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PRESS RELEASE

Costs, advantages and drawbacks of the various means of payment

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The report "Costs, advantages and drawbacks of the various means of payment" was requested by the federal ministers of Finance, Economy and Consumer Affairs at the beginning of 2004. Based on the gentlemen's agreement reached by the ministers of the Economy and Consumer Affairs and the Belgian Bankers' Association, a consultation dealing with payment systems was organised within the framework of a Steering Committee, set up to consider the future of means of payment and chaired by the Governor of the National Bank of Belgium.

In the first instance the Steering Committee carried out a study of the costs of the various means of payment used at points of sale. This investigation was to follow the analysis framework of the study carried out in the Netherlands entitled "Betalen kost geld" ("Paying costs money").

With a view to this cost breakdown, two surveys were initially carried out to look at the costs of the means of payment for the financial sector and at points of sale respectively. Ultimately, total business costs of the Belgian payment traffic at points of sale for 2003 were estimated at 2,034 million euro or around 0.74 p.c. of GDP. Of this, 0.58 p.c. of GDP is accounted for by notes and coins, 0.11 p.c. by debit cards, 0.04 p.c. by credit cards and, finally, 0.02 p.c. by the Proton electronic purse.

In order to be able to compare the total costs of each payment instrument, account must be taken of both the number of transactions that have been carried out with that instrument and the turnover that it generates. Thus, according to a survey dedicated to the payment behaviour of individuals, around 2,970 million transactions took place in 2003 using notes and coins: these therefore account for 81.3 p.c. of the transactions at points of sale. Furthermore, it has been found that the costs per transaction for three instruments are virtually the same. Costs, at 53 euro cents, are lowest for notes and coins, closely followed by Proton and by debit cards (54 and 55 euro cents respectively). The costs for credit cards are much higher (2.62 euro).

Per euro turnover, on the other hand, the debit card is the cheapest payment instrument. However, the costs for the electronic means of payment are largely fixed: after all, a large proportion of the costs is associated with the infrastructure required to carry out electronic transactions.

By relating the variable costs of the payment instruments to the turnover and the volume of transactions carried out with these instruments, the efficiency gains that might be achieved become clearer. The variable costs per additional transaction are lowest for the electronic purse, followed by notes and coins, debit cards and credit cards. The variable costs per additional euro of turnover are highest for notes and coins. Ultimately, the variable costs for notes and coins and for debit cards are identical for a transaction of 10.24 euro: it is better to settle lower amounts using notes and coins and higher amounts with a debit card. It must be stressed, however, that the costs associated with Proton are always lower than those of notes and coins, but as soon as the transaction amount reaches 53.74 euro, Proton becomes more expensive than the debit card.

Finally, a simulation may help to quantify any possible improvement in efficiency regarding the use of the payment instruments. Based on the hypothesis that 750 million transactions settled using notes and coins were to be replaced with 250 million transactions (averaging 5 euro) settled using Proton and 500 million transactions (averaging 20 euro) settled by debit card, the potential saving would amount to some 58 million euro (or around 0.02 p.c. of GDP). The saving appears to be relatively modest, even if it is compared with the level of the total costs (0.74 of GDP).

In addition to measurable costs, unquantifiable advantages and drawbacks are also relevant in the assessment of the utility of the various payment instruments for society as a whole.

Notes and coins, for example, remain the only universally accepted payment instrument, first and foremost due to their status as legal tender and also because no terminal is necessary. Notes and coins can also be used for transactions between private individuals. Notes and coins guarantee the confidentiality of transactions and offer complete security with regard to the protection of privacy. The use of notes and coins is also unlikely to lead to excessive debts. Furthermore, this payment instrument can be a factor for social integration.

Electronic payment instruments are more user-friendly. In addition, the use of these instruments is associated with fewer dangers with regard to security and theft, particularly violence is involved. Electronic payment instruments leave traces which can be used as evidence in the event of any disputes. For traders the use of these instruments facilitates reconciliation of their accounts.

Each instrument thus has specific advantages. From this point of view, consumers must be able to continue to choose freely between the instruments that they wish to use. The diversification of instruments is justified from a global perspective: it has positive effects in terms of achieving the most flexible possible settlement of transactions and ensures a mutual back-up in the event of serious disruption affecting one of the means of payment.

In this discussion on the efficient use of payment instruments we must not lose sight of the European dimension of this issue. From a European perspective, Belgian electronic payment instruments are currently working efficiently. With a view to the transition to the Single Euro Payments Area (SEPA) it must at least be ensured that this level of efficiency is maintained , or, if possible, improved further.