

Non-paper introducing EU-wide account number portability

1. Introduction

In this paper the Netherlands advocates the introduction of European Union (EU)-wide account number portability (also known as IBAN Portability) in order to further integrate the single euro payments area (SEPA), increase competition in the market for payment accounts and to increase consumer mobility within the Netherlands, in the other Member States and across borders within the EU. In 2014 the Payment Account Directive (PAD) entered into force. One of the goals of this regulation was to foster competition and increase consumer mobility throughout the EU. Competition in the market for payment accounts can be increased if customers experience less difficulties when switching payment accounts. Previous studies have shown¹ that this problem can be addressed by the introduction of EU-wide account number portability. Alternatively, the recently published report of the Dutch central bank (De Nederlandsche Bank, or DNB) on the use of aliases for payment account numbers (IBANs) in the Netherlands recommends the introduction of an EU-wide alias that can be used more widely than in the payment system alone.² The current PAD-review, which includes a cost-benefit analysis of different forms of account number portability and alias portability presents the opportunity to do extensive research which option is best suited to realize at European level. The Netherlands advocates that further steps to increase competition can be taken by introducing EU-wide account number portability or, alternatively, alias portability. This could be part of the EU's Retail Payment strategy and Digital Finance strategy, which the Commission is currently consulting publicly.

2. The need for introducing EU-wide account number portability

2.1. The problem

One of the reasons why people are hesitant to change payment accounts is because they cannot take their account number with them when they switch payment accounts.³ When consumers or businesses face obstacles when switching payment accounts, this increases switching cost in terms of time and administrative hassle. Moreover, it reduces competition by lowering the treat of switching. As a consequence this results in higher fees, less innovative forms of payment account related services and a less optimal service. The account switching facility (which is based on automated redirection of payments from the old to the new payment account during a period of 13 months) in the Netherlands that was introduced by Dutch banks in 2004 performs quite well in a technical sense, but has not substantively raised the actual number of consumers switching accounts.⁴

The introduction of account number portability or alias portability is technically complex and expensive to realize on (only) a national scale; therefore EU-wide account number portability or, alternatively, alias portability is necessary.

In the letter of 14 November 2016 of the (then) minister of Finance Dijsselbloem to (then) Commissioner Dombrovskis, the outcome of several studies conducted in the Netherlands was summarized. Furthermore, the letter addressed the issue of low consumer mobility in retail financial services throughout the EU. These studies show that introduction of account number portability on a mere national level is economically not feasible, and that the introduction of EU-wide portability is necessary to increase competition and consumer mobility. Introducing account number portability will be complex, as it requires technical and operational changes to infrastructure across the whole chain of payments, and entails large investments in time and money by banks to change their infrastructure. Although introducing account number portability on a national level is technically possible, it would probably be too costly, but would also have consequences on banks in different Member States. Moreover, introduction of account number portability only on a national scale is not in line with the idea behind SEPA, where the intention is to create a single European infrastructure with European standards for all payments within SEPA. On the other hand, as users currently face obstacles in switching bank accounts, even at the national level, they will be even less inclined to switch to bank accounts in other Member States, which is counterproductive to further integrating SEPA as well.

¹ https://www.tweedekamer.nl/kamerstukken/brieven_regering/detail?id=2016Z14286&did=2016D29221

² https://www.dnb.nl/binaries/DNB-rapport%20over%20aliasgebruik_tcm46-388085.pdf

³ Carin van der Cruijssen and Maaïke Diepstraten (2017), Banking products: You *can* take them with you, so why don't you?, *Journal of Financial Services Research* 52(1), 123-154. Download

⁴ <https://www.acm.nl/nl/publicaties/publicatie/15947/ACM-studie-naar-EU-brede-betaalrekening-nummerportabiliteit>

2.2. EU-wide account number portability as solution

DNB's study of consumers' bank switching behavior finds that the propensity to switch can be increased by introducing account number portability⁵. The ultimate goal of switching is to promote competition in the market for payment accounts and between payment account providers (mainly banks). The introduction of account number portability reduces the obstacles for consumers and businesses switching payments accounts. The introduction of number portability reduces switching costs in terms of time and administrative burden for switchers. Additionally, the threat of switching increases competition, which leads to more choices of payment account related services for consumers and businesses, lower fees and more innovations.

Lowering switching barriers through introduction of number portability would only be feasible at EU level. The ACM research shows⁶ that the introduction of EU-wide account number portability is a more preferred solution for dealing with the competition problem than the current Dutch payment account switching facility, since it is more effective in lowering switching barriers. Additionally, it is expected to have a greater effect on the switching intention of consumers and businesses. Introducing EU-wide account number portability is consistent with the aim of the European Commission of creating a European infrastructure with uniform stands for electronic payments, and a further integration of SEPA. Due to the potential positive effects on competition and in order to facilitate cross-border competition and innovation in Europe, account number portability should be implemented at EU-level.

2.3. Alias portability as an alternative solution

Alias portability can increase the number of switchers.⁷ This is one of the findings of DNB's research of the use of aliases. An alias could be linked to an IBAN. When a consumer or firm switches banks, their alias remains unchanged, while the underlying payment account number (IBAN) changes. This would reduce the hassle involved in switching accounts, as most of the benefits for consumers and businesses consist of time savings expressed in monetary gain.

To promote switching, a new type of 'robust' alias is needed, e.g. a standardized, self-checking number, which preferably belongs to consumers and businesses themselves, can be used across SEPA and can be used more widely than the payment system alone. Introducing unique aliases for all payment account numbers in the Netherlands only would entail costs that far outstrip the benefits. According to DNB, the disadvantages that arise with the implementation of alias portability solely on the national level, are reduced when a European alias system is introduced, since economies of scale can arise in the development, implementation and maintenance of this system. A newly developed robust alias issued to consumers, businesses and other organizations could be tailored specifically to its intended function(s) in the payment system. The recently published report of DNB on the use of aliases for payment account numbers (IBANs) in the Netherlands recommends the introduction of an EU-wide alias that can be used more widely than in the payment system alone. This would facilitate switching bank accounts and would benefit other specific services as well (for example the online signing of contracts). This enables cross-border identification and would facilitate European solutions and innovations.

3. Next steps

The Netherlands is in favour of introducing account number portability or, alternatively, alias portability to further integrate SEPA, increase competition and consumer mobility on a pan-EU scale. The Netherlands therefore asks the European Commission to focus on the benefits and costs of account number portability for both consumers and small-medium enterprises in the current PAD-review. Additionally, we would ask the European Commission to assess whether the cost-benefit ratio would be more favourable should an alias system for IBANs be introduced at the European level and if its scope is extended beyond payments. In this case, the IBAN could be one of several attributes of an overarching EU electronic identity (eID). Possible benefits of the latter include online signing of contracts.

⁵ Carin van der Crujisen and Maaïke Diepstraten (2017), Banking products: You *can* take them with you, so why don't you?, *Journal of Financial Services Research* 52(1), 123-154. Download

⁶ <https://www.acm.nl/nl/publicaties/publicatie/15947/ACM-studie-naar-EU-brede-betaalrekening-nummerportabiliteit>

⁷ https://www.dnb.nl/binaries/DNB-rapport%20over%20aliasgebruik_tcm46-388085.pdf