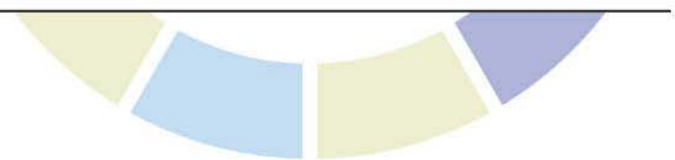


Ak ePayments

SEPA, cards and interchange

Ruth Milligan, Eurocommerce
Brussels, 7 May 2009



EuroCommerce

- Established in 1993 to represent retail, wholesale, international trade
- Members: 60+ retail federations from 29 EEA countries plus 30 large retail companies
- Represents commerce to Europe's 490m consumers
- Commerce = 11% of EU GDP; 6 million companies; 30 million employees
- Provides advice and representation for members across all European Union policy areas



Single Euro Payments Area

SEPA **should** bring:

- Cross-border payments should be as secure, quick and efficient as domestic payments ***and as cheap***
- More transparency
- More competition
- Business opportunities for innovative players
- A pan-European debit card scheme
- Savings of up to 23 billion euro

BUT MIF at the core of danger to SEPA



SEPA threat: debit card schemes

- Debit is most efficient payment means (MIF = 5 euro cents (eg Netherlands PIN))
- MIF makes Maestro/V-Pay more lucrative to banks
- MIF creates threat of disappearance of efficient national schemes
- Can imply huge costs (e.g. in the UK)
- Where is the promised third scheme ??? New entrant business model?

Commission action to date has not removed this threat

How will SEPA fulfill its promises if based on MIF card products?

SEPA: the future

- SEPA governance – European Payments Council
 - Users have only been allocated a consultative role
 - EPC complaint to Commission 2008
- Commission SEPA Action Plan
- Direct Debit post 2012
- SEPA for Cards – the interchange fee; standards (the Volume)
- End Date?
- Third Card Scheme: Monnet; EAPS, Payfair

Cards: State of Play

- Lack of transparency
- Lack of competition
- Unfair distribution of costs
- No single and cost-based fee structure
- Fees vary from country to country and from sector to sector
- Different fees for domestic and cross-border transactions
- Price-fixing cartel mechanism

MIF = A €10 billion per year issue for European commerce and consumers!



EU MasterCard decision, Dec 2007

- **Breach of Article 81:** a decision of undertakings which restricts competition
- MasterCard has failed to satisfy 81(3) exemptions (economic progress & fair share of benefit for consumers)
 - the MIF as stands is a cartel
- Covers cross-border MIF for consumer cards
- MasterCard has complied from 21 June 2008
- MasterCard has appealed to European Court of Justice

MasterCard Undertakings 1 April 2009

MasterCard undertook as from July 2009 to:

- MIF to be calculated on MAX weighted average:
 - 0.30% for consumer credit
 - 0.20% for debit
- Repeal new Oct 2008 scheme fees; roll-back increases; reinstate waivers
- Enhance transparency – unbundling of rates- by end 2009
- Commercial cards to be visibly & electronically identifiable by end 2010

Legal effect

- MC complies with Dec 2007 decision → no non-compliance
- MIF levels *interim* until:
 - Commission study on cash (Nov 09)
 - Appeal (2010/11)
 - [2007 decision allowed MIF *may be* indispensable under 81(3)]

MasterCard Undertakings 1 April 2009

Methodology

- 'Tourist test' = 'avoided cost test' = 'balancing fee' - balances benefits for merchant of cash/cards
- Merchants derive transactional benefit if card payment reduces their costs relative to cards → merchants are *indifferent* to whether cards or cash is used.
- To extent fee passed to cardholder → he internalises cost saving and makes efficient choices (NB surcharging)

Actual amount:

- costs of accepting cash vs cards
- calculated by MC based on MC figs from central banks of Netherlands, Belgium, Sweden

Costs of Cash

- Recent study from UK (covers 50% of UK retail sales)
- Cash is still most popular payment means
 - Cash used in 56% of transactions
 - £33 in every £100 spent in cash
- Cheapest for retailers: *Costs 2pence per transaction*
- Costs for payment collection: £535 million
 - 82% (£440 m) on merchant service charge
 - 48% (£285m) on credit card acceptance alone (yet only 11% of total transactions)

Cash/cards and the economic crisis

- Cash is NOT efficient. It carries inherent fixed costs:
 - Transport
 - Security
 - Personnel costs
- Cards COULD BE efficient
 - Electronic
 - Versatile
 - New means of payment – mobile, internet, contactless
 - Combined cards: transport/payment/fidelity

Pegging cards to cash ties costs of an efficient payment method to those of an inefficient method

Cards: Significant worries remain

- *Cash v cards - 'tourist test' method*
- *Still ad valorem - % fee wholly unjustified*
- Difference between debit/credit - wholly unjustified
- Losses on scheme fees: Oct 08- June 09 =
- Will not prevent withering away of national debit cards (may even promote this)
- Once MC/Visa in duopoly, fees could increase

Issues left unaddressed:

- Honour all cards rule (can only choose debit/credit)
- Restrictions to cross-border acquiring
- Commercial cards

Cards: Open competition actions

- **Visa:** statement of objections issued 3 April 2009
 - NB: Visa reduced rates as from 11 March 09 - Commission: "These measures are a step in the right direction BUT they do not remove concerns that Visa's MIF restricts competition."
- **Commercial cards:** under investigation
- MUST not forget the **national MIFs**. For domestic, as for cross-border:
 - MIF illegal because distorts competition
 - MIF not indispensable
 - MIF is a tax on retail transactions
 - Retailers happy to pay for their costs (processing)

Cross-border acquiring

Many large retailers would like to centralise card acquiring with the most efficient acquirer in the EU.

- In a free internal market this should be possible.
 - Increase efficiency of payments in Europe
 - Create equality and new opportunities for acquirers
 - Could cut costs of large retailers by 500% (real example)

But MasterCard and Visa rules force members to apply the domestic interchange fee of the point of sale

- Merchants cannot take full advantage of more efficient acquirers
- Multi-country merchants cannot develop new pan-EU systems to benefit from 'real' central-acquiring

Direct Debit: good news?

- Commission and ECB guidance 4 Sept 2008
 - MIF may be allowed (if justified) for temporary period
- Regulation 2560
 - 8.8 cents for cross-border
 - 3-year interim
- ECB/EC statement 24 March 2009
 - 3 year transitional period (Nov 09 – Nov 2012)
 - From 1 Nov 2012, no MIF on cross-border OR national
 - Per transaction interchange fee not justified
- French banks stance
- Possible MIF for errors/returns

Immediate priorities

- Revision of 1 April agreement following Commission study
- Removal of ad valorem fee structure
- A similar decision on Visa and commercial cards as MasterCard
- Domestic MIFs - national jurisdictions follow MasterCard
- Ban of other anti-competitive rules
- Equal say in SEPA governance
- Basic 'no-frills' cost-based (3rd) card payment service :
 - fixed fee per transaction
 - User-pays principle
 - Transparent

Lower card costs for retailers → increased purchasing power for consumers → increased card acceptance

Thank you!

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