
IMPACT OF PROPOSED EUROPEAN LEGISLATION ON DOMESTIC CARD SCHEMES

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INNOVATION INSIDE

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- SEPA for cards ... performance to date

- The proposed Interchange Regulation

- Probable effects on domestic card schemes

- Closing remarks



A FEW WORDS ABOUT CB

814 million
online payments
representing **€55 billion**



8.6 billion
payments
representing **€402 billion**



383 million
payments abroad
representing **€22.4 billion**



1.5 billion
Cash withdrawals
representing **€122 billion**



61.7 million CB cards / 1.3 million CB acceptance points



INNOVATION INSIDE

SEPA FOR CARDS ... PERFORMANCE TO DATE

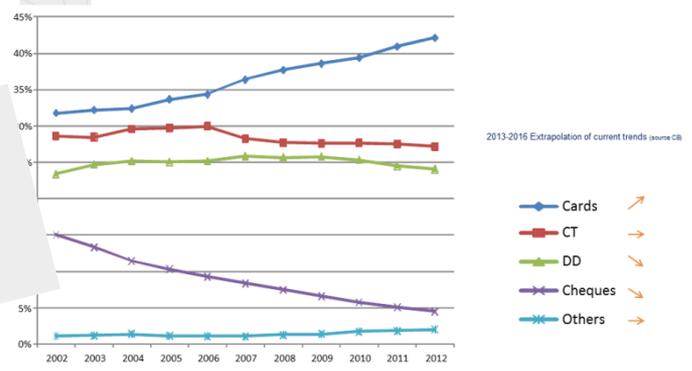


Almost 100 Billion Non-Cash Payments in 2012 & steady growth in card payments



Numbers of payments by country (in billions)
Numbers in (): number of payments made by the largest donor

**6 EU Markets
> 2 billion transactions
per year**

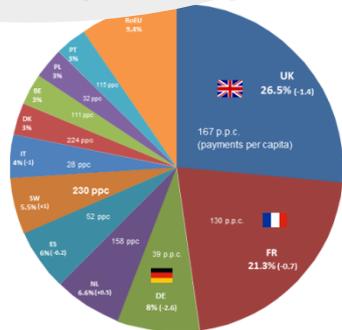
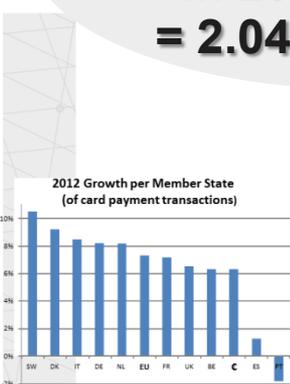


2013-2016 Extrapolation of current trends source: ECB

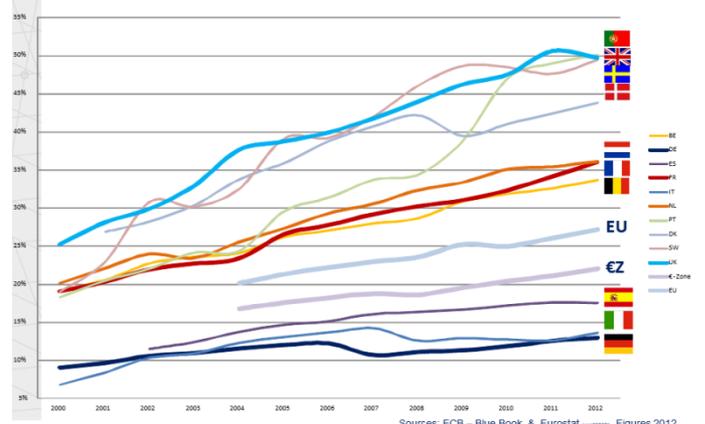
Source: FCB 'Blue Book' Figures 2012

**40 billion
card payments
in 2012 (+7.25%)
= 2.044 B€ (+6.8%)**

**EU Household Expenditure = 7.546 B€
Card Payments = 2.044 (27.1%)**



Source: ECB Blue Book, Figures 2012



Sources: ECB - Blue Book & Eurostat (2000-2012), Figures 2012



❖ **European Card Scheme**

- ❖ Political ambition to create a new scheme : “still-born” ...

❖ **Regulators**

- ❖ confuse payment instruments with payment channels and new form factors (cf. EC Green Paper on cards, internet and mobile payments)
- ❖ have not provided (any) satisfactory impact analysis to justify legislation on interchange
- ❖ do not seem to realise that card schemes are part of a complex competitive ecosystem and not essential facilities / public services

❖ **Self-regulation by the European Payments Council**

- ❖ Successful publication of Sepa Cards Standards Volume : requirements for interoperability ...

❖ **new Governance body formed to replace the SEPA Council**

- ❖ European Retail Payments Board



SELF REGULATION VERSUS REGULATION TOO MANY COOKS ... AND NO-ONE IN CHARGE ?



EUROPEAN COMMISSION



EUROPEAN BANKING AUTHORITY



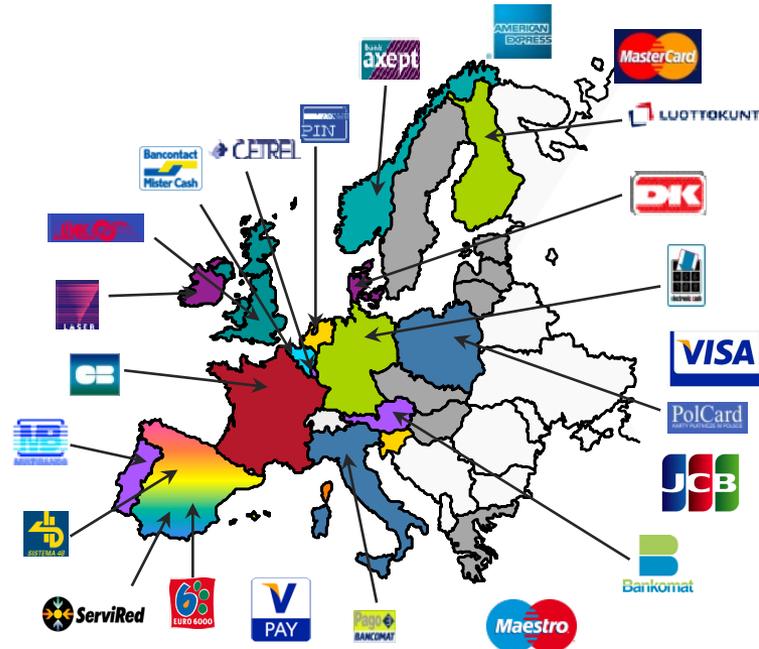
"SELF REGULATION"

EUROPEAN PARLIAMENT

EUROPEAN CENTRAL BANK

SEPA COUNCIL

EUROPEAN RETAIL PAYMENTS BOARD



STAKEHOLDERS : Banks, Payment Institutions, Retailers, Consumers, Processors, Vendors, ...



INNOVATION INSIDE



THE PROPOSED INTERCHANGE REGULATION



WHY PROPOSE A NEW REGULATORY PAYMENT PACKAGE ?

European Commission An approach from 2 sides



COMMISSIONER ALMUNIA COMPETITION

DG

... we have concluded from our anti-trust procedures that the interchanges which are fixed collectively by the banks constitute a restriction of competition and negatively impact the prices at merchants ... *(note : not in the view of industry experts)*

COMMISSIONER BARNIER DG INTERNAL MARKET & SERVICES

... the EU payment market is fragmented and costly
... this proposal will promote a single market
... and support the growth of the European economy
... by making internet payments less expensive and more secure, both for merchants and consumers ...



❖ **SCOPE & ENTRY INTO FORCE**

- ❖ IN : Consumer cards, two-leg EU transactions
- ❖ OUT : commercial cards (?), 3-party unless issued through agents or below EC defined threshold, limited networks, ATMs,
- ❖ immediate effect + 2 months / 1 year implementation

❖ **INTERCHANGE CAPS : what is a debit card or a credit card ?**

- ❖ transaction by transaction : 0.20 % / 7 cents and 0.30 %
- ❖ anti-circumvention clause : “equivalent object or effect”
- ❖ IF for x-border is IF in Member State of acquirer

❖ **PREFERRED APPLICATION**

- ❖ who chooses : merchant or consumer ?

❖ **FORCED CO-BADGEING, STEERING ALLOWED, ABOLISH HACR, BLENDING + TERRITORIAL LICENCES**

❖ **SEPARATION OF SCHEME & PROCESSING WITH TECHNICAL INTEROPERABILITY FOR PROCESSING**

- ❖ EXCEPT for new card schemes
+ domestic debit schemes where IF < caps



IMPACT ON REGIONAL CARD SCHEMES



❖ **Domestic schemes will be at a competitive disadvantage if International scheme rules and commitments are imposed through Regulation**

- ❖ definition of debit & credit card introduces an artificial segmentation which does not currently exist in all payment card schemes using definitions established by the ICS card schemes ...
- ❖ Interchange caps reflecting commitments by ICS distortion of competition in favour of ICS

❖ **Application / brand selection by cardholder would induce inverted competition**

- ❖ the best known, but more expensive brand would be selected by the cardholder
- ❖ reinforce the current duopoly of international card schemes since domestic schemes do not have matching brand recognition budgets
- ❖ some domestic schemes have disappeared (cf. Pankkikortti, PIN, Laser, ...) and Dankört is threatened.



❖ **Modification of domestic card scheme business model and technical changes will increase costs for merchants and for cardholders**

- ❖ update terminals for application (brand) selection at point of sale
- ❖ distinction between debit and credit card
- ❖ application of maximum interchange fee rate to each transaction, and not based on the average annual interchange
- ❖ separation between scheme and processing (and ensuring interoperability between processors)
- ❖ will drive card issuers to find alternative revenue streams (card fees, higher interest rates, ...)

❖ **A delay of 20 days for implementation is impossible to meet**

- ❖ HACR visual requirements on cards (re-issuance of cards) ,
- ❖ updating terminals,
- ❖ modifications to processing to provide much more detailed info to merchants
- ❖ ...

❖ **Reduce capacity of card schemes to invest in innovation**

- ❖ if this happens Europe may miss out on key developments in new payment technology and engender an increase in fraud
- ❖ caps on interchange may mean that low value payments would not be commercially viable for card issuers ... leading to an increase in the use of cash
- ❖ allowing surcharging does not foster the digital economy and promote modern secure payments ... or fight against the shadow economy
- ❖ access to payment accounts by third party PSPs must be done in a way that properly safeguards user credentials and clearly identifies the TPP.

CLOSING REMARKS



INNOVATION INSIDE

- ❖ Does the Regulation comply with the Principles of Subsidiarity & Proportionality ?
- ❖ Was the debate sufficient or was the vote in April a purely electoral decision by the Parliament ?
- ❖ Will the incoming Presidency take the bull by the horns ?
- ❖ ...



- ❖ There is need for strong industry engagement to explain (again) to the Council and new Parliament (and the Commission)

- ❖ Will the European Banking Authority and the ERPB live up to the obligations of their new roles ?
- ❖ Will the views of the European Data Protection Authority be taken into account ?
- ❖ Will common sense prevail so that the same date for entry into force is used for both the Payment Service Directive and the Interchange Regulation ?
- ❖ Will the European Commission make public a reliable Impact Analysis to justify the proposed levels of interchange before the Regulation is finalised ... better late than too late !!
- ❖ Should SEPA for cards be built on quality of service and products which meet regional needs or on price control measures ?

QUESTIONS / DISCUSSION

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