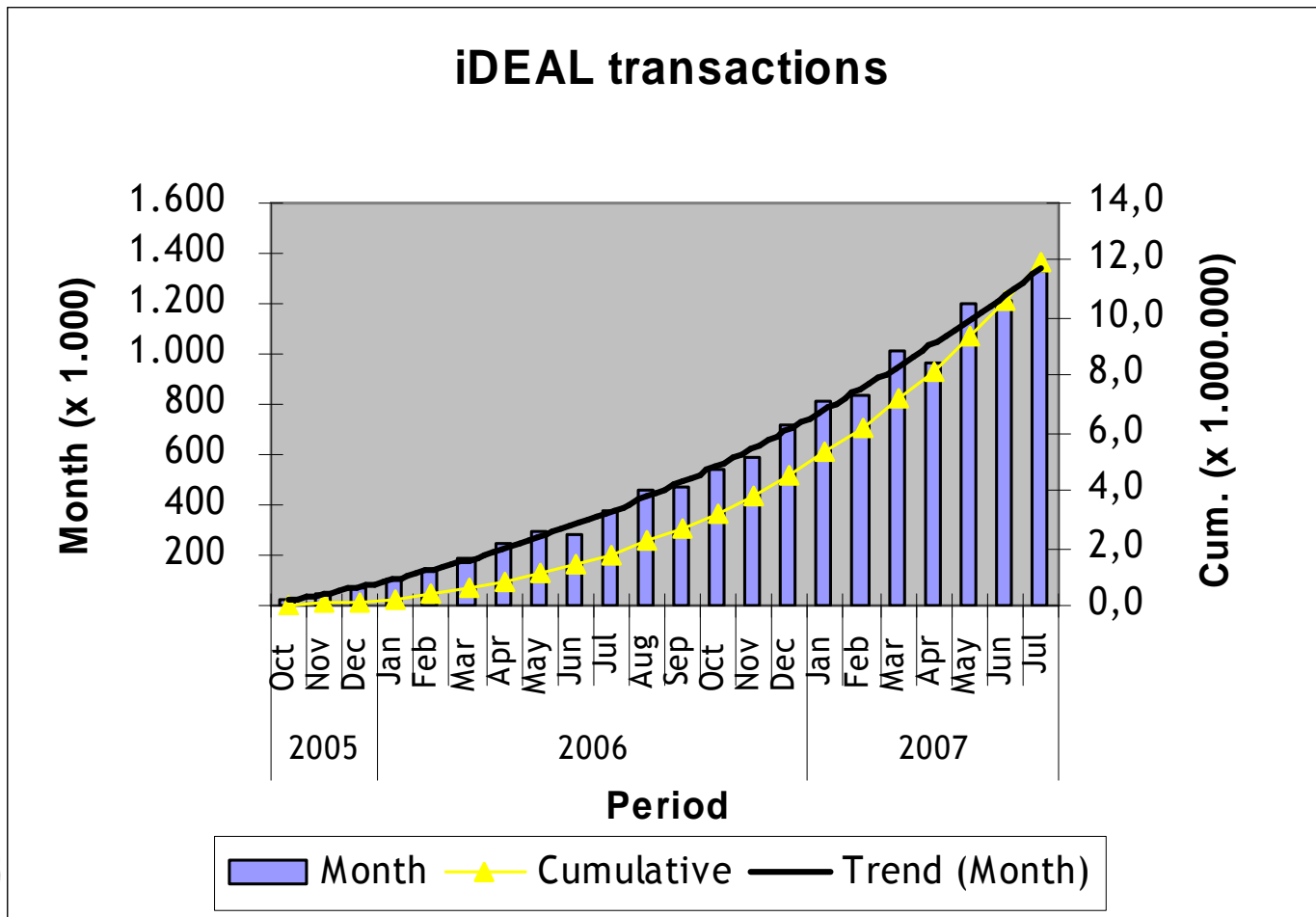
Payment Innovation is required

In order to further drive down cost, replace existing legacy, and develop new business, *innovation* is required. Examples:

- E-Payments
- Contactless Payments
- Mobile Payments
- E-Invoicing

Example of e-payments: iDEAL

Within 1,5 years iDEAL has conquered the market for e-payments in the Netherlands (> 30 % market share):



Thank you

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