Clicking The Bank Account To Buy

BY DAN BALABAN

Illustration: Matt Wood

More than 75% of adults in the Netherlands bank online, and half are Web shoppers. And at check out, consumers are more likely to pay directly from their bank accounts with Dutch Web merchants than to click on either a Visa or MasterCard icon.

Most choose to pay using "iDEAL," an Internet payment scheme the major Dutch banks launched in October 2005. The brand already had achieved a 31% share of Internet payments across Dutch Web merchants as of last September, logging nearly 15 million transactions in 2007. That is far ahead of cards for Web purchases, according to Netherlands-based market research firm Blauw Research. The cards market share, at 12%, dropped by five percentage points from the same period a year earlier.

"In Holland, it's a huge success story," says Michael Salmony, executive advisor for Netherlands-based payment-processing company Equens NV. Web merchants get an immediate guarantee of payment and pay lower transaction fees than for cards, he notes.

Similar national online-payment schemes are running in Germany and Austria and sport tie-ins with such nonbank Internet-payment or funds-transfer players as PayPal, Moneybookers and PayByCash (*see chart on page 28*). And banks in Belgium, Switzerland and a few other countries are offering their own Web-payment services.

The scheme operators seek expansion, hoping to tap what U.S.-based Forrester Research Inc. has predicted will become a 262 billion euro (US$411.3 billion) market for Web shopping in Europe by 2011–a 21% annual growth rate.

>> Some European banks want to create a noncard, pan-European payment scheme for Internet purchases. Though some banks might balk if it costs them card revenue, regulators' efforts to reduce interchange rates could change their minds. <<

Backers of the bank-payment concept say the method is easy for consumers to use. When it comes time to pay, Web shoppers automatically are directed to their e-banking sites, where they authenticate themselves just as they do to view account balances, transfer funds or pay bills. And the concept also is easier to roll out than the infrastructure needed for Web merchants to accept debit cards, say backers.

Generally, however, the e-banking-based online-payment schemes are having uneven success attracting

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Web Buying Via Bank Transfer

Banks in three European countries have set up national schemes to handle Internet payments via bank funds transfer. The card alternative also is available from individual banks in Belgium, Switzerland and other countries.

Brand	Merchant Locations	2007 Transactions (in millions)	Notes
iDEAL, Netherlands	7,500	14.9	All major Dutch banks are behind the scheme, which launched in October 2005. Preferred payment application for Web merchants–with transaction fees about half those of cards.
giropay, Germany	500	2	Launched in early 2006, more than 1,500 German savings and cooperative banks and Deutsche Postbank support the scheme, but big commercial banks are absent. Giropay also enables consumers to recharge their accounts with PayPal and other nonbank Web-payment accounts.
eps, Austria	500	1.2	First national Internet payment scheme in Europe when launched in early 2003. Accepted by mobile telco T-Mobile for top-ups, among other merchants.

Source: Cards&Payments

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shoppers. The Netherlands offers the only example so far of such a scheme taking off in Europe. And that is because Dutch banks representing 95% of the country's consumer-banking business support it and are charging Web merchants fees amounting to about half what the merchants pay to accept cards, say observers.

No wonder, then, more than 70% of Dutch online merchants sport the iDEAL icon on their checkout pages compared with the 45% to 50% that display the Visa or MasterCard logos, says iDEAL's operator, Currence (*see chart on page 29*).

But until iDEAL and the other bank-backed Internet-payment schemes can handle payments easily for merchants across borders, none will challenge credit cards or such international Internet payment brands as PayPal when it comes time for consumers to pay for the contents of their Web-shopping baskets.

Supporters of the e-banking payment concept are counting on the Single Euro Payments Area standards to help change that. SEPA will create a common market for electronic payments in Europe. The first set of standards that took effect in late January made credit transfers between banks interoperable across borders. These are the types of funds transfers banks use to clear and settle Web payments.

The European Payments Council, a bank-run organization that is carrying out voluntary compliance of the SEPA standards, in December formed a new committee to discuss how to extend SEPA to Internet commerce, both from home computers and mobile phones.

Protocol Adoption

Building on the foundation of the SEPA credit-transfer standard, the committee plans to adopt protocols for electronic messaging among banks and merchants. It also plans to create business rules for conducting pan-European e-commerce via consumer bank accounts.

"What we do is define a way to issue payments guarantees over the Internet," says Dag-Inge Flatraaker, chairman of the council's new committee and general manager of group payment strategy and infrastructure at Norwegian bank DnB Nor. "The final payment will be the SEPA credit transfer, and we will reuse the authentication methods of banks."

NACHA, which sets rules for credit transfers sent via the U.S. automated clearinghouse network, is piloting a similar program. It enables American consumers to do Web shopping through their e-banking sites. Some Asian and Canadian consumers can do the same.

In Europe, payments council leaders set standards for credit transfers, direct debits and card payments under SEPA. But they decided not to dictate to banks how to authenticate their customers and not to ask members to commit to rolling out the electronic- and mobile-commerce standards. E-commerce payment preferences vary too much across Europe, and banks are weary of all the other SEPA mandates they have to meet, say observers. Bankers also rejected suggestions the council operate its own pan-European online payment scheme.

The banking group, whose members represent more than 90% of electronic payments across Europe, instead will offer the Internet-commerce standard for any bank that wants to use it.

But iDEAL, which is eager to expand outside the confines of its relatively small base of the Netherlands, is not waiting for the council to act. It will register the iDEAL system with the council as an add-on to the general credit-transfer standard and is deploying technology for messaging that complies with global standards, says Eric Tak, manager of cards and the iDEAL project for Dutch bank-owned payments organization Currence.

"We've got sincere interest from [bankers] from abroad, studying it and making business cases," Tak says. IDEAL pilots outside of the Netherlands should be announced within three to six months, he predicts.

But expanding a system such as iDEAL across Europe essentially would require launching a new payment scheme, contends Brian Morris, high-growth markets executive for MasterCard Europe. Though a few large banks control most of the payments business in the Netherlands, Europe has thousands of banks.

"The whole thing of setting up merchants and arranging the clearing would need to happen," he says. "Why try to essentially duplicate a domestic payment system internationally when you already have a global (card) payment system in place?"

MasterCard, while surprised at the take-up of iDEAL, sees card-based Web purchases growing in Europe, says Morris. These are mainly credit card transactions. The card schemes require more security among merchants and banks to accept debit cards.

But any success iDEAL has expanding outside of the Netherlands probably will hinge on whether it continues to offer attractive transaction fees. The iDEAL banks charge Dutch merchants from 25 euro cents and 1 euro (US39 cents to $1.57) per transaction. On the average 60-euro purchase using iDEAL, that equates to roughly half or less than the fees online merchants generally pay for card purchases, which range from just less than 3% of the sale at conventional online merchants to more than 6% for specialty shops.

Payment Acceptance Among Dutch Web Merchants

Payment Method	Acceptance By Dutch Web Merchants
iDEAL	72%
Bank funds transfer*	60%
Visa	47%
MasterCard	46%
Cash on delivery	43%
AmEx	25%
Direct debit	24%
PayPal	17%
Acceptgiro (bill payment)	9%
Diners	4%
JCB	1%

Source: Currence (iDEAL), August 2007.
*Offline prepaid bank funds-transfer service.

The Dutch banks could decide to raise the fees to more closely match rates the merchants pay to accept cards, which is based on interchange fees acquiring banks pay to issuers. The banks, however, do not believe they are losing card revenue by setting the iDEAL fees low, says Mark Buitenhek, head of retail payments in Europe for Netherlands-based ING Bank and an architect of iDEAL.

"The reason we prefer iDEAL (is), in the long run, iDEAL will make the customer loyal to his bank account," he tells *Cards&Payments*. "It's better to have a loyal customer, in the long run, than make some easy bucks on high interchange on cards."

Pressure On Interchange

Besides, European regulators are pushing down interchange rates, notes Buitenhek. And banks believe they will make up for those lost card fees with more transactions.

Fees charged via an online-payment scheme run by savings and co-operative banks in Germany, called giropay, are on par with those for card transactions. This is a major reason transaction totals are much smaller for giropay than for iDEAL, even though the schemes launched around the same time, say observers.

But a bigger concern may not be losing part of their merchant fees but the entire transaction, says Xavier Thiran, chief of business development for Belgium-based Ogone, a provider of e-commerce payment systems and processing.

"What is most important for the bank is to keep customers and attract new customers," he says. "When you have a party like PayPal, with 130 million to 140 million customers, if you are not coming with competing products and attractive service, you most probably will face difficulty in keeping them onboard."

The giropay banks already have conceded that PayPal and other Internet-payment schemes run by non-banks will continue to claim a significant share of the market. They have concluded agreements to enable customers to recharge their PayPal and other accounts via giropay.

"The bank had nothing from this (PayPal) transaction before; now with giropay ... the bank gets a fee out of this," says Darius Metzner, an executive with giropay.

But many European banks probably will take a pass on introducing a new payment scheme for Web shoppers. Besides the challenge of signing up tens of thousands of new Web merchants, not all countries have a high penetration of Internet bankers or shoppers. And in such major e-commerce markets as the United Kingdom and France, card payments–credit and in some cases debit–remain popular.

Yet with the SEPA standards and cuts in card interchange both poised to roll across Europe over the next couple of years, consumers may increasingly visit their e-banking sites when it comes time to pay for their Internet purchases. **CP**