



SEPA for cards: the retailers' views

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EuroCommerce

Commerce

- The interface between industry and 480 million consumers in Europe
- 11% of EU's GDP
- 6 million enterprises
- Over 30 million people employed

EuroCommerce

- Members in 29 countries



Overview

1. The payment systems market today
2. Retailers objections on cards
3. SEPA is a great initiative... but...
4. What do SEPA sponsors say?
5. What do retailers think?



1. The payment systems market today (and tomorrow?)

Main problems:

- Lack of competition
- Lack of transparency
- Unfair distribution of costs

- No single and cost-based interchange fee and fee structure
- Fees vary from country to country and from sector to sector
- Different fees for domestic and cross-border transactions

A 9 billion € / year Issue for European Commerce and consumers!

Portugal 5 X < France ?

France 5 X < Belgium ?

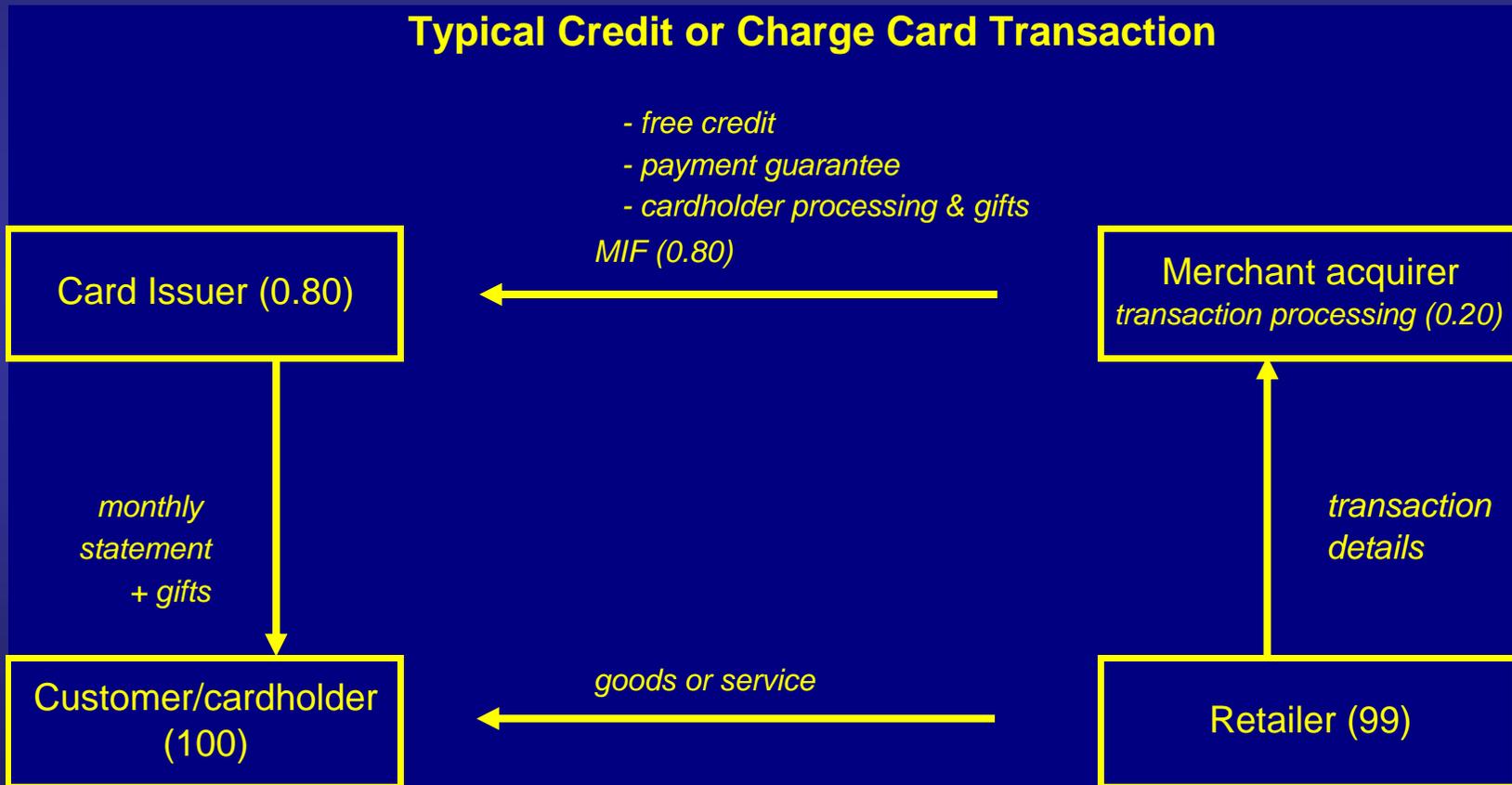


2. Retailers objections on cards

1. The Multilateral Interchange Fee (MIF)
2. Honour All Cards Rule (HACR)
3. Restrictions on cross-border acquiring
4. The Non-Discrimination Rule (NDR)



The interchange fee: The 4 party system





3. SEPA as a step

Single Market for Payments =

1. Regulation 2560
2. Directive on Payment Systems
3. Competition cases
4. SEPA



3.3. Competition cases

- Necessary when competition does not work
 - Article 81: collective agreements
 - Article 82: abuse of dominant position
- Extremely long processes, that sometimes never end...



Why is the deal not fair?

Merchant fees:

- are not negotiable
- are bundled
- are not transparent
- pay for services that benefit to others
- pay for banks' problems
- are levied anti-competitively



3. SEPA... is a great initiative

SEPA should lead to:

- Increased choice, convenience and better price for users
- Increased transparency
- Increased competition between payments providers
- Consistency (based on the Payment Services Directive)
- Business opportunities for innovative players



... but

SEPA should not lead to:

- Increase in prices
- Decrease in efficiency
- Even less transparency
- Even less competition
- Even less negotiation power for retailers
- Emergence of new monopolies



4. What do SEPA sponsors say?



4.1. EuroSystem's views on a SEPA for cards

A SEPA for cards will have the following characteristics:

- 1) diversity of competing payment card schemes
- 2) competitive, reliable and cost efficient card market
- 3) no obstacle for merchants to accept any payment cards compliant with the SEPA Cards Framework

Indeed it should!



4.1. Eurosystem's views (2)

- In Europe, national card schemes are generally very efficient and relatively inexpensive for both cardholders and merchants
- The SCF is rather general and leaves too much room for interpretation concerning practical implementation.
- The implementation of a SEPA for cards may lead to increases in card fees and could thus be paradoxically detrimental to European citizens and merchants.
- Deep concerns about Visa and MasterCard to « progressively become the only providers »

We agree!



4.2. Board of the ECB:

- « There will be a lack of choice if SEPA ends up with only two schemes which are SEPA-compliant »
- « SEPA should not lead to quasi-monopolistic situation in the cards market »

Gertrude Tumpel-Gugerell, European Card Review, Sept/Oct 2006



4.3. Commission sector inquiry (2)

Fragmentation along national lines

Interchange fee (MIF) raises competition concerns

- strong doubts about its necessity to operate a card system
- Card issuing alone (i.e. without interchange fee) generates positive profits in twenty Member States.

Prohibition for merchants to surcharge

- may hinder the development of more efficient payment instruments
- true costs are hidden to the consumers via cross-subsidisation



5. What do retailers think?



At the core of the problem: the interchange fee on cards

Merchant fees are a huge cost for us and our customers:

- €25 billion (total fees paid for card transactions)
- €9 billion for the MIF today. How much after 1/1/2008?
- €139 per year per household
→ whether they pay by card or cash*

Anti-competitive price-fixing, a 'tax on all retail transactions'

At the heart of SEPA

* (Source: Interim Report, p.ii.) Assumed size of household:2.5 people. Total cardholder fees = average of annual card fee figures (Interim Report, p.53 & p58) x stated number of cards in Europe (145 million for MasterCard – MasterCard press release, 1.11.06; 300 million for Visa – Visa website, 'Statistics')



Interchange fees

- Are an obstacle to, and distort competition
- Lead to perverse effects because retailers pay for services that benefit cardholders
- “There is no reason why full transparency should not be ensured in the field of interchange fees”



Lower fees would mean lower prices

"The costs of high interchange fees are of course being passed onto all customers through higher retail prices." (Neelie Kroes)

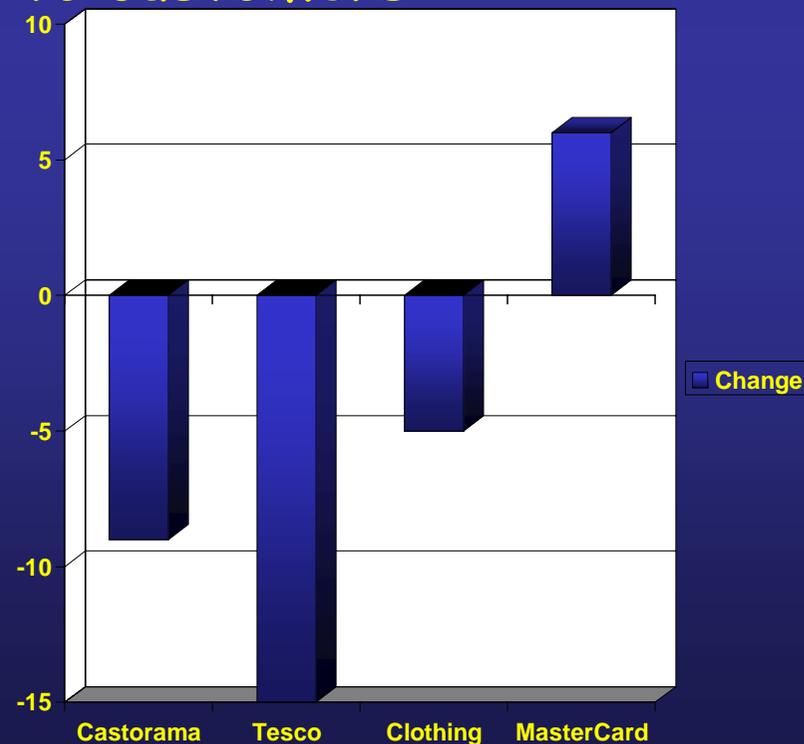
- Savings are passed through to customers
- Retail prices since 2001

Kingfisher: - 9 %

Tesco: - 15%

Clothing retailers: - 5%
(Eurostat)

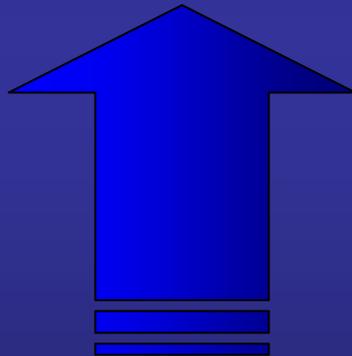
- MasterCard Cross-Border MIF 2001-04 + 6% (Int. Report, p.19)





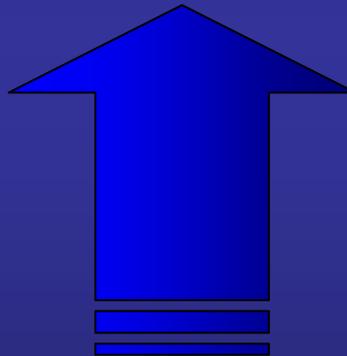
What we see of SEPA so far:

Switzerland
(2003)



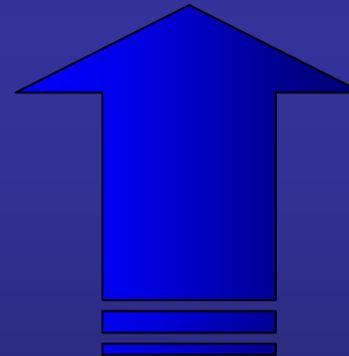
Fees increased
100-400%

UK
(2005)



Fees increased
by up to 60%

Ireland
(2008)



?

Is the MIF really needed? Is this efficient?

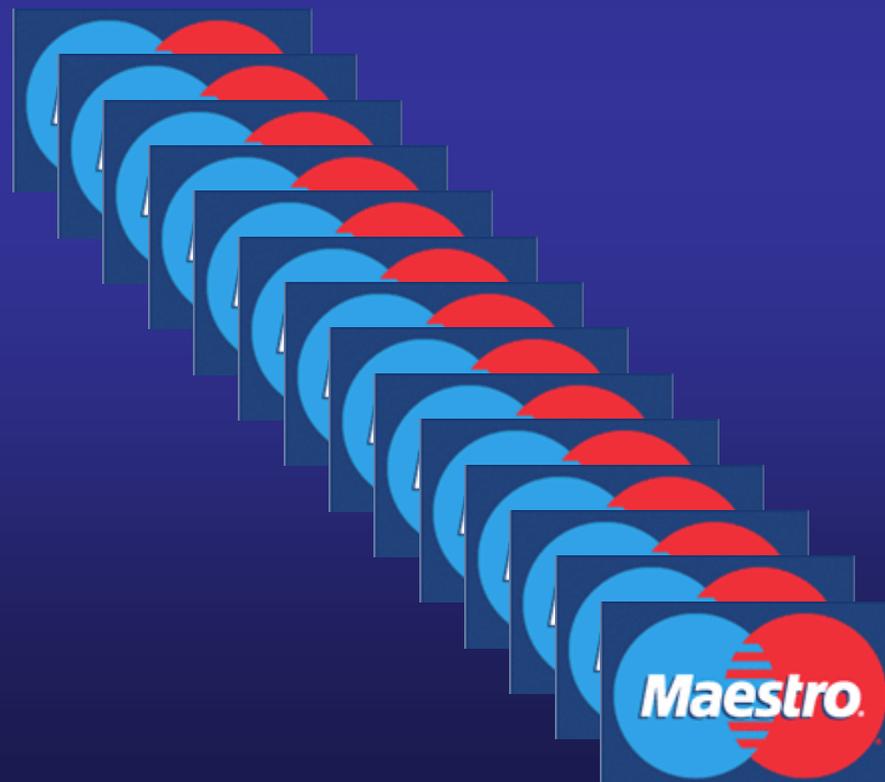


Open questions

- SEPA governance
- SEPA deadline
- EMV? PCI DSS?
- SEPA national platforms: global coherence?



Towards a Single Card Area?





Conclusions (1)

A fair deal for payments

- A fair fee for a fair service is:
 - cost-based,
 - transparent,
 - a fixed per-transaction fee,
 - users pay for the costs associated with the services they freely negotiate and receive.



Conclusion (2)

SEPA as a step towards the Single Payments Market

- A real Single Market for Payments can only be based on 3 essential principles: competition, transparency and respect of the "user pays" principle
- The Payment Services Directive is an essential step in the creation of a Single Payments Market
- SEPA is another important step
- SEPA should not lead to the emergence of new monopolies