



# PAYSYS REPORT

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### **1. Danish Dankort: Competitive pressure from Mastercard & Visa**

Due to mobile payments the domestic debit card scheme Dankort feels the competitive pressure of international card systems at the POS. Dankort loses market share (2019: 66%) especially in the segment of low-value payments. With political support, a new pricing structure for Dankort acceptance was adopted.

#### **Appendix: Danish card market: Some Facts & Figures**

### **2. Netherlands: Market foreclosure by Interchange Fee agreements**

Several Member States have national IF agreements that set IFs for debit card transactions below than the maximum rate of the European Interchange Fee Regulation (0.2%). The example of the Netherlands, where the domestic interchange fee is extremely low (2 € cents), shows the negative consequences of such national regulations for cross-border acquiring. A further obstacle to competition are the bilateral IF agreements between the dominant large Dutch banks.

# Danish Dankort: Competitive pressure from Mastercard & Visa

We invited again Henning N. Jensen as guest author. Henning is since 2004 owner and managing director of the payment consultancy PlusCON, our Danish EPCA-member in Copenhagen.

*Henning was General Manager in FDB/Coop Denmark 1997-2003, CEO in Danmont Ltd. 1991-97, Vice President for Sales and Innovation in PBS/Nets 1984-91 and on overseas assignment for East Asiatic Company in Saudi Arabia and Thailand 1977-83.*

*He is educated with a Master in Economics and Political Science and have completed Executive education at Stanford, USA and INSEAD, France. He has also been appointed to several Danish Governmental committees on Payments.*



(hj) "Dankort" receives broad sectoral and political support for years to come.

For a long time it has been very quiet around the future of the Danish debit card system Dankort (owned by Nets) - in fact so quiet that some had started writing the obituary of the most commonly used debit card in Denmark.

But now the Minister of Industry, Business and Financial Affairs, Simon Kollerup has issued a departmental order to amend the merchant service fees, which is a broad and far-reaching settlement between all major interested stakeholders in the Dankort system. The measures are intended to improve Dankort's position in competition with international card schemes.

## Our Comment:

The number of transactions in the Dankort system has grown steadily every year, now reaching around 1.5 billion on an annual basis. The Dankort is by a very clear margin the largest means of payment instrument in the retail sector in Denmark.

However, in recent years, several new means of payment methods have entered the market, in particular MobilePay (the successful proprietary mobile payment app for initiating bank account-to-account transfers), Apple Pay, Google Pay, etc., and some of these means

of payment have had some success, especially in those retail stores where there are many transactions with smaller amounts, such as burger bars, cafes, 7-elevens, at flea markets, ice cream shops, etc.

For using Apple or Google Pay, you have to store a card branded with one of the international schemes. An agreement between Nets and the two container wallet providers for the use of the Dankort card is still pending

This has meant that in these segments Dankort has lost market share, as the retailer only has to pay a subscription fee (yearly flat fee) for accepting Dankort. Many of the new competitors "settle" only with a % share of the purchase amount (ad valorem fee), which has made Dankort uncompetitive in several cases.

Due to the previous political agreements, incorporated into the "Dankort departmental order" from the Ministry, the retailer pays according to the number of transactions, the Dankort has lost market share at the "low" end of the transaction spectrum.



This development has not been satisfactory for either the retail sector, or for Dankort and politicians, who would like to see a strong Danish debit card with very low transaction costs.

However, this lack of flexibility in the Dankort departmental order has been an obstacle to the Dankort system, and Nets has not been able to solve this challenge until now.

The new agreement:

Since the autumn, all the stakeholders have worked intensively to find a solution acceptable to all stakeholders, in which the Dankort-system remains cost-neutral, and this has led to long negotiations between the stakeholders.

If one party has to pay less, then other parties have to pay more - something that is easily acceptable to those who are going to pay less, while it is more difficult to attract the goodwill of those who are going to pay more.

After long negotiations - and mild political pressure - Dankort and the retail trade organizations have agreed on a change in payments, which means that in the future retailers with many small value payments will

pay less to accept Dankort, while those (often large chains) that receive many Dankort transactions of larger amounts pay a little more per transaction.

In practice, this means that those stores with an average transaction value of less than DKK 175 (app. € 25) will in future have to pay less in transaction fees, while those stores where the average transaction value is above the DKK 175 (app € 25) will have to pay more. The price increase in the segment above DKK 175 will in some cases be up to 35%.

This sounds like a lot, but if these stores have so far paid for example DKK 0.18 (app. 2.5 € cent) per transaction, then it will only be a price increase of DKK 0.06 (less than one euro cent).

It has not been easy for the Danish Chamber of Commerce to get this settlement through its political bodies, but all the major retail groups that sit on the political board of the organization have themselves for years benefited from the low prices of the old system.

Now they have had to "pay a little" to get a new settlement for the Dankort system. After all, this settlement will continue to guarantee everyone in the retail sector much lower prices than the cost of competing products. So it has become a winning cause for everyone in retail - although some are bigger winners than others.

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## For Dankort, the settlement will be life-prolonging.

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For Dankort, the settlement will be life-prolonging, as the product will now continue to be supported from all over the retail industry, and the new pricing structure will ensure the attractiveness of the Dankort product compared to its competitors.

The Minister has approved a price model that is "reve-

### Facts about the new model

The model means that Nets will create the opportunity for stores to have access to pay an ad valorem price to receive Dankort as an alternative to the well-known subscription model. Stores that remain in the subscription model will experience up to a 35% price increase if their average transaction value is above DKK 175. Dankort as expensive will experience up to a 35% price increase if their average transaction value is above DKK 175. Overall, the changes mean that small stores that today experience Dankort as expensive will benefit from Dankort's cost-effectiveness, and that stores that today pay almost nothing will continue to experience very attractive (but higher) Dankort prices.

### Key points of changed departmental order<sup>1</sup>:

- New pricing model can ensure Dankort's survival: more and more stores are opting out of Dankort in favour of payment alternatives - especially if their average transaction value is low and they can achieve lower prices in the market than the statutory Dankort prices. If this development continues, there will soon be fewer businesses left in the Dankort system to cover operating costs. The new departmental order will provide increased flexibility and allow Nets to offer competitive prices to all stores.
- New pricing model is solidarity: The Dankort system is cost-effective, but the statutory prices mean that not all stores experience low prices. The new pricing model will allow all stores to benefit from low Dankort prices and will have the option to choose between a fixed subscription (as today) or a value-based charging model.
- Revenue neutral redistribution: The total nationwide costs of the stores will not change as a result of a new pricing model, and Nets will not charge more money in total from the stores. Businesses with low average transaction values will experience a price decrease, while businesses with a high average transaction value will experience a price increase. However, those who are experiencing an increase will continue to have very low prices compared to common market price alternatives.

nue neutral" for Nets, which has been necessary to get the support of the Consumer Council and the political parties in the Parliament.

The Minister is pleased that he has now politically secured the Danes their beloved Dankort for many years to come. For exactly how many is difficult to predict with the changes that are constantly happening in the market and within the products, but we are hardly likely to see the draft obituaries again for the next 5 – 7 years.

#### Is no one against?

Yes, no doubt you can easily find single shops and small niches of shops (which will be charged more) that will be negative about the settlement, but a lot of

time has been spent within the constituency of the Danish Chamber of Commerce explaining to members why this is the best solution to ensure that everyone can keep the long-term cheapest option.

Some shops may complain about the increasing amounts they have to pay, but at the same time they must recognize that it is still the cheapest option for the vast majority of stores.

P.S. As a small wrinkle in the settlement, the Minister has also secured more flexibility in the departmental order, allowing Dankort to introduce other price models if they wish.

If that doesn't happen, we're probably going to need the obituaries anyway.

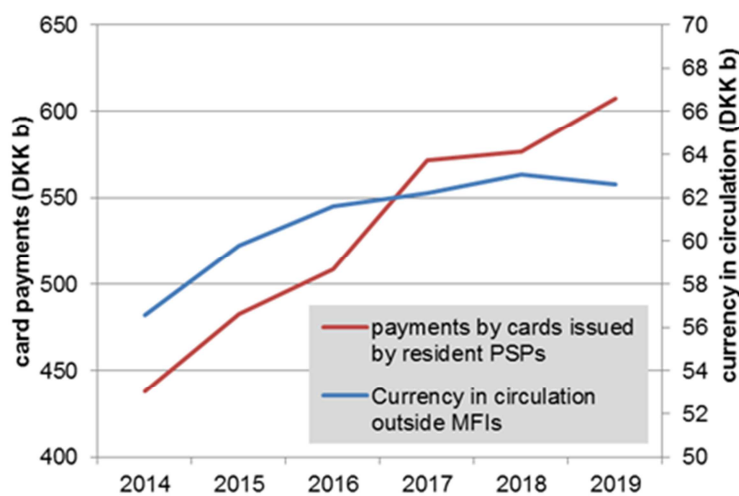
**Appendix:**

**Danish card market: Some Facts & Figures**

(hg) Did you know that Danes are the absolute leader in card payments in the EU? On average, a Dane pays by card for purchases of about 13.400 Euro per year. The English are in second place with €12,000 and the Bulgarians are at the bottom with only €700. The high proportion of card-not-present card payments is striking. 30.1% of card payments are made online in ecommerce (2018), almost twice as much as the European average (16.9%).

Besides card payments (plastic and wallet), the MobilePay app developed by Danske Bank in 2013 is very popular. The system enables mobile payments between current accounts in both C2C and C2B. Meanwhile it is possible to pay in 140,000 shops. In 2019 the volume of payments processed with this instant payment system reached the DKK 100 billion (€ 13.5 b) mark. By way of comparison, the total payment volume of payment cards issued in Denmark in 2019 was DKK 685 billion (€ 92.6 b). MobilePay and similar instant payment systems do indeed have the potential to partially replace card payments (plastic or wallet).

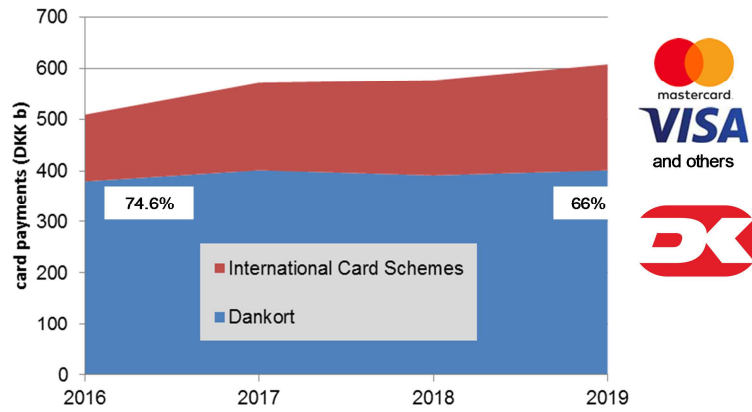
Despite the high preference of Danish consumers for cashless payments, we do not see a decline in the volume of banknotes and coins circulated outside the banks until 2018. While card payments increased by 39% in the period 2014-2019, the amount of cash in the public has increased by 11%. A cashless society is therefore not yet foreseeable in Denmark. See graph 1



Graph 1: Cards versus Cash  
Source: Payment statistics of the Danish Central Bank

Certainly, the national debit card system Dankort, founded in 1983, has contributed to the European top position in card payments. Most adult Danes will have this popular bank-issued debit card (4.8 million cards for 5.8 million inhabitants). Most of the cards are co-badged with Visa.

Besides Dankort, the banks also issue debit and credit cards with only one of the international brands. In this segment Mastercard leads with a market share of about 70%. Of the total of 9.5 million cards, the share of these cards with international brands is about 49% (2019). Based on the payment volume, however, the market share of these cards is much lower (2019: 34%). Danish consumers still mainly use their Dankort, but the market share has become noticeably smaller in recent years (74.6% in 2016 to 66% in 2019). See graph 2.



Graph 2: Dankort vs. International card Schemes (ICS) based on payments volume  
 Source: Payment statistics of the Danish Central Bank

Like in other Member States with domestic schemes (co-badged with the brands Visa or Mastercard) the legal right of the cardholder to pay with the international brand at the POS terminal (according the Interchange Fee Regulation 2015) exists more at the theoretical than at the practical level in Denmark.

It would seem that this requirement, which is meant to enhance competition, has been ignored in Danish practice. Most Dankort holders are completely unaware of this option. Issuers do not offer incentives (e.g. cashback) for choosing Visa (instead of Dankort). Even when the acceptance of the co-badged Brand Visa has been cheaper for merchants (until the now adopted Dankort fee adjustment), it has often been technically impossible for Danish merchants to promote the acceptance of Visa by means of an automatic priority selection.

According to the "Betalingsrapport 2018" of the Danish Competition and Consumer Authority<sup>2</sup>, at least 60% of POS terminals had not implemented this technical adaption for brand selection (by the merchant or by the cardholder) in early 2018. Even today the majority of terminals are not able to do so, although some Dankort terminal suppliers offer this technology.

This is a clear violation of the IFR. But with the spread of mobile payments, in which only virtual cards with individual brands as means of payment are installed in the smartphone, this completely ineffective IFR requirement becomes increasingly obsolete.

# Netherlands: Market foreclosure by Interchange Fee agreements

(hg) Several Member States have national IF agreements that set IFs for debit card transactions below than the maximum rate of the European Interchange Fee Regulation (0.2%) (see table 1). Often, these agreements are the result of initiatives by national governments. The Interchange Fee Regulation (EU/2015/751 – IFR) explicitly provides the option for member states to set a lower maximum IF rate for both debit and credit card transactions (Art. 3 & 4 IFR).

Member State	Domestic IF debit cards
Ireland	0.10%
Italy	0.18% (for low value < 5 €)
Luxembourg	0.12%
Malta	0.15%
Netherlands	0.02 €
Spain	0.10% (for low value < 20 €)

Table 1: Member States with lower IF-caps for debit cards

In the Netherlands, the IF for domestic debit card transactions has been set at a maximum of 2 € cents per transaction (weighted average) since 9 December 2015. This national regulation has been approved for a 5-year period under Art. 3 (3). Due to the positive results, the Dutch Ministry of Finance now proposes to set the existing maximum limit indefinitely from 9 December 2020<sup>3</sup>. It now refers to Art. 3 (2) of the IFR. The change has only minimal consequences (maximum limit instead of a weighted average of 2 cents).

The question arises as to how such national IF agreements are to be assessed in terms of restricted market entry by foreign acquirers and, more generally, competition in the acquiring business.

## Our Comment:

It would be difficult to find a Dutch consumer without a debit card. In the Netherlands the brand name "PIN" has become a verb (like "to google"). "Pinnen" stands for paying with the debit card at the POS-terminal, although the brand on the card today is usually "Maestro" (there are still very few V PAY cards in circulation). At the end of 2011, the successful domestic debit card scheme "PIN" has been terminated.

In retrospect, this was a premature step. At the time, banks feared that, based on the SEPA Cards Framework (SCF), a de facto Europeanisation of the national scheme would be necessary (keyword "SCF compliance").

But the brand migration did not stop the success of "pinnen". The debit card has largely replaced cash at

the physical POS. In 2019, 76.5 % of merchant's sales volume was generated by "pinnen". Cash has now been reduced to 21.2%. Credit cards only play a minor role (2.2%).

Many merchants can afford not to accept Visa and Mastercard. This unique success for the debit card is due, in part, to a longstanding joint effort by banks and merchants ("covenant betalingsverkeer" 2005-2018) - with the support of the Dutch central bank - to keep merchant fees for debit cards low.

### Bilateral IF agreements between the major Dutch banks

MSCs for debit cards in the Netherlands are probably the lowest in Europe. The current regular MSC (Merchant Service Charge) of the acquirer ING Bank, for



example, ranges from 3.8 cents to a maximum of 5.7 € cents per transaction. Ad valorem fees are unknown for debit cards. These fees are possible through bilateral IF agreements between the three major banks ING, ABN-AMRO and Rabobank (including their acquirer subsidiaries) of approximately 1 cent.

The banking market is highly concentrated in the Netherlands. Looking at total assets (or liabilities), the market share of these three major banks is 83% (2018<sup>4</sup>). According to some market observers, their market share in debit card issuing and acquiring is even higher, with an estimated share of 90%. This dominant position is made possible by the bilateral IF agreements between these banks, which are perfectly legal. Domestic acquirers who are not admitted to this "1 cent club" pay 2 cents for domestic debit cards on the basis of the national IF debit card agreement. One could argue that this 1 cent difference does not matter in daily competition. But for an MSC of around 5 cents, 1 cent implies a price difference of 20%. Therefore, the other acquirers are only competitive on price if they cross-subsidise the acquiring business or accept losses.

**The 2 cent IF for domestic debit cards will be extended**

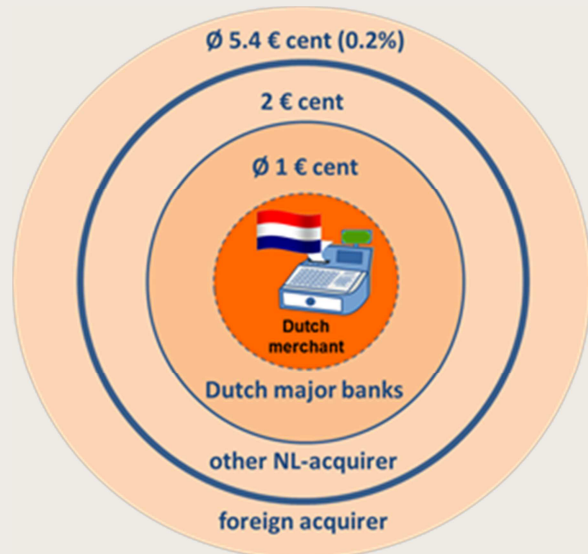
The Dutch Ministry of Finance states in its explanatory memorandum to the draft law that the current domestic IF regulation (since December 2015) appears to have worked well. According to the government's reasoning, the extension of the domestic IF (2 cents) also took into account the market entry of new players. This statement must be doubted in view of the 100% higher IF costs of non-dominant acquirers.

The domestic 2 cent IF regulation, which will now be extended indefinitely, applies to domestic debit card transactions. According to Art. 2 (9) in combination with Art. 2 (8) of the IFR, a domestic transaction is deemed to be present if the issuer, the acquirer and the POS are all located in the country. For an acquirer located abroad (without a bilateral agreement), for a transaction of a debit card issued in the Netherlands and used by a Dutch merchant in the domestic market, the inter-regional debitcard IF for Maestro or V PAY applies, i.e. 0.2%. With an average receipt of approximately €27 (2019), the foreign acquirer would have to pay approximately 5.4 cents to the Dutch issuer.

It should be clear that foreign acquirers will find it difficult to gain a foothold in the debit card acquiring busi-

ness in the Netherlands.

A foreign acquirer can only benefit from the 2 cent rule if it is resident in the country. The option to set a lower domestic IF for domestic debit cards, which several Member States make use of, prevents cross-border acquiring. This option is in clear contradiction to the unhindered development of cross-border acquiring within the EU, which the IFR strongly supports. According to Art. 6 (2) Card Schemes may not hinder cross-border acquiring by licensing or other scheme rules.



Graph 3: Applicable Interchange Fees

However, the setting of IFs by Member States at national level, which is possible under Art. 3 (for domestic debit card transactions) and Art. 4 (for domestic credit card transactions), prevents cross-border acquiring.

National special rules on IF caps are inconsistent with an EU-wide uniform IF regulation and lead to distortions of competition.

Here we have a fundamental contradiction and conflict of objectives within the IFR. Domestic IFs, which can be agreed in individual Member States below the level of EU-wide IF caps, stand in contradiction to a single EU internal market, even if the result of lower IFs within geographically limited territories would be desirable from the point of view of the Commission and individual Member States (as, for example, according to the announcement of the Dutch government) and the merchants concerned.



For the “proper functioning of the internal market” it is necessary to have “no distinction between national and cross-border payments”, says the first recital of the IFR.

#### EuroCommerce: export of lower IF caps by cross-border acquiring?

It should not be surprising that there is no merchant protest against these lower domestic IF caps. The Association EuroCommerce has recognised the imbalance but draws a remarkable conclusion from this distortion:

*“Acquirers have not apparently been able to offer cheaper services based on the lower MIFs in their “home” countries in Member States where the domestic MIFs remain higher – which thereby restricts merchants from taking advantage of the internal market and benefiting from less expensive services from card acquirers established in lower-MIF Member States.”<sup>5</sup>*

## Domestic IFs stand in contradiction to a single EU internal market.

It calls for acquirers established in the respective low IF country to also be given the opportunity to offer these IF to merchants abroad by cross-border acquiring. This would mean that a Dutch acquirer should also offer Maestro acceptance in Germany at an IF of 2 cents. This is a rather inconsiderate idea, because the IF is a fee of the issuer, which is only charged by the acquirer and is passed on one-to-one to the respective issuer. Why should German issuers have to settle for 2 cents just because the acquirer is based in the Nether-

lands?

According to EuroCommerce, the acquirer is prevented from doing so by scheme rules.

*It “is the result of continuing or new territorial restrictions in payment card scheme licensing agreements or payment card scheme rules, either of which are an infringement of Article 6 of the Regulation” (p. 124).*

We agree, it is an infringement of Article 6 of the IFR, however not by scheme rules but by the legal option of Member States to set lower domestic IF according to Art. 3 and 4 of the IFR.

#### Restriction of competition by domestic IF: not an issue for the EU Commission

This restriction of competition is not discussed in the Review Analysis by Ernst & Young/Copenhagen Economics<sup>6</sup>. The European Commission also does not address the issue in its final IFR Review Report<sup>7</sup>, although Article 17 (i) of the IFR calls for clarification of the IF in the case of cross-border acquiring in the Review Report (“to consider the possibility of clarifying which interchange fee applies to cross-border acquiring”<sup>8</sup>).

In the review report, the Commission only considers the possible effects of national IF caps in terms of card issuing (number of cards issued and cardholder fees):

*“There is however no evidence that special provisions had a negative influence on issuing of either debit or credit cards in these Member States” (p. 19).*

Unfortunately, there is no word on the restrictions on competition.

In the Netherlands, like 1 other Member States, the issuers are also planning a brand migration from Maestro and V PAY to Mastercard Debit and Visa Debit. However, this will not affect the existing bilateral IFs of the three major banks or the multilateral domestic debit card MIF (2 cent).

## Notes

- 1 The new departmental order is here (in Danish): <https://www.retsinformation.dk/eli/Ita/2020/878>Micka Jakobsen: Payments are a-changin' but traditional means are still here ([https://www.bis.org/statistics/payment\\_stats/commentary1812.htm](https://www.bis.org/statistics/payment_stats/commentary1812.htm)).
- 2 Betalingsrapport 2018 of the Konkurrence- og Forbrugerstyrelsen (May 2018) (<https://www.kfst.dk/analyser/kfst/publikationer/dansk/2018/20180503-betalingsrapport-2018/>)
- 3 <https://www.internetconsultatie.nl/mifbesluit>
- 4 <https://www.banken.nl/nieuws/21731/ranglijst-grootste-nederlandse-banken-2019>
- 5 EuroCommerce submission to the EU Interchange Fee Regulation Review, February 2020, p. 123
- 6 Study on the application of the Interchange Fee Regulation, prepared by EY and CE, Final Report 2020
- 7 European Commission, Report on the application of Regulation (EU) 2015/751 on interchange fees for card-based payment transactions, SWD (2020) 118 final of 29.6.2020
- 8 Although the Commission takes up EuroCommerce's suggestion, it only refers to the domestic Scheme Fees and not to the domestic IF, which is the focus of EuroCommerce's deliberations. See page 18 of the Commission's IFR Review Report

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