

CARD PAYMENT SCHEMES DOMESTIC OR GLOBAL?

Card payments are developing at a rapid pace. Systems need to be more secure, faster, cheaper and SEPA compliant. What is the best strategy? To continue developing the domestic card scheme, or seek to join a global scheme?

Banks in Belgium have decided to make Bancontact/Mister Cash SEPA compliant. With 1 billion transactions, they believe the scheme is sufficiently relevant and solid to play an important role. After explosive growth and a record volume of 2.3 billion pin transactions, the Netherlands completely switched to the new debit card payment system with the brands Maestro and V PAY, based on the EMV (Europay/MasterCard/VISA) chip standard, as from 1 April 2012. Two key players expressed their point of view: Kris De Ryck, CEO of Bancontact/Mister Cash in Belgium, and Piet Mallekoote, CEO of Currence in the Netherlands, owner of the domestic schemes PIN, Chipknip, Acceptgiro, Incasso/Machtigen and iDEAL.

What were the considerations in continuing to use Bancontact/Mister Cash, rather than switching to Maestro, V PAY or another international alternative?

De Ryck “Bancontact/Mister Cash is an excellent product in terms of functionality and efficiency. This is confirmed by cardholders as well as by merchants. In the early days of SEPA, there was the valid issue of whether Bancontact/Mister Cash could remain competitive in terms of scale. Now, several years later, we have thoroughly reassessed the market and updated our business case. This has clearly shown that the Bancontact/Mister Cash scheme is perfectly equipped to absorb the SEPA investments without impairing our strong competitiveness. There is therefore no economic reason to withdraw the scheme from the market. Nor is security. Bancontact/Mister Cash has always been ‘chip & PIN’ with a security level that is equivalent to EMV.”

Which parties were involved in the decision to make the scheme SEPA compliant, and how was the decision ultimately made?

De Ryck “Two years ago, the shareholders of Bancontact/Mister Cash reviewed the SEPA case. Prior to this, all of the stakeholders (issuers – acquirers – merchants) were consulted. After careful consideration, in early 2011 the decision was made within regular governance to make the scheme SEPA compliant.”

Were there any considerations in favour of switching to another scheme? If so, what were they?

De Ryck “Around 2005 ‘scale’ was a genuine concern. Europe seemed to be well on the way towards replacing all of its ‘domestic’ schemes with a duopoly. Fortunately, people realised in time that in order for there to be true competition there have to be more players. Looking at the present landscape, Bancontact/Mister Cash, with more than 1 billion transactions, is sufficiently important and solid to play an important role.”

What changes will there be for banks, merchants and consumers as a result of the changes?

De Ryck “In terms of infrastructure, the most important change is the evolution from the current single-processor setup to a multi-processor setup. Our clients – consumers and merchants – will not be affected by this. In the future, merchants will have more freedom in their choice of payment terminals, because of the use of the European standards (EMV, chip & PIN). Furthermore, increased competition among the different market players may result in a more diverse offering.”

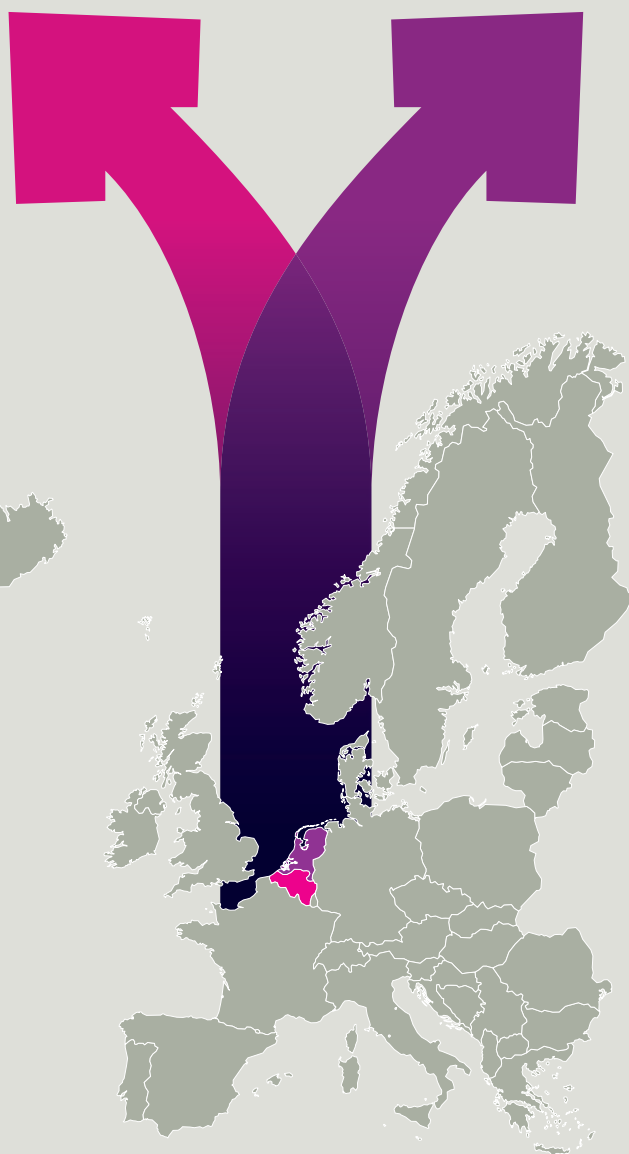
Does the fact that the ‘countries’ are now SEPA compliant mean that newcomers can enter the market? What do existing participants think of this, and what do you think the outcome will be?

De Ryck “We have noticed a lot of active interest in our project, and we are therefore hopeful for the future. The entry of new players will enhance the internal dynamics of the scheme and improve our competitive position.”

New participants often have other working methods and use other processors. What are people’s views in this respect in terms of stability and continuity, and what actions are being taken to manage this?

De Ryck “Bancontact/Mister Cash is all about reliability and stability. We do not want to make any concessions in this respect. The strict conditions and rules of admission are and will remain strict. We cannot afford any experiments. Our clients expect Bancontact/Mister Cash to continue to look after their money in the future.”

DOMESTIC GLOBAL



What is the role of Currence in the switching process?

Mallekoote “Currence was the owner of the PIN brand in the Netherlands. In that capacity, the banks have asked us to manage the migration process from PIN to EMV (Maestro and VPay) as their facilitator.”

What was the reason for the banks to switch to EMV?

Mallekoote “Despite two billion transactions and continued growth, the banks believed the Dutch market was too small for investments in new applications and PIN security. The main advantage of switching to EMV is that it allows them to benefit from the innovation and technology of MasterCard and VISA. Even in countries with much larger payment volumes than the Netherlands, there were doubts as to whether a domestic scheme would be viable in the long term.”

What does the retail market think of the switch?

Mallekoote “Initially, retailers were worried, mainly due to the fear of cost increases. But in 2009, the banks and the retailers concluded a covenant on the switch to EMV. Some businesses already had a contract for Maestro or VISA. The agreement was made that, irrespective of the brand, the rates and conditions would remain the same for a minimum of five years. Additionally, retailers would retain a 1 cent discount. In return, they would commit to meeting the deadlines of the new debit card payment system. At that point, banks were able to make the final decision to switch to the new system.”

What consequences did the switch to EMV have?

Mallekoote “It involved two migrations: from strip to chip and the renewal of the agreements. The EMV project was completed within a year. It all went so well because replacement of the 25 million cards and 280,000 terminals had already begun in 2010. Prior to this, Currence had been working for several years to ensure that businesses would, at the end of the life cycle of a POS terminal, switch to a new, EMV-based equivalent. In other cases, businesses were encouraged to purchase a new system earlier by being offered a discount. As a result, on 90% of terminals the software can be updated remotely. These changes were implemented around the summer of 2011. Additionally, the banks had a busy time last year renewing approximately 170,000 contracts. The public was informed by promotional material and campaigns, and quickly got used to the new debit card payment system.”

What will the role of Currence or Betaalvereniging Nederland be after the migration to Maestro and V PAY?

Mallekoote “Our role is, amongst other things, to ensure that the payments chain remains operational. We perform common, non-commercial duties in the area of communication, fraud prevention and infrastructure. This role of facilitator and coordinator between stakeholders, including newcomers, has been assigned to the recently established Betaalvereniging Nederland. Betaalvereniging Nederland has therefore taken over the responsibilities of Currence with regard to debit card payments.” ■