

Frank Elderson: 2014 PIN Agreement – incentive for socially efficient and innovative payments

Speech by Mr Frank Elderson, Executive Director of the Netherlands Bank, on the occasion of the signing of Further Agreement II (“the PIN Agreement 2014”), The Hague, Ministry of Finance, 3 September 2014.

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Your Excellency, ladies and gentlemen,

PIN Agreement 2014 crowning glory of cooperation of market parties

As chairman of the National Forum on the Payment System, I am very pleased about the Further Agreement II that was signed just now.

This agreement, also known as the PIN Agreement, is an up-to-date adaptation of the objectives stated in the original Covenant dating back to 2005.

That meaningful Covenant at the time paved the way for banks and joint retailers to encourage consumers to use their debit cards in order to reduce the social costs of the payment system. Because, as we all know, cash is expensive.

That said, I would like to stress here that banknotes and coins will continue to play an essential role in payment transfers, and will therefore continue to be at everyone’s disposal.

The 2005 Covenant cleared the air between the market participants.

This was urgently required following the heated debate about the social costs and revenues of payments, and the question where these end up.

The mutual understanding that cooperation and trust pays off was at the root of a series of measures to promote debit card use.

And not without results. The sectors not keeping pace with the introduction of payment terminals have since also started using them, and smaller amounts can now be paid by debit card virtually everywhere.

Yet more debit card payments

And today the era of the 2014 PIN Agreement has started.

One billion extra debit card payments should definitely be feasible by 2018.

This would bring the total to 3.7 billion, and would surpass the number of cash payments at the till.

The Foundation for the Promotion of Efficient Payments has proved that it is very capable of producing tangible plans to achieve this.

Progress in minimising disturbances in payments systems

But users of course think that electronic payment systems should always work. *That* is a bit much to ask as it is simply inherently unachievable.

For that matter, the market participants represented in the National Forum on the Payment System have made great efforts to further increase the robustness and safety of payments transfers, partly in response to last year’s repeated disturbances of payment systems.

For instance, almost the entire PIN chain has a fall-back facility.

- and numerous other measures were implemented to guarantee that debit card payments go through without fail, and
- the introduction of the Connect reporting system has improved communications and guidance among banks, providers, and retailers when payment systems fail.

In addition to this, the Forum is working hard on initiatives to reduce the dependencies between online banking, mobile banking and iDEAL.

This will definitely be discussed at the Foundation's autumn meeting.

PIN Agreement 2014 prelude to European efficiency and innovation

With the introduction of IBAN, European payment transfers and European direct debits, the migration to the Single Euro Payments Area was successfully completed on 1 August 2014.

In 2012, SEPA had already been brought closer when the magnetic strip on bank cards was replaced by the EMV chip.

You all made an impressive contribution to the successful migration to SEPA, which warrants a well-deserved compliment from De Nederlandsche Bank.

But SEPA is only the start of efficiency in payments transfers.

We are on the brink of a new payments world in which businesses, retailers and consumers will be able to reap the benefits of the European market even more.

Road clear for innovations

The 2014 PIN Agreement has provided an excellent stimulus by explicitly promoting innovation.

It builds on the rapid technological innovations and the quickly changing consumer preferences and market conditions.

To my mind, the Dutch Agreement is an example that the Netherlands can convey to the single European payments market.

This will not be done overnight.

Changes to the large European market require great commitment from market participants.

To streamline these changes, the Euro Retail Payments Board, the ERPB was launched last May with a view to SEPA.

This new European payments governance body may grow into a European version of the Forum on the Payment System with users and suppliers working together on the further development of SEPA.

The ERPB therefore definitely deserves the chance to prove itself in the years ahead.

Contactless paying may be generally adopted a few years from now

Currently half of all bank cards and over one tenth of the 280,000 payment terminals have been equipped for contactless payment.

The latest generation of smartphones can also be used for contactless payments.

Particularly for payments up to EUR 25 – the most frequent ones – this saves a lot of time, as they take nine seconds as opposed to 20 seconds for contact payments.

If we assume that some two billion debit card payment up to EUR 25 will be made by 2018, this means that a total of 500,000 hours of queuing up to pay will be saved.

With this enormous advantage, most payment terminals ought to be adapted to contactless payment within the next couple of years.

Contactless payment is already a success in other countries and may really take off in Europe.

Also prompted by the societal and political call to up the speed of payment transfers, and create the possibility to make payments at all days and hours of the year, the Forum is working together with the Covenant parties on a plan to be presented at its autumn meeting on 21 November 2014.

I'm already looking forward to it, as this plan may even spark real-time payment transfers. This will in fact also demand comprehensive renewal of the payments infrastructure, which will have to be paid for.

In fact, the call for faster payments transfers has already led to tangible improvements in Sweden, Denmark, the UK, and Australia.

So payments transfers are on the brink of numerous innovations.

The agreement that was just signed is an excellent response to this and is decidedly forward-looking. On the road to state-of-the art European payments.

I call on all parties to include the agreement in the ERPB debates to work on new European payments

products.

DNB will *also* do this, of course.

This requires from all representative organisations, and in fact from us all, the willingness to take a more European perspective, and work closely together at a European level.

We will now bring the national representative organisations and the European ones closer together.

I look forward to a near future, in which European retailers, businesses and consumers will be even more able to reap the benefits of a safe, robust, socially efficient and innovative payments system.

This is in fact also one of the stated objectives of the Economic and Monetary Union.

I sincerely congratulate the signatories, and with them essentially all retailers, consumers and banks, on the start of the innovative European payments era.

Thank you for your attention.