

Lowering switching barriers in the Dutch payment system: no number portability, but use of aliases?

DeNederlandscheBank

EUROSYSTEM

Translation of the summary of 'Verlaging van overstapdrempels in het Nederlandse betalingsverkeer: geen nummerbehoud, maar aliasgebruik?'

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Summary

At the request of the Dutch Finance Minister, DNB has researched the potential for the use of aliases for payment account numbers in the Netherlands. Our conclusion is that existing aliases are not suitable for alias use in the payment system. A cost-benefit analysis of a new, robust alias introduced only in the Netherlands shows that the social costs outweigh the benefits. There are additional disadvantages: legislative amendments would be required, foreign entrants would have to incur additional costs to operate in the Dutch payment account market and it would lead to a dual system for domestic and foreign credit transfers and direct debits. On this basis we conclude that the introduction of an alias system is not the right way forward. We see two possible alternatives which could make it easier to switch payment account between banks and which could be explored further. First, the Switching Service is an existing instrument that could deliver part of the benefits of an alias through more intensive use and further improvement. A second route is the introduction of an alias at European level which can be used more widely than in the payment system alone.

The Dutch are very attached to their payment account. Every year around 2% of people in the Netherlands switch their payment account. That figure is slightly below the European average. The main reason why customers do not switch is that they are satisfied with their current bank. The reason that follows is that switching offers insufficient benefits, or insufficient obvious benefits. The third reason why people do not change their bank account is that they cannot take their account number with them when they switch.

A possible way of making it easier to switch between banks is number portability. Number portability means that customers can take their account number (IBAN) to another bank. Number portability has regularly featured on the social and political agenda in the Netherlands for many years.

Easier switching delivers benefits for society. It reduces switching costs in terms of time and administrative hassle for switchers. The threat of switching also increases competition. This may result in lower fees, more innovation and better service.

However, lowering switching barriers through introduction of number portability would only be feasible at EU level. First, the IBAN system would have to be changed to accommodate it. The IBAN contains a bank-specific code that is crucial for routing payment instructions. This would have to be modified if number portability were introduced. Second, it would require expensive technical and operational modifications by operators outside the Netherlands. Finally, it would run counter to the aim of creating a European infrastructure with uniform standards for electronic payments (the Single Euro Payments Area – SEPA).

An alias is a possible alternative to number portability. In the context of this report an alias is taken to be a unique identifier that is linked to a payment account number. This way, a payment instruction (credit transfer or direct debit) is linked to an alias rather than an

IBAN. Bank customers can then change payment accounts without the alias changing. The creation of an alias system for IBANs may be technically less complex than number portability.

The Minister of Finance therefore asked DNB to investigate the possibilities of the use of aliases in the Netherlands. Specifically the request was to identify new or existing aliases that would be suitable for linking to an IBAN, the associated advantages and disadvantages and the social costs and benefits of alias use. This report is the response to this request.

The analysis is based on the principle that introduction of the alias would be enshrined in law at the same time for all the operators concerned (consumers, businesses, government bodies, banks etc.) The maximum effect in terms of lowering switching barriers can only be achieved by enforcing the use of aliases through legislation for all operators concerned. After all, alias use must have full coverage if it is to significantly reduce the perceived and actual switching barriers and maximise the potential social benefits. A gradual introduction would not greatly reduce the costs, but would reduce the benefits.

As an initial step we assessed the suitability of existing aliases on the basis of various criteria. The main criteria are that the alias must be self-checking and stable. The use of self-checking numbers ensures that a typing error does not result in an incorrect payment. Stability means that the alias of the person, business or institution does not change. Of the existing aliases examined, only the BSN and the VAT ID fulfil these suitability criteria. The BSN fails because it is privacy-sensitive, unsuitable for businesses and subject to legal restrictions. Non-governmental organisations are only permitted to use the BSN if they have a legal basis for doing so. The VAT ID is not issued to individuals. In other situations frequently used aliases such as the e-mail address or mobile phone number fail because they are not sufficiently robust (not self-checking and not stable) for use as an alias.

A newly designed, robust alias would therefore have to be used for large-scale alias use in electronic payments. This conclusion matches those of previous studies of alias use by the National Forum on the Payment System (NFPS, the Forum). A newly developed alias issued to consumers, businesses and organisations could be tailored to its intended function(s) in the payment system. Furthermore, a new alias specifically developed for that purpose would probably be easier for banks to link to IBANs. For example, it would not be necessary to check whether the bank had the correct existing alias.

As the second step, DNB requested the research agency SEO to conduct a key figure cost-benefit analysis of the introduction of a newly developed alias. ¹ A key figure cost-benefit analysis assesses the social costs and benefits of a particular measure on the basis of existing material. The costs and benefits were calculated for a period of 10 years. This reflects a fast-changing payment market in which technology, evolving customer requirements and regulation are driving greater competition and more innovation. This means there are fewer potential benefits from the introduction of an alias. SEO uses the

¹ A key figure CBA (KCBA) uses rules of thumb and key figures to determine the effects and assessments.

Swedish Bankgiro system as a framework to illustrate the potential use of aliases in the Netherlands.

The cost-benefit analysis shows that the social costs of introducing a new robust alias only in the Netherlands considerably outweigh the benefits. The overall net present value calculated over 10 years is €-580 million. The cost-benefit balance is the difference between the expected benefit of €487 million and the expected cost of €1,066 million. This result is not certain: in the most favourable case the net present value is €5 million, whereas in the most unfavourable case it is €-946 million.

The benefits are relatively low because the number of switchers remains limited and the Dutch payment system is already fairly efficient, whereas the one-off investment costs are relatively high. 90% of the benefits for switching payment account holders comprise time savings expressed in monetary terms. There is relatively little efficiency gain, because the payment system in the Netherlands is already fairly efficient and the competition has already increased, for example due to the revision of the revised European Payment Services Directive (PSD2). The main cost components are the one-off costs that have to be incurred, particularly for the system modifications necessary for alias migration for banks, direct debit issuers and organisations with a large number of outgoing payments. The one-off costs are relatively high because all operators in the payment chain have to incorporate the alias in all their accounting records and systems.

There are also other disadvantages: legislative amendments would be required, foreign entrants would have to incur additional costs to operate in the Dutch payment account market and it would lead to a dual system for domestic and foreign electronic payments. An alias would make it less attractive for foreign entrants to operate in the Netherlands by offering payment accounts, as they would have to implement the alias in their systems before doing so. They do not have to do this to operate in other European countries. Legislative amendments would be required at national and possibly also European level to make alias use mandatory for electronic payments in the Netherlands, as the European SEPA regulation assigns a key role to the IBAN in the execution of payment instructions. If a customer enters an IBAN, a bank must execute the instruction correctly on the basis of this unique identifier. The existing agreements within SEPA would also have to be amended at payment instrument level, including the European direct debit (SEPA Direct Debit). Finally, the introduction of an alias only in the Netherlands would create a dual system in which private and business payment account holders in the Netherlands would use their alias for electronic payments within the Netherlands and an IBAN for electronic payments from and to operators outside the Netherlands. This would be inconsistent with the aim of creating a European payments market. It would also make electronic payments more complex and lead to confusion among payment account holders.

On this basis we conclude that alias use in the Netherlands alone is not the right way forward. We see two possible alternatives which could make it easier to switch and which could be explored further. First, the Switching Service, an existing instrument that could deliver part of the benefits of an alias through more intensive use and further improvement.

A second route that can be explored for the longer term is introducing an alias at European level that can be used more widely than in the payment system alone.

More intensive use and further improvement of the Switching Service could deliver part of the benefits of an alias. Even greater use could be made of the Switching Service. This would considerably reduce the switching costs, particularly as a result of time savings. It could be the subject of a new campaign that also emphasises the improvements being made.² Banks could also explore whether the Switching Service could be further integrated into their services for switched customers, for example by offering switchers the Switching Service as a standard procedure – to the extent that not all banks currently do so. We also see potential for further improvements to the Switching Service. First, switching barriers could be lowered by giving switched customers a real-time view of the organisations and direct debit issuers that have already been informed about the switch (the new IBAN). This would give consumers greater confidence that all relevant operators will be informed and that no payment relationships will be overlooked. Second, switching barriers could be reduced by extending the period in which the Switching Service operates. A substantially longer period would mean that customers incur less risk in the event of erroneous payments. Structural surveys, analysis and publication of total numbers of switchers and the use of the Switching Service could also bring improvements. In the first place the further developments should be left to the market, but in the event of insufficient growth of use, consideration could be given to agreements in the context of the National Forum on the Payment System.

Another possibility is to introduce an alias at European level that can be used more widely than in the payment system alone. If it were introduced at European level, dual systems would not be necessary and cost savings could be achieved. It would also prevent barriers to entry for foreign operators. The development, implementation and maintenance of a European alias system would also be expected to deliver economies of scale compared to an alias system intended only for the Netherlands. The benefits could be further improved through wider applicability of the alias. A unique public identifier that meets the requirements for a robust alias could be simultaneously useful for many other applications. Possible examples include online signing of contracts and inspection of medical data, so as well as benefits in the payment system there would also be benefits outside the payment system. In this regard it is important to have a non-privacy-sensitive public identifier that can be used by both consumers and business operators.

² An improvement being made in 2020 is 'Informing the payer at the initiation of the payment'. This means that when a payer enters the IBAN of a beneficiary who is using the Switching Service, he is informed by his own bank about the new account number.