Issuing e-money in the Netherlands

Options for non-banks?

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Outline

- Basics
- Main players
- Market and policy interactions
- Options for non-banks
- Conclusion

Basics -1: The Netherlands

- Capital: Amsterdam
- Area: 34.000 square km
- Population of 16 million inhabitants
- Currency: Dutch guilder (NLG)
- GDP: 776 bln NLG
- Inflation: 2,0 %
- 126 banks and 5500 branches

Basics - 2

- Domestic laws, habits and history determine choices of industry players, regulators and customers (Revell 1983, BIS 1999)
- Provision of non-cash payment instruments is a separate and profitable line of business

Main players

- Large retailers (Shell, Albert Heijn, Telecom)
- Postbank (former postal giro)
- Bankgiro banks (ABN AMRO, RABO)
- De Nederlandsche Bank (central bank)
- Ministries of Finance and of Economic Affairs
- Ministry of Transport
- Small players (Primeur, Digicash)

Market and policy - 1

- 1985: Shell threatens to develop own system
- 1987: joint POS system by banks
- 1988: hands-off policy of regulators
- 1988: chipcard-initiative by small retailer
- 1989: joint chipcard pilot banks/retailers
- 1991: chipcard initiative 'succesfully' ended
- 1991: Albert Heijn signs up and backs POS

Market and policy - 2

- 1993: Primeur Card (smaller retailers), Telco with phone-card and Digicash with e-cash
- 1994: EMI report on electronic money
- 1995:
  - introduction of chipknip pilot (all banks)
  - legal basis for supervision e-money
  - banks start development I-pay

Market and policy - 3

- 1996: *establishing positions*
  - Postbank/Telecom develop Chipper
  - joint introduction I-pay pilot (all banks)
  - BIS-studies on e-money
  - full introduction Chipknip (October)
  - EC considers directive on e-money
  - EMI will become ECB; ecu will be euro

Market and policy - 4

- 1997: *cont. competition for good position*
  - full introduction chipper (ING Postbank)
  - closed environment systems (Arena, Ohra)
  - retailers consider e-money on own cards
  - G-10 e-money report
  - start of ECB-work on e-money report
  - continuation of work on directive e-money

Market and policy - 5

- 1998: *Further dissemination / assesments*
  - retailer loyalty cards with chip (Edah etc)
  - non-bank multifunctionality (library function)
  - interoperable terminals for both chip cards
  - risk management for electronic banking (BCBS)
  - report on electronic money (ECB)
  - Dutch competition authority competent

Market and policy - 6

- 1999 *positions clear*
  - cooperation agreement Chipper / Chipknip
  - attention to parking/vending segment
  - joint introduction I-pay (SET)
  - government stimulates transport payments
  - hands-off policy payment instruments
  - emi-directive almost finished

Market and policy - 7

- 2000: *new chances ?*
  - Chipcard schemes take-off slowly
  - Shell pilots Easypay at gas station (infrared)
  - EC-directive finalised
  - Implementation of emi-directive in law
  - E-commerce and M-commerce …

Market and policy - 8

- Regulatory and market responses to new entrants are strong
- Pre-paid instruments will be supervised
- Payment instruments are regulated differently in EU-countries
- Large users start issuing own cards / systems

Options for non-banks

- *E-money card:*
  - Use of chipcard based e-money on location, web-site or via WAP-phone
  - Card fee of 25 euro for convenience and fulfilment guarantee when shopping
  - Money to be spent on a large scale

Options for non-banks

- Consequence:
  - Supervision will be applicable either in the Netherlands or the home-country or in the form of audit regime of subcontracted bank
  - Setting up a local bank in EU-country and using 2nd banking directive to operate in Netherlands will not work quickly

Options for non-banks

- *Charge card:*
  - Use of retailer charge-card system to buy on location, web-site or via WAP-phone
  - Involves credit-check and possibly payment upfront as collateral
  - Purchases at shops with the same brand name, formula etc

Options for non-banks

- Consequence:
  - Banking supervision will not be applicable as it is a form of consumer credit
  - Civil law, money laundering and consumer credit-rules will be applicable
  - Quicker to set-up than full scale e-money scheme

Options for non-banks

- *Loyalty card:*
  - Use of chip-card system to collect loyalty points with purchases on location, web-site or via WAP-phone
  - Loyalty points have different value to the consumer, depending on the type of use
  - Loyalty points are non-transferable and non-redeemable

Options for non-banks

- Consequence:
  - Points may come close to money in actual use but do not constitute money
  - Civil law applies
  - Sufficiently safe system needed to prevent losses; full responsibility of issuers of loyalty points

Conclusion

- A variety of new applications can be designed, built and marketed
- Decisions as to type of product and consequences in terms of supervisory requirements can be made
- The basic question may not really be technical or regulatory in nature

Conclusion

- First answer the business questions:
  - What is our core business?
  - Why would we enter the Dutch market?
  - Are we doing this completely ourselves or with strategic partners?
  - Are we building from scratch or using existing infrastructures/products?
- …..then find a good lawyer !