Chapter XII

Standardizing Retail Payment Instruments

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The business of payments and the provision of payment instruments have a rich history, which can be drawn upon in a discussion of standardization. In the middle-ages, for example, the mere existence of a wide variety of foreign and local coins led to a flourishing business of money exchange offices and cashiers in the Netherlands. Malpractices of some of these firms, mostly in the form of physical tampering with coins and alloy, resulted in government regulation on a municipal and province level. Yet, as these type of regulations where hard to enforce, the Amsterdam municipal government decided in 1609 to establish a municipal exchange bank, ‘de Amsterdamse Wisselbank’, originally as a government monopolist. The motivation for doing so was to prevent the regular price-increases of the good coins, to eliminate confusion to the public and to facilitate trade by providing good coins. Later on, in 1621, the regulations were adapted to the actual business practice and private cashiers were allowed – under certain conditions – to conduct business in the city of Amsterdam (van den Berge, 1939, p 34).

The example shows us how a diversity of specifications and a diversity of payment instruments, will lead to the development of separate companies which make money by reducing the confusion for their consumers. It illustrates that the abuse of technological know-how and abilities for the sake of increased economic benefits by a few private companies may lead to government intervention for the sake of public interest. Furthermore it indicates that strong market powers may prevail, even in the case of restricted government regulation. As such the example contains all relevant issues with respect to IT-standardization:

- can it be assumed that the market will standardize if necessary?
- what role should governments play in this process?
- does the end-user play a role in this process?

In this chapter, I will examine the above standardization issues with respect to the retail payment instruments, developed and in use since the beginning of this century. In this time frame bank notes and coin have been widely available to the public as a basic (and standardized) payment instrument. I will however not
include these instruments in this study and limit myself to a study of the standard-
ization of noncash payment instruments that have been available to the consumer. 
These payment instruments can be seen as the technical means with which 
consumers effect money transfers to each other. Examples of payment instruments 
are the forms for credit transfers or in-payments, the debit or credit cards or home-
banking software. It is my opinion that, given the availability of cash an alternative 
payment instrument, the standardization processes of noncash payment instru-
m ents can be seen as the ‘pure’ result of market forces. The study of this process, 
applied to different types of instruments within one application and industry 
domain, will hopefully provide additional insight.

An important reason for limiting the study of standardization to the develop-
ments in the Netherlands is that the retail payment sector is typically a geographi-
cally segmented market, with large differences between countries. Even between 
countries that are physically very close to each other, there are considerable 
differences in culture, payment habits, legislation and institutional arrangements 
with respect to supervision of financial markets and regulation of competition 
(Revell, 1983, p 80). As these differences have a considerable influence on the 
dynamics of competition within the financial sector, they also have an important 
effect on the dynamics of the standardization process. Consequently, even a 
comparison of Dutch standardization developments with those in Germany or 
Belgium (that have a similar giro-based payment infrastructure) would have to 
involve a study of the specifics of these different markets and their different 
institutional settings. I have chosen not to do so and to limit myself to a longitudinal 
study of the standardization of retail payment instruments in the Netherlands.

The approach taken in this chapter, is an inductive, bottom-up approach. I will 
try to highlight the elements of the standardization process, which from a 
practitioner’s view are of utmost importance for enterprises, governments and 
consumers respectively. In doing so I will outline my assumptions and implicit 
theoretic notions first, and then provide documented examples. I hope that this 
approach may stimulate the theory development by the scientific community on 
this subject.

**THE BUSINESS PERSPECTIVE**

For a good understanding of standardization, it is useful to establish the 
different nature of:
- payment systems,
- technical standards,
- business standards,
- business agreements.

In the above list, only the payment system can be seen as a fully specified setup 
of people, machines, procedures and payment instruments which results in the 
transformation of input (payment instruction) to output (payment). The other 
items in the list must all be seen as conditions or guidelines, which may somehow 
effect the operational payment system or guide the design of future payment 
systems.

Payment systems, which are part of the business process of an organization,
Where Are You? Consumers' Associations in Standardization: A Case Study on Switzerland
[www.igi-global.com/article/you-consumers-associations-standardization/39084?camid=4v1a](http://www.igi-global.com/article/you-consumers-associations-standardization/39084?camid=4v1a)