Topics of this issue:

1. **EU Comm and ECB support temporary debit interchange**
2. **The 25th anniversary of the Dancard-scheme**
3. **SEPA for Cards: A view from Spain**

1. EU Comm and ECB support temporary debit interchange

In a press release of September 4th, 2008 the EU Commission states:[1] *"The Commission and the ECB have indicated to the EPC that they would be prepared to support the idea of a 'multilateral interchange fee' for cross border direct debits within the framework of the SEPA scheme on condition that such fees were objectively justified and transitional (applicable only for a limited period)."* This move has the support of Competition Commissioner Neelie Kroes who is stressing the strings attached to this move: *"we will have to be convinced that these fees will be strictly limited in time and objectively justified".* Another constraint is stressed by ECB Executive Board Member Gertrude Tumpel-Gugerell who states:*"In this respect, the idea of maintaining at national level the same interchange fee for national legacy and SEPA schemes during a limited transitional phase should facilitate the rolling out of the SEPA Direct Debit scheme."*

Our comment:

Not without reason, the EU Commission and the ECB are worried about the slow progress of the implementation of a SEPA direct debit (SDD). Now they are trying to support the introduction by promising that a direct debit interchange will be allowed for a transitional period. The argument supporting such a move is straight-forward. Implementing SDD involves huge costs for banks and an interchange fee would provide an incentive to carry out the necessary investments. However, since set-up costs have to be incurred only once, the interchange fee is only seen as a temporary device. Moreover, it has to obey the rules of the Common Market: a SEPA direct debit may not cost customers more than a national direct debit.

[1] "Payments: Commission and ECB support launch of pan-European SEPA Direct Debit; provide guidance to industry" Reference: IP/08/1290, Brussels 04/09/2008; http://europa.eu/rapid/pressReleasesAction.do?reference=IP/08/1290&format=HTML&aged=0&language=EN&guiLanguage=en

On close inspection the argument is problematic. First, an interchange fee is a balancing fee. If there is competition on both sides of the market, it is not clear that net revenues will be increased. This is a standard argument of the two-sided markets theory which the EU Commission seems to be unwilling to accept.

Second, the proposed interchange fee will encounter severe practical problems in the market. Currently, for instance, there are different models within Europe. In Germany, for instance, there is not debit interchange fee.[2] So, if the SDD interchange has to be the same as the interchange fee for a German direct debit then either the SDD fee has to be set to zero or a German direct debit interchange fee has to be introduced. In fact, in each member country, the national interchange rate would have to be equalised with the SDD rate. Otherwise there would either be different domestic interchange rates for SDD transactions within Europe or the SEPA principle would be violated.

In short, introduction of a SDD interchange fee would imply higher fees in all of those countries that either do not yet have a direct debit interchange or that have a lower fee. It is difficult to see how this will warm the hearts of corporates for SEPA. In particular the large corporate users (including German ELV users) and government agencies who are heavy users of direct debits will strongly resist such a move.[3]

Moreover, the EU Commission would increasingly look like a regulator of prices at the national level. Encouraging the EPC to introduce a SDD interchange fee and subsequently applying the Common Market principle to ensure that prices at the national level follow suit is not much different from direct price regulation.

2. The 25th anniversary of the Dancard-scheme

The 1st of September this year the Dancard scheme had its 25th anniversary as one of the oldest national debit card schemes in Europe. With nearly 150 transactions a year per Dane and a total coverage of all retail outlets in Denmark someone claims that the scheme today is the most successful national debit card scheme in the world.

Some 20 years ago the co-banding of Dancard and VISA started and today more than 80% of all Dancard have a co-banded VISA logo for use outside Denmark. This combination has made the card the most preferred payment instrument for Danes travelling aboard.

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[2] A fee proposed by the German banks was not approved by the German Cartel office.

[3] See “German conflict over direct debit” in our May issue on the position of the German ministry of finance.

Our comment:

The scheme is still growing approx. 8 – 9% a year in the retail outlets and not less that 28% as an e-commerce payment tool, and there is no reason to believe that this growth should be less in the future. However, there are some clouds in the horizon that might be the reason why the Dancard scheme will not experience the next 25 years.

First of all, there were no service charges at all for retailers until 2005 when they accepted a Dancard in their stores. Due to a political agreement accepted by the banks in 2005, from 1st of January 2010 on retailers will be charged up to a maximum of 50% of all costs of the system. However, in the long run, this is not financially acceptable for the banks and if they do not get their costs of running the system covered by 100%, they might close the system and let VISA or MasterCard be their preferred offering to the Danish consumers - a development which will be very expensive for the Danish retailers.

The second cloud will most likely appear when the Danish population by a national referendum decides to join the Euro-system. In that case SEPA might be the reason for converting the Dancard scheme to a more PAN-European scheme, since nobody in Denmark seems to believe that the Dancard scheme in itself will be made PAN-European, in the future.

A third – and maybe more unlikely - cloud could arrive in the situation where the Danish banks are unable to agree on the future development of the Danish payment infrastructure (at PBS) - potentially because one of the two (or both) PAN-Nordic banks - do not want to continue the cooperation on the specific Danish payments infrastructure, but are looking for a more Nordic or European infrastructure. In that case, the Dancard will just be one of the payment products that could die very fast.

As a fourth cloud The Competition Authorities in Denmark could decide that the Dancard scheme is so anti-competitive that it should be broken up. However, this is a very unlikely situation as the Competition Authorities several times have been involved in the political agreements about the Dancard scheme over the last 25 years – indeed, actually before the Dancard scheme was launched in 1983.

The conclusion must be that there is a pretty good chance that we all will experience the 50 years anniversary of the Dancard scheme in 2033 and at that time it might be the last national debit card scheme in the world.

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3. SEPA for Cards: A view from Spain

SEPA and the expected changes that will come with it, are important topics in the Annual Report of ServiRed, the largest of the three Spanish card schemes.[4] José Manuel Gabeiras Vázquez, the president, has used the annual report of ServiRed to provide a tour d'horizont of the current developments in the European card landscape. Gabeiras praises Visa Europe's decision not to go public as part of Visa Inc. because it provides European banks with a "*licence to use Visa products at a low cost*" and because "*it reserves the right to create products to be used exclusively in territorial Europe*". Moreover, he stresses the value of the Put option to sell Visa Europe to Visa Inc.

At the same time, he points out that the Visa Europe may not be recognised as a European scheme by the ECB and the EU Commission. However, he suggests that it may still be a good idea for banks to support Visa Europe. As to the desired third scheme, he points out that the merchants might be the ideal candidate to develop such a scheme.

A second topic, mentioned by Gabeiras, is the interchange decision of the EU Commission. He criticises both, the policy of the Commission (*"to put it politely– contradictory and discouraging*") and the attitude of MasterCard (*"arrogant and short-sighted*"). However, he still seems to be hopeful that Visa Europe might achieve better results: *"Visa Europe's strategy of conciliation and negotiation with the EC should be rewarded."*

In a chapter with the title "Commitment to migration to the SEPA", the topic of a third scheme is addressed again. The report points out that that the architecture of the desired third scheme is still unclear. Referring to a speech of Jean-Michel Godeffroy (ECB Director General for Payment Systems and Market Infrastructures), the report stresses the fact that *"linking the card schemes prior to merging them"* (as in EAPS) may be acceptable to the authorities.

While the report does not say anything on ServiRed's strategy vis-à-vis such an European alliance, it makes clear (in the introduction) that ServiRed may follow its members in their x-border expansion: *"Today ServiRed operates solely within the Spanish market. However, the advent of the SEPA opens a range of possibilities whereby domestic payments schemes may begin to provide services in other markets of Europe. ServiRed enjoys an excellent reputation in the industry on a European level and is well positioned to accompany its member institutions in their European expansion."*

[4] See ServiRed Annual Report 2007. http://www.servired.es/ingles/memorias.htm#

Our comment:

ServiRed acknowledges the political will to have third card scheme in Europe. Unlike EAPS members, however, ServiRed does not indicate any desire to assist in such a venture. Rather, it is suggested, if a third scheme is required, the retailers might set up such a scheme. The hidden message seems to be that the EU Commission cannot drastically lower interchange fees and at the same time require banks to invest heavily an a new scheme. Another message that is coming across is that ServiRed is careful not to formulate a strategy of its own – independent of its members. As other processors, ServiRed is confident to be able to serve members well in the European market. Of course, all of the national payment processors have declared themselves highly efficient and ready to conquer the European market. However, with respect to ServiRed, it should be taken into account that, in terms of transactions, it is a real "heavy-weight." SERMEPA, the processing unit of ServiRed processed about 2 billion online transactions in 2007.[5]

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[5] See SERMEPA Annual Report 2007 (http://www.sermepa.es/ingles/pdf/annual_report.pdf)