



The Dutch Interbank Switching Support Service

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Agenda

- Market data for the Netherlands
- Situation before introduction of the Overstapservice
- Policy conclusion, considerations and choice
- Operational facts / figures



Market data: general

- Population: 16,33 million
- Current accounts: 22 million
 - of which 20 million for consumers
- 40 Dutch/foreign banks active in payments segment
 - Approximately 30 in retail segment
- High concentration ratio
 - Three largest banks cover 89 % of the market
 - Five largest banks cover 98 % of the market



Market data: payment mix

Payment landscapes differ per country (See also Leibbrandt)

Typical for the Dutch: high efficiency

- high usage of debit-card (1.3 billion trx)
- high usage of direct debit (1 billion trx)
- little use of credit-card (45 m)
- high usage of internet banking,
- low usage of paper based credit-transfers

Technically still two main payment routes

- Via former BGC (now Interpay/Equens)
- Via former Postal Giro (now ING)

Market data: financial

- Low prices for payment package consumer:
 - € 25 ... € 34
- Outcome of 'open-book' research on cost/benefits in payments shows:
 - payment business in the Netherlands resulted in an overall economic loss of – € 128 million in 2005
 - payment transactions are a considerable loss maker in both the consumer and business segment of the market
 - in particular cash transactions and account maintainance are underpriced
 - balance related income does not make up for the losses in transaction based fees
 - See further analysis/research McKinsey

Market data: customer satisfaction

	Satisfied with bank	Intention to switch
Consumer Union survey 2002	84 %	(73 % expects it to be easy)
KPMG – 2004 survey	86 %	9 %
Forrester – 2005 survey	69 %	3 %
NVB survey - 2005	94 %	5 %
Consumer Union survey 2006	85 %	33 % considered switching in past (8,25 % switched)



Before the introduction of the ISSS (Overstapservice)

- Choice for a bank highly correlated with
 - bank choice of parents
 - proximity
- More than two thirds of the customers have more than one payment account (one with the giro and one with the banks)
 - switching takes the form of slowly using the other account for payments and letting the old account become a fall back or specific budget account
- Payment portability service offered for selection of BGC-banks between 1980-1983 but ended due to lack of demand
- Individual banks, (both large banks and niche-players) offered services to improve and facilitate switching bank accounts.

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- In 2001 a generic policy discussion started on switching costs in a variety of markets (insurance, phone, energy, payments) leading to a report and recommendations in 2002 (*Kosten noch moeite. Drempels slechten voor de switchende consument*)
 - Main recommendation as a result of policy discussion:
 - Portability of bank accounts is desirable
 - Discussion with bank industry is required to determine solution



Policy conclusion government working group

Policy recommendation occurred in a changing policy climate:

- Report Wellink and its follow-up resulted in improved governance and competition in the Netherlands by unbundling processing and scheme management for a number of domestic payment products,
- National Platform on Payments was about to be established to further guarantee good interaction between representatives of users and providers of payment services



Policy considerations of NVB

- Continued policy debates on the obvious lack of a business case for number portability or a switching service might lead to the incorrect conclusion that banks are not willing to compete and would like to tie in customers
- Banks wish to make it clear that they welcome competition and wish to make switching easier
- Decision for further feasibility studies, taking into account:
 - The actual demand of the customer
 - The desire to avoid any discontinuity as a result of the switch
 - Lowest possible cost
- Two specific options researched: number portability and interbank switching service

Option 1: number portability

- Discontinuity for the user as a result of the desire to use same account number at different banks
- Cost for just the banks would be: € 300-500 million
- Financial and ICT-impact on business users was overlooked in the previous policy debate (hardcoded routing for payment messages depending on Dutch account number)
- Number portability inconsistent with the IBAN-structure to be used in context of EU transactions, giro account 4313543 at Postbank will have different IBAN at other institutions:
 - IBAN Postbank: NL15PSTB0004313543
 - IBAN AA: NL93ABNA0004313543
 - IBAN Rabo: NL38RABO0004313543
 - IBAN Fortis: NL07FORT0004313543
- See also: paper of Free University Amsterdam: **9210: The Zip Code of Another IT-Soap**
<http://www.cs.vu.nl/~steven/9210.pdf>



Option 2: switching service

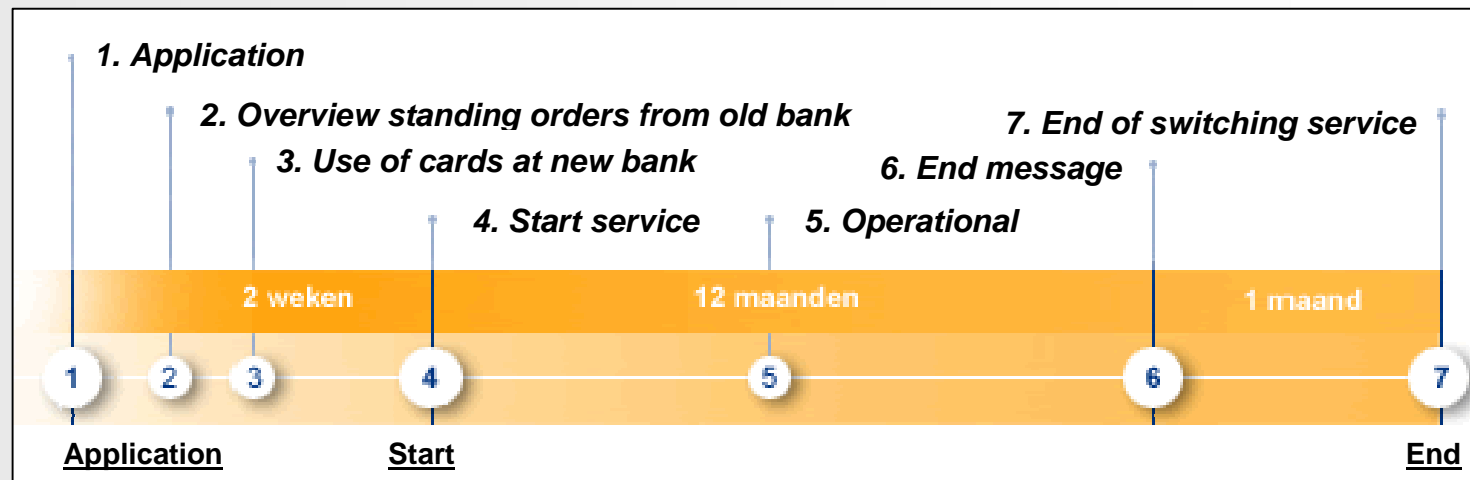
- Will still cost a lot of money:
 - € 10-20 million initially and € 2-3 million annually
- Does guarantee continuity for the user
- Allows for fact-based policy discussions and evaluation of the of the issue user mobility



Policy choice: the Interbank Switch Support Service

- Policy choice to develop Interbank Switching Service (Overstapservice)
- Commitment to offer Switch Service will be the end of the debate on number portability
- Decision to go forward & start project:
 - October 2003
- Operations went live:
 - December 2003 for consumers
 - October 2004 for businesses

Operational facts / figures: process



Application period is at least 2 weeks for consumers and 4 weeks for SME's

Advice to consult open new account first, consult and then to activate switching service

Old bank may close account



Operational facts / figures: process 2

- All payments including direct debits rerouted
- Direct debit senders receive letter after each rerouted transaction
- Customer to re-apply at new bank for specific retail services / tools
- Customer to inform salary payer (using standard forms)
- All rerouted transaction are separately indicated on bank account statement
- One month before the end of service user receives notification



Operational facts / figures: information

- Joint brochure initially in combination with nationwide advertorials
- Now integrated in bank communication for opening accounts (ATM,'s, e-mail, website, mass media etc)
- Separate website: ww.overstapservice.nl as well as additional information on bank websites



Operational facts / figures: legal

- In legal sense a covenant between NVB members; terms and conditions are set collectively (for the collective service)
- NVB monitored compliance with covenant
- NVB deals with extra-ordinary complaints (regular channel is the bank channel)

Operational facts / figures: user data

Usage:

- 2004: 45000 consumers
- 2005: 65000 consumers and 5000 SME's
- 2006: 75000 consumers and 5000 SME's (estimate)

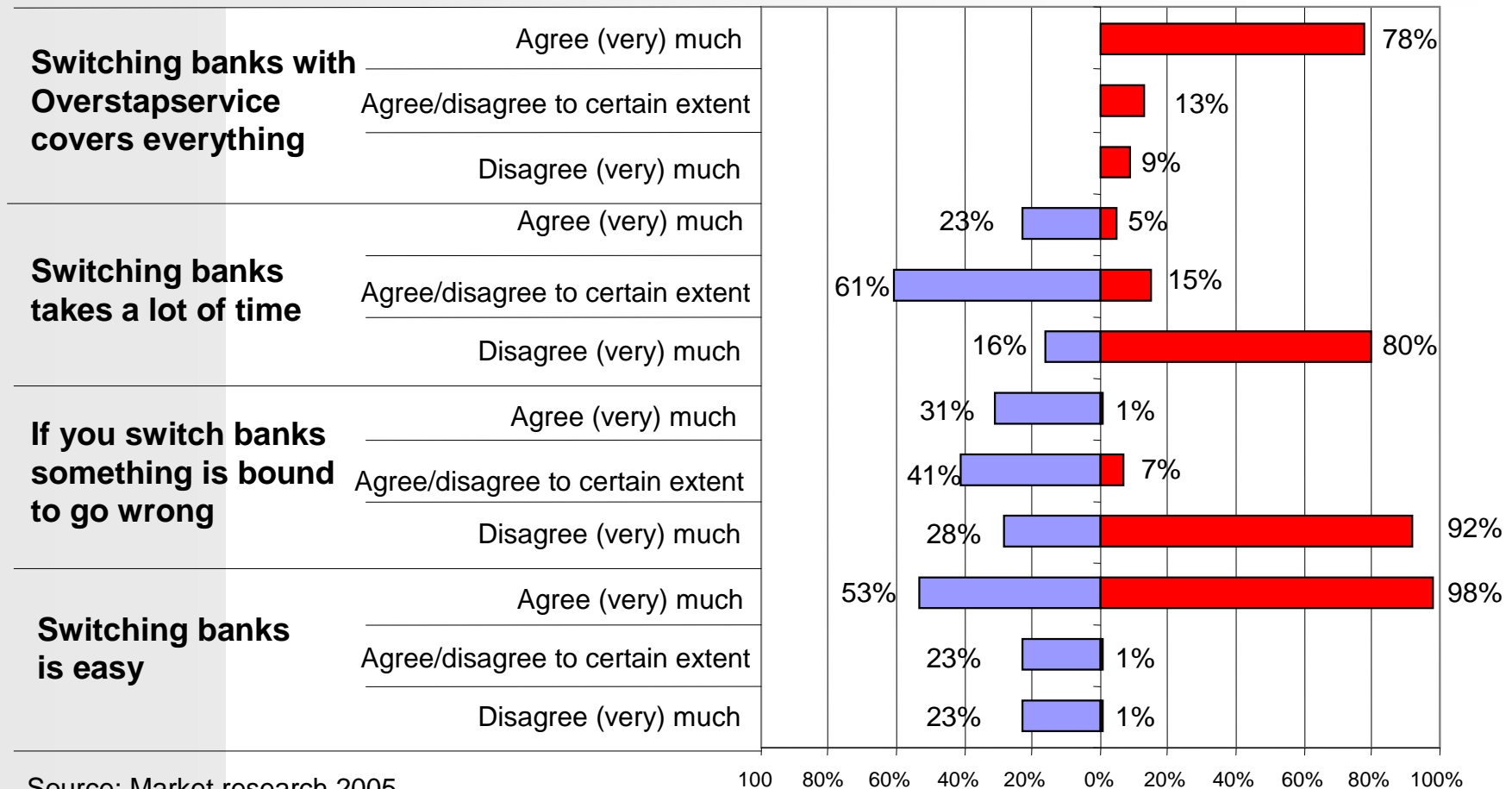
How did users apply?

- - branch office of new bank (first 57 -> later 65%)
- - family and friends (first 10 % → later 27%)
- - brochures (first 10% → later 8%)

Perception of public / users

Switching perception of the general public vs perception of users of *Overstapservice*

■ PUBLIC ■ USERS OVERSTAPSERVICE

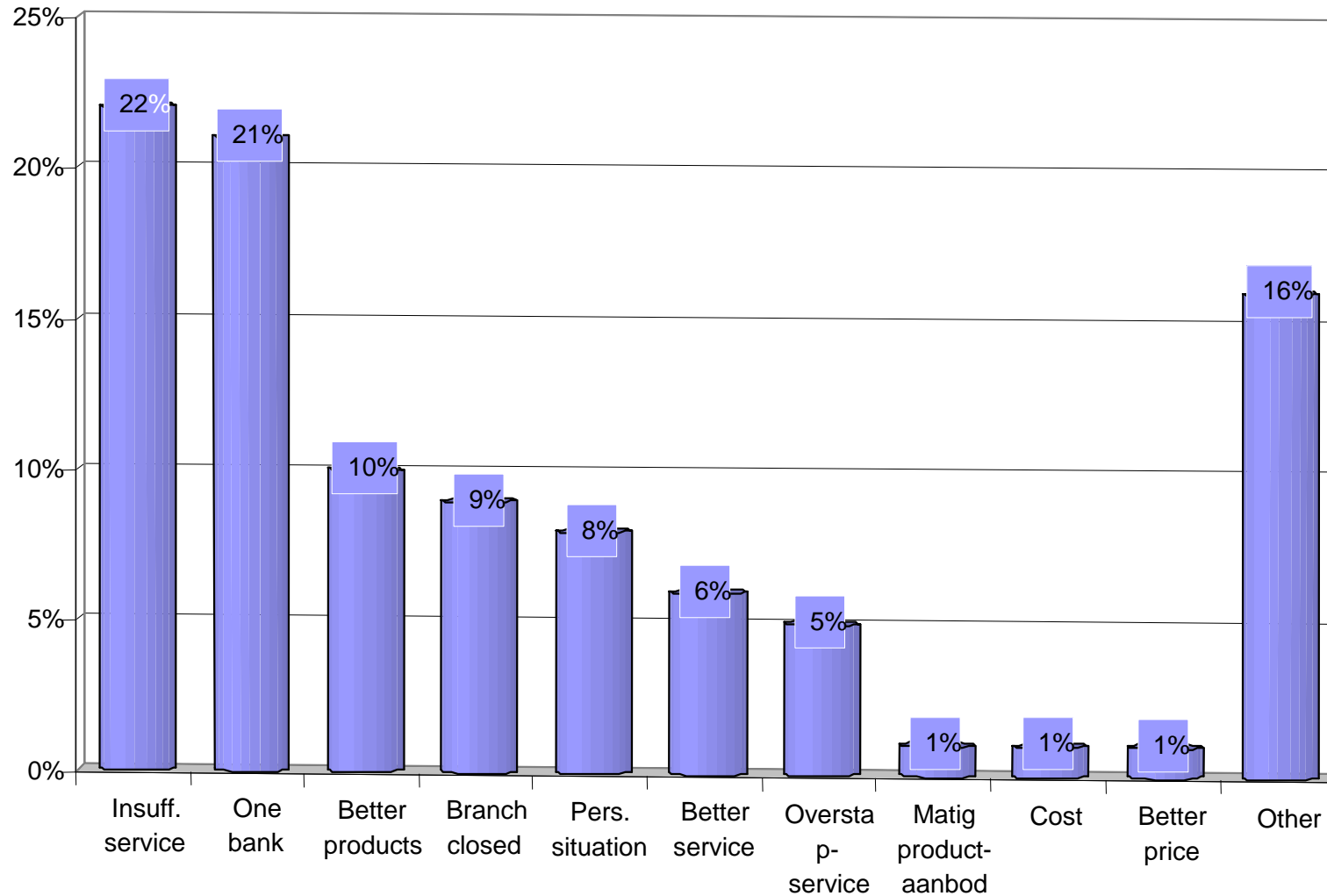


Source: Market research 2005
Overstapservice by The Choice

Reasons for switching (2004-2005)

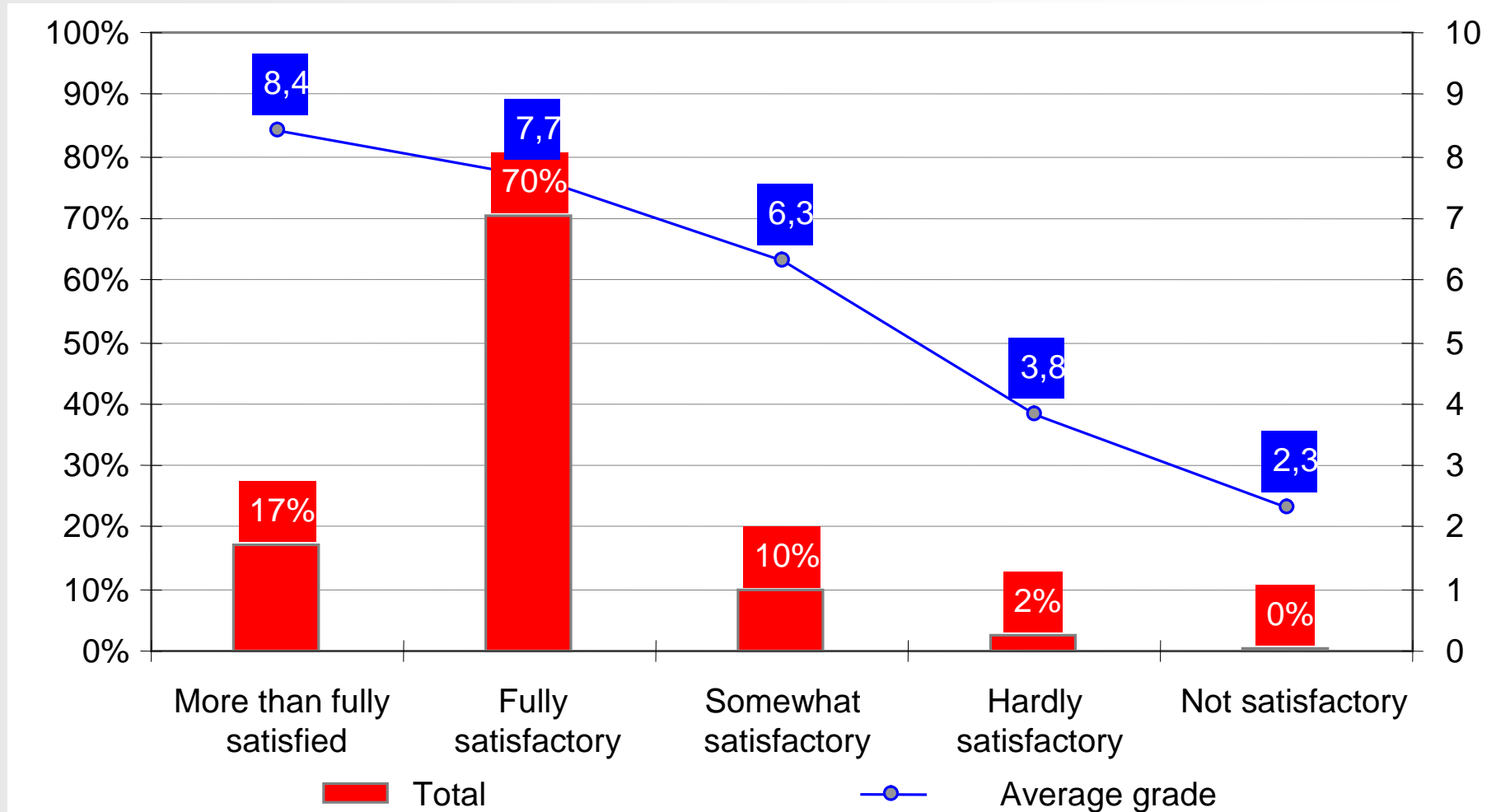
Main reasons to switch *'Overstapservice'* (multiple answers)

Most often: consolidate at one bank: 27 %



Average report grade: 7,5

Satisfaction – *general report grade (1-10)*



Customer feedback: control questions

- Would you recommend the Overstapservice? :
 - 94% certainly / most likely
- Would you use the Overstapservice again?
 - 90 % certainly / most likely
- Do you find the Overstapservice
 - 93 % easy
 - 3 % difficult

Market size: estimation

THE CHOICE
marktonderzoek & advies



	Intention to remain customer	No (direct) intention to remain customer	Total
Bank satisfies expectations	<i>Faithful: 92%</i>	<i>Rational 2%</i>	94%
Bank does not (fully) satisfy expectations	<i>Passive: 3%</i>	<i>Dissatisfied :: 3%</i>	6%
Total	95%	5%	100%



2006 Research Consumer Union

- 2500 customers on bank service and switching (covering the last 5 years, in which for 2,5 year the ISSS was available:
- Average satisfaction with banking services: 85 %
 - Quite some variation per bank
- 40 % used overstapservice
 - Consistent with the fact that overstapservice was available since 2004 only..
 - (more than 70 % satisfied)
- 33 % considered switching;
 - actual percentage that did so was 8,25 %



Consumer union: reasons to change

- Service / quality : 36 %
- Change in personal situation: 23 %
- Other: 15 %
- Price: 10 %
- Dissatisfaction internet banking 9 %



Conclusions / Outlook

- High investment reaps results in terms of customer satisfaction
- No business case
- Technically possible as a result of historical processing structure (2 main units)

Questions

