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1. EuroCommerce versus EPC

According to information received by PaySys Consultancy, EuroCommerce has filed an official complaint against the EPC's SEPA Cards Framework (SCF) arguing that the SCF violates articles 81 and 82 of the EC Treaty.

EuroCommerce complains that the politically endorsed process of self-regulation has been carried out by the banks without involvement of merchants. It sees the EPC as an association of enterprises that restricts competition and does not see the conditions for an exemption under 81§3 fulfilled.

The following points, in particular, are criticised by EuroCommerce:

- Merchants are not involved directly in the EPC plenary and the working groups. Therefore, they have only very limited influence on the standardisation work carried out by the EPC.
- The SCF makes EMV a central pillar for European card schemes. EuroCommerce argues that EMV is expensive and that it is a proprietary standard controlled by EMV Co. which is owned by JCB, MasterCard and Visa International. Thus, the use of EMV, the development of EMV and the pricing policy are not determined by the banks in the EPC - let alone European merchants.
- The SCF prescribes a 4-party model that includes the role of an acquirer. EuroCommerce points to a number of low-cost national schemes that are based on different models. It is feared that banks want to replace these low-cost models with more expensive 4-party schemes.

EuroCommerce demands that the EU Commission step in immediately and proposes the following regulations:

- The rights to EMV must be given up by EMV Co.
- The banks should be obliged to put IBAN and BIC on their cards.
- EuroCommerce should be given access to the EPC decision process in the field of card payments (standardisation, scheme architecture).

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- Banks should provide a low-cost basic card payment service (with payment guarantee).
- There should be a uniform price for debit -, charge -, and credit card transactions.

Our comment:

SEPA for Cards remains a matter of frustration for regulators and market participants. The EPC has published a "SEPA Cards Framework" (SCF), the international schemes have presented Maestro and V PAY as solutions, some of the national schemes have united to form EAPS, the EU Commission has passed a Payment Systems Directive and made up its mind on interchange (thumbs down) and the ECB has been, time and again, pressing for a "European scheme". And yet, in spite of all these activities, frustration seems to be the common theme.

We would argue that this frustration is to a large extent due to incompatible attitudes towards payment cards. There is on the one hand the "common infrastructure approach" and on the other hand there is the "branded service approach".

In the past, in many European countries, debit card payments have been treated as common infrastructure just like direct debits and credit transfers. They have been an add-on to the existing clearing&settlement structure for direct debits - often using the authorisation infrastructure initially installed for ATM transactions. In these schemes, card payments are a commodity with low levels of service. For these schemes, branding has been of little importance as they were offered commonly by the banking communities or a bank-owned-monopoly. In spite of the lack of competition, however, most of these schemes have been very cheap for merchants.

The alternative is to offer card payments as a branded product. In this case, there may well be competition and the product can be differentiated with respect to price as well as quality. However, competition between branded schemes with a wider set of services and dedicated processing structure would almost certainly lead to higher prices for merchants. In most European countries, this has been the model for credit card payments.

For SEPA, the EU Commission and the ECB have been demanding that there must be at least three debit card schemes. The preference for competition between schemes seems natural, at first. However, when looking at credit transfers or direct debits, both institutions were content to accept just one joint solution. Thus, implicitly, they have taken the infrastructure model for granted, when it comes to credit transfers and direct debits and they took the branded services model for granted with respect to cards, including debit cards. The *problem is, however, that debit card payments until now have been organised as jointly offered commodity service, in much of Europe. Another problem is that the ECB and the EU Commission seem to have the commodity model in mind when it comes to pricing and efficiency.*

EuroCommerce's vision seems to point into the direction of a common infrastructure model. However, for such a model, Europe lacks a common low-cost infrastructure, at the moment. This would be true even after the implementation of SEPA Direct Debit because SDD is not suitable for card payments. What would be required is a "SEPA Direct Debit for Cards". Such a direct debit would allow the creation of a low-cost European scheme based on clearing&settlement of direct debits. It might even allow merchants to use the cards for POS payments outside the scheme rules (as in Germany) if they wish. Without SDDC, however, it is difficult to see how a low-cost European scheme could emerge.

2. ING and Postbank offer Maestro and V PAY acceptance in the Netherlands

ING Bank and the Postbank offer merchants that have an account with them to accept Maestro or V PAY debit cards.[1] The standard Maestro and V PAY rate is the same as the standard PIN rate. This rate is € 0.052 per transaction. Roel Huisman, Payments Director at ING: "We are demonstrating that using Maestro and V PAY can remain as cheap as using PIN."

Our comment:

It has been an interesting question how Visa and MasterCard want to enter the Dutch market with its low prices and well organised merchants. For now, they have chosen a low-price strategy offering the same rates as the Dutch PIN system. This has been made possible by a low Dutch domestic interchange rate.

3. Security breach hits PCI certified retailer

The U.S. grocery chain Hannaford Bros. experienced a data exposure of 4.2 million customer records in a security breach between Dec. 7 and March 10.[2] Some 1,800 cases of

[1] Press release of Postbank and ING Bank from March 18th, 2008.
[2] See http://www.digitaltransactions.net/newsstory.cfm?newsid=1712 and http://www.baselinemag.com/c/a/Security/Hannaford-Bros-PCI-Compliance-Claims-Spurs-Questions/

fraud are believed linked to the breach. What is remarkable about this incident is that Hannaford Bros. claims to be PCI-compliant.

Our comment:

It does not come as a surprise that PCI cannot guarantee absolute security. Still, the incident points to some wider issues - in particular, the implications of PCI-compliance in terms of liability. To what extent is a compliant merchant still liable? What about the role of the certification authorities? Can these be made liable under certain conditions? To what extent do acquirers carry liability? Apart from actual fraud losses, re-issuing of millions of cards implies costs for issuers which these will pass on to the acquiring side. It will be interesting to see, who will finally have to pay the bill.

Should you have any questions or comments please contact

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