Topics of this issue:

1. **The 4-yrs-pregnancy of Monnet will come to an end**
2. **Cartes Bancaires proposes lower interchange fees**
3. **"Super-complaint" against surcharging in the UK**
4. **"IBAN the terrible": German politicians critical of SEPA**
5. **ECB and OeNB payment conference**

1. The 4-yrs-pregnancy of Monnet will come to an end

After the Madrid conference May 2010 a group of 24 banks, located in 7 European countries (Germany, France, Italy, Spain, UK, Portugal and Belgium) started to analyse the feasibility of a new European card scheme, called "Monnet" (working title). The plan is still strongly supported by the ECB and the European Commission. Both are requiring for a "third" card scheme in Europe besides MasterCard/Maestro and Visa/V PAY. More clarity about the interchange regulatory regime of the European Commission was until now the main missing piece of the puzzle. The decision was often announced (but postponed), but it seems that end of June 2011 could be the final end date for a definite "go" or "no go". An unanimous decision of the participating banks is not necessary, only a critical mass is crucial. For several years, Hermann-Josef Lamberti (board member of the Deutsche Bank) has been one of the leading producers of this "unborn child". On the Payment Symposium of the Deutsche Bundesbank on 23 May, he recently expressed a cautious optimism. The glass is half full, he said. A participation of Deutsche Bank and Postbank would ensure the critical mass with respect to the German market (editor´s note: the market share of both banks in German card business is about 10%). Lamberti described the Monnet-system as a European debit card scheme, which should be based on existing domestic debit card infrastructures (issuing and acquiring). The medium term business case of an issuing bank ("201X") should be based on 0.2% interchange fee, which would mean an average of 10 cents per transaction (assuming an ATV of 50 €). Lamberti made only one argument for the creation of a new bank-owned scheme – and this was a defensive one. Issuing debit cards with the brand of an international card scheme may cause a disruption of the relationship between the bank and the accountholder-relationship by the external scheme. Card schemes would have more clients' data than we would have ourselves, Lamberti said.

Our Comment

A card expert visiting the symposium after a sabbatical told me after Lamberti´s presentation that he was glad that he missed no new developments during his one-year absence. Indeed, since the idea came up in spring 2007 ("Falkenstein Round"), Monnet has not moved much beyond the state of a blue-print. In February 2009, Lamberti expected a "window of opportunities" which would be closed in 6 to 8 months, because banks were forced to make a decision regarding the migration of their debit cards to SEPA schemes. It seems that 2 years later, this window is still open.

However, the Monnet´s business case based on a MIF of 0.2% as medium-term European benchmark for domestic debit card transactions is a new aspect. The early hope that Monnet as newcomer scheme might be able to negotiate a temporarily higher MIF with the European Commission is off the table.

If the ECB is requiring a "third" card scheme, it is no longer focussing on debit cards. Still Lamberti views Monnet as a debit card scheme. This could be a German perspective because for the French banks the time of debiting the current account (immediate or delayed) is not a relevant characteristic of a card scheme. Probably the overall perspective on the drawing board of the Monnet-group by using the expression "debit card" is the direct connection between card and current account.

It is surprising that the main driver to leave out the existing international card schemes is the threatened sovereignty of the bank over the data of its accountholders. The processing of card transactions should be unbundled within a SEPA compliant scheme. Even if the card transaction is transmitted by a scheme like Maestro or V PAY, the scheme could only see transactions connected to an anonymous card number. A third-party processor could have the personal data of the cardholder, but only the bank will have a complete profile of all the current account related transactions (including the transaction made by other payment instruments, like credit transfers or direct debits). Lamberti´s fear "external card schemes would know more about our customers as we ourselves" as rational behind Monnet requires more explanation.

2. Cartes Bancaires proposes lower interchange fees

Due to complaints of retail organisations, the French anti-trust authority (Autorité de la Concurrence) is investing multilateral card fees. In the cause of these investigations, Groupement des Cartes Bancaires (CB) has made a proposal to lower a number of fees.[1]

The most important elements of the proposal are

- a reduction of the interchange fee for CB payments and
- a reduction for the interchange fee for cash withdrawals

If the proposal is accepted, the average fee, including the TICO (a bilateral, fraud-related fee), would fall from 0.47% to 0.36% (0.32% + TICO) and the principle component of the interbank ATM fee would be halved to €0.72.[2]

Our Comment

Regulatory pressure on interchange fees keeps driving rates down. Even in France, where rates seem to have been cast in stone, Cartes Bancaires (CB) was forced to propose lower fees. That is bad news for issuers. However, it may be a step towards a common European fee level. It may also make it easier for French and German banks to agree on a common scheme like, for instance, Monnet (see article above).

3. "Super-complaint" against surcharging in the UK

First, what is a super-complaint? *"Super-complaints can be made to the OFT by a designated consumer body when it thinks that a feature, or combination of features, of a market is, or appears to be, significantly harming the interests of consumers."*[3] The Office of Fair Trading (OFT) has to consider the complaint and publish a response within 90 days.

On March 30, Which?, an independent consumer organisation, submitted a super-complaint against surcharging.[4] Which? complains about the use of surcharging for debit and credit card transactions in cases where there is basically no alternative. According to Which?, this practise distorts competition and hurts consumers.

---

[1] See http://www.autoritedelaconcurrence.fr/user/standard.php?id_rub=389&id_article=1580.
[2] Unchanged remain two variable components meant to discourage issuing cards without installing ATMs, or installing ATMs without issuing cards will remain unchanged.
[3] http://www.oft.gov.uk/OFTwork/markets-work/super-complaints/
[4] http://www.which.co.uk/documents/pdf/payment-method-surcharges---which---super-complaint-249225.pdf

In particular, Which? highlights three practises as harmful for consumers:

- advertising prices that omit surcharges,
- lack of alternative to avoid surcharges,
- surcharges far exceeding the costs of the particular payment instrument

Which? argues that the posted price should be the price that consumers are paying. But if sellers still ask for a surcharge, such a charge should be cost-related.

In order to support its case, Which? has collected evidence from the passenger travel market. It stresses, however, that the criticised practises can also be found in other sectors.

Our Comment

No-surcharge rules have been part of scheme rules for a long time. However, anti-trust regulators have become increasingly critical of such rules because they make it impossible for merchants to pass on the costs of relatively expensive payment instruments to those customers that actually use these instruments. Thus, the Payment Services Directive (PSD) includes a ban of such rules (however with the opt-out possibility for member states).

When the main concern is issuer market power, allowing surcharging may be a good idea. Surcharging provides merchants with an effective tool to protect themselves against "excessive" charges. However, as the complaint of Which? shows, this tool may also be abused by merchants. Therefore, regulators should contemplate to allow payment schemes to make rules regarding surcharging. Another possibility would be to legislate that there must be at least one means of payment accepted by a merchant that can be used without surcharge.[5]

4. "IBAN the terrible": German politicians critical of SEPA

On May 11, the Europe committee of the German Parliament was informed about the current status of SEPA and the proposed end-date regulation. It appears that SEPA was a topic about which the representatives had little heard, so far. It seems that they did not like what they heard. In particular, IBAN was much criticised. Politicians from all parties fear a major public relations disaster and a potential customer stand off.[6] The chairman of the committee, Gunther Krichbaum, even referred to SEPA as the "greatest folly of all times". IBAN was not

[5] See „Surcharging: Ryanair loses in German court“ in the December 2009 edition of our newsletter.
[6] See Krichbaum (CDU) zu SEPA: "Größter Schwachsinn aller Zeiten" (http://www.euractiv.de/finanzplatz-europa/artikel/krichbaum-cdu-zu-sepa-grter-schwachsinn-aller-zeiten-004797)

the only point that was criticised. Politicians were also worried about the close down of the German direct debit scheme and ELV (the signature based German POS debit "scheme").[7] Representatives of the Ministry of Finance pointed out however, that SEPA had already proceeded up to a point where major revisions were impossible.

Our Comment

SEPA is capable of creating strong emotions – unfortunately often of the negative kind. Given that the creation of SEPA has been going on for many years it is somewhat surprising that politicians did not seem to have a clue about what went on. Maybe they were occupied with other things (bank bail-outs, light bulbs, etc.). The current stand-off comes too late. But it may trigger fierce negotiations for longer transition periods. Moreover, politicians proposed to introduce a regulation forcing banks to convert standard German account numbers and bank codes into IBAN and BIC. Clearly, this would make life easier for consumers. But it was also imply that a full integration of payments would not be achieved. From the point of view of customers, there still would be a difference between domestic and x-border payments.

5. Joint ECB/OeNB payment conference

On the 12th and 13th of May 2011 the European Central Bank and the Oesterreichische Nationalbank held a joint payments conference in Vienna.[8] The conference brought academics and practitioners together and covered a wide range of payment related topics. This newsletter is not the right place to provide a comprehensive summary. However, from the point of view of the card industry, the main message is that "regulatory pressure" will not subside.

Many regulators pointed out that the payment industry is a network industry and that this implies that competition may not work in the usual manner. Consequently, all of those who addressed the topic saw a need for regulation. Thus, Giovanni Carosio (Member of the Governing Board, Banca d'Italia) stressed the need for security, transparent and cost-based pricing and governance structures involving all stake holders. Júlia Király (Deputy Governor, Magyar Nemzeti Bank) even went further. She strongly spoke out for regulation of payments and active central bank intervention, arguing that supervisors should take the view of users.

[7] A compromise proposed by the Hungarian council presidency would allow ELV to be continued until 31.7.2016.

[8] For further information see: http://www.ecb.int/events/conferences/html/ecb_oenb.en.html.

She described the regulatory approach of the Hungarian Central Bank as “Measure – analyse – intervene”. As an example she cited the planned move to intra-day clearing and the promotion of card payments.

The two representatives of DG Competition that contributed to the conference both addressed the field of card payments. Cecilio Madero Villarejo (Deputy Director General, DG Competition, European Commission) noted that on the way to SEPA, progress in the field of cards is slow and criticised the existence of different fees between countries. He stressed that due to the particularities of the card market, competition may lead to higher fees. Furthermore, he expressed regrets that the domestic card schemes are phased out. In this context he pointed to the example of China and Russia where governments had sponsored the creation of national schemes. But he did not see this as a blueprint for the EU. The EU regulatory approach was: fees down and transparency up.

Irmfried Schwimann (Director DG Competition, European Commission) criticised the lack of standards that implied that a pan-European merchant still had to deal with many acquirers. She spoke out for open standards, transparent pricing and co-branding. She also stressed that DG competition is not against multilateral interchange fees (MIF) per se – but MIF has to comply with anti-trust rules. In this context she underlined that undertakings have to self-assess their actions. Players in the card world should review their rules to avoid proceedings, adding that “Continue as usual” is a short-sighted strategy. As far as DG Competition is concerned, business models with high common fees and unsolicited rewards were not acceptable.

Given this onslaught it is not surprising that Gerard Hartsink (EPC chairman) complained that it was difficult to comply with all regulations. On the one hand banks were pushed to set up joint European payment systems and on the other hand they faced proceeding because of their co-operative efforts. As he noted: “We have conflicting policies. Currently competition policy is more important than other policies.”

Given the woes of the card industry, it is interesting to learn that SEPA also evolves in curious ways in other parts of the payment sector. A case in point, is the current situation in the field of clearing systems. Given that clearing has always been a part of the payment system with heavy central bank involvement, one should expect that the achievement of SEPA clearing would be relatively easy. However, as the presentations at the conference showed, the reality is quite different. While in the field of card payments we have about 8 or 9 formerly domestic schemes in the Eurozone that are struggling to become SEPA schemes, in the field of clearing there are about 15 in the Eurozone.[9] Can we expect consolidation? Well, for the moment the Austrian Central Bank is building a new Austrian clearing house and the Banca d'Italia is building a new clearing house to serve Italian government bodies. Given that we have already too much capacity (Hartsink) this is difficult to square with the notion of a Single Euro Payments Area.

Should you have any questions or comments please contact

Dr. Hugo Godschalk (hgodschalk@paysys.de)

Dr. Malte Krueger (mkrueger@paysys.de)

Christoph Strauch (cstrauch@paysys.de)

PaySys Consultancy GmbH

Im Uhrig 7
60433 Frankfurt / Germany
Tel.: +49 (0) 69 / 95 11 77 0
Fax.: +49 (0) 69 / 52 10 90
e mail: info@paysys.de
www.paysys.de

PaySys Consultancy is German member of

[9] According to Wiebe Ruttenberg (Head of Division, European Central Bank).