Content

1. The Instant Credit Transfer: With Compulsion to the New Normal

At around 11%, the share of SCT Inst in transfers in the euro area has remained relatively small. To change this, the EU Commission has proposed a number of measures: mandatory offer of SCT Inst, same fees as for SCT, control of the recipient's name, simplified implementation of sanction measures. This will undoubtedly give SCT Inst a boost. But whether further goals will be achieved, especially the use of SCT Inst at the POS, is questionable. In addition, the experiences in the United Kingdom make it clear that instant payments are also intensively used for fraud attempts. This must also be expected in the EU.

Box: Fraud with authorized push payments

2.Russia: Exclusion and sovereignty in the payment card business

The boycott of US card schemes against Russia as a result of US sanctions on the occasion of the war in Ukraine had only minor economic consequences for the Russian card business. The obligatory use of the domestic network and the establishment of a domestic card scheme minimised the risk of possible sanctions in advance. Russia's efforts towards autonomy can provide important impulses for the EU's efforts towards "*open strategic autonomy*" in payment traffic.

Appendix: The card business in Russia

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The Instant Credit Transfer: With Compulsion to the New Normal

(mk) The SEPA instant credit transfer (SCT Inst) has been around for a few years. It has also slowly gained market share. But at around 11%, its share of transfers is still modest. Moreover, the share has not increased since the fall of 2021.

Payment service providers participating in the SCT Inst Scheme also seem to be stagnating. Measured against the number of service providers participating in the "normal" SEPA Credit Transfer (SCT), the share of SCT Inst converges towards 60%. Apparently, more was expected in Brussels, and so on October 26, 2022, the European Commission presented a draft amendment to two regulations that affect credit transfers in the EU.[1]

The EU Commission laments the low use of instant credit transfers and wants the proposed new rules to help instant transfers make a breakthrough. The aim is to eliminate the problems that currently hinder further expansion. From the point of view of the EU Commission, these are in particular (Proposal, p. 6)

- insufficient incentives for payment service providers to offer instant credit transfers,
- too high transaction fees (especially compared to "normal" credit transfers),
- too many erroneously rejected transactions (caused by the current way of checking based on the sanction rules),
- security concerns of customers.

To address these issues, the EU Commission proposes a set of new rules. The main elements of this new regulation are:

- Obligation of payment service providers to offer instant credit transfer (payment and receipt of payment) with payment institutions and e-money institutions being exempt from the obligation.
- Prohibition to charge higher fees for instant credit transfers than for normal transfers.
- Verification by the payer's payment service provider that the payee's name entered by the payer matches the name associated with an IBAN and sending a message to the payer if this is not the case (Confirmation of Payee, CoP).
- A harmonized (and simplified) procedure for implementing the EU's sanctions provisions.

From the EU Commission's point of view, the more intensive use of instant credit transfers promises significant efficiency gains that should benefit the various stakeholders (consumers, merchants, payment service providers, fintechs, other companies, public authorities).[2] In addition, it hopes that real-time remittance will also be used at the store checkout and in eCommerce, giving payers more choice in payments, especially for cross-border transactions.

The draft provides a phased timetable for implementing the new rules:

- Acceptance of instant credit transfers, fee rules, sanctions regime: 6 months after entry into force.
- Sending of instant credit transfers, CoP: 12 months after entry into force.

For EU payment service providers outside the euro area, deadlines of 30 and 36 months apply.

Our Comment:

Efficiency gains

There are always situations in which it is important to be able to transfer funds immediately (emergencies, meeting payment deadlines, ...). In these cases, instant credit transfer is certainly an advantage. But it can be asked how many transactions that is - certainly not very many.

Instant payments can also help to simplify processes. If the flow of goods is perfectly synchronized with the flow of payments, then the need for subsequent reconciliation is eliminated. However, this simplification can only reach its full potential if all payments are made in real time. This is unlikely to be realized at the physical POS in the foreseeable future.

It is claimed that the use of instant payments will free up funds that can now be used elsewhere (consumed or invested).[4] More accurate may be the notion that some bank customers will gain interest benefits. The fact that only a few seconds elapse between debit and credit, rather than a day, means that those involved in a payment gain one day more power of disposal over the amounts to be transferred. This gives them the opportunity, for example, to invest these amounts at interest for one day longer (i.e., to engage in cash management).

There are also advantages for those who are in debit. As payers, they can postpone the increase in their debit balance for another day, or as recipients, they can reduce their debit balance one day earlier (debt management). In both cases, there is an interest rate advantage.

So, there are undeniable benefits for payment service provider customers. However, there are benefits only if one actively engages in cash or debt management. This is likely to be the case only for very wealthy individuals (cash management), households with more precarious finances (debt management), and businesses (both).

For the mass of households with small to medium balances in their current accounts, however, it makes no difference whether the payment is debited today or tomorrow, or whether the credit is made today or tomorrow. If, for example, all the standing orders from utility customers (water, gas, electricity) or tenants have to be

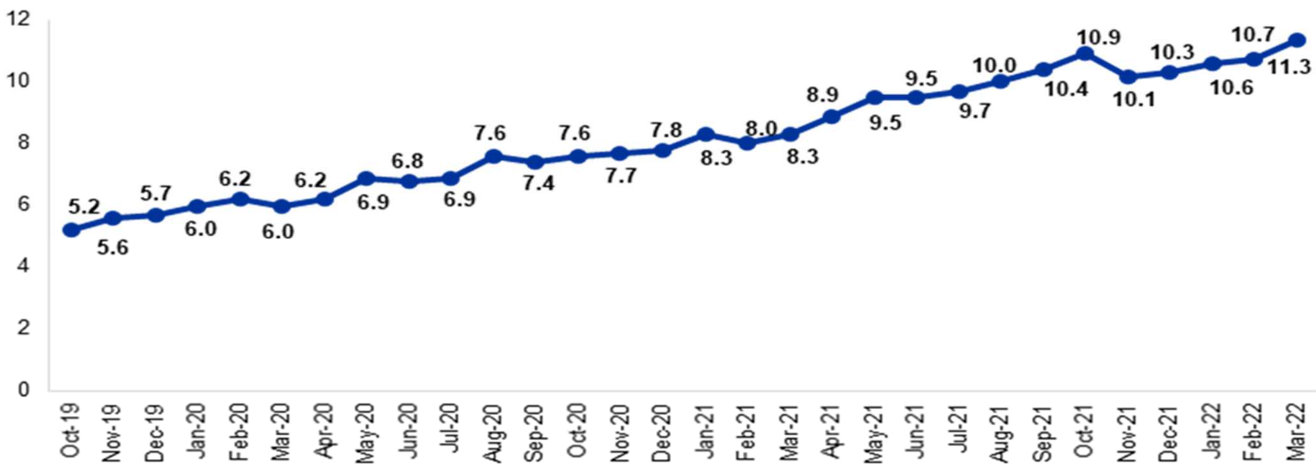


Figure 1: Share of SCT Inst in total volume of SEPA credit transfers. Source: ECB[3]

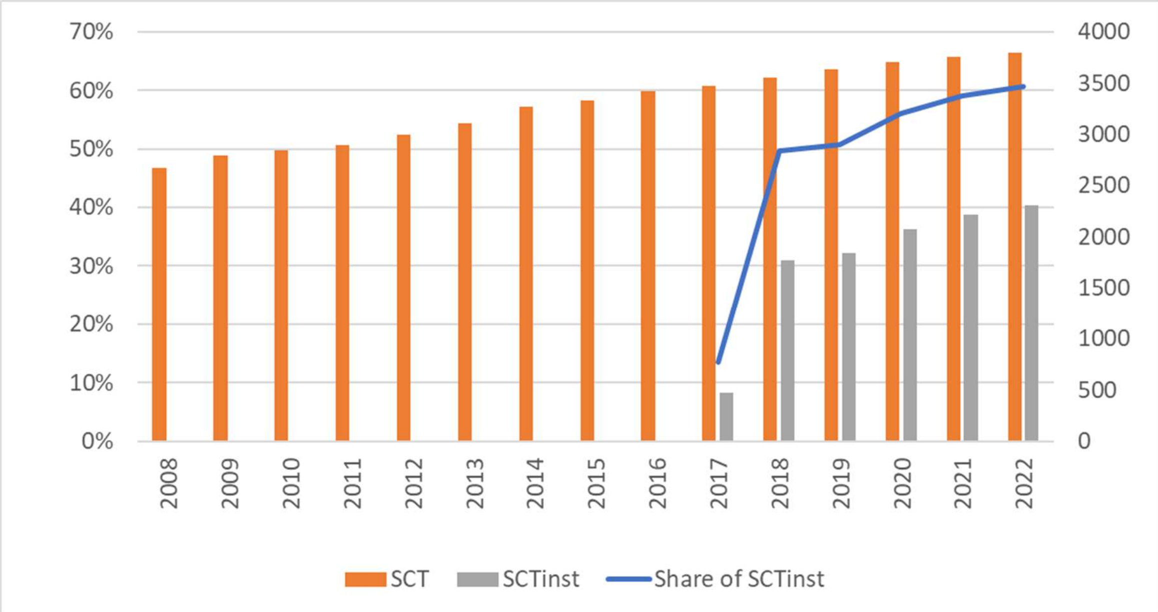


Figure 2: Number of payment service providers participating in SCT and SCT inst. Source: EPC and own calculations.

executed one day later, what difference does that make? In most cases, absolutely nothing.

But for banks and other payment service providers, something does change. Increased interest income or reduced interest expenses will lead to corresponding losses for the payment service providers - especially the banks. The latter may react to this. Payment service providers have various sources of revenue: Account fees, transaction fees, seigniorage, and float[5]. Seigniorage has become less important given the very low interest rates that have existed for a long time. Float is what we are concerned with when analyzing the efficiency gains of instant credit transfers.

If payment service providers relied on the interest income enabled by float to cover their costs, then a transition to instant payments means they must generate additional revenue elsewhere, such as through higher fees. What customers have in interest benefits due to instant payments they then lose again through higher fees.

If, on the other hand, the float revenues were "excess profits" resulting from the exploitation of market power, then their reduction is to be welcomed and also leads to efficiency gains - but certainly not in the form that more funds are now available for consumption and investment.[6]

Given the current economic situation in the banking industry, however, it seems more likely that banks will be forced to replace reduced float income with higher fees.

So, one should not get too excited about static efficiencies based on doing everything the same way we did before, just faster. The decisive factor will be which new services will establish themselves successfully. With the establishment of a system for instant credit transfers, investment has (once again) been made in the payment infrastructure at the EU level. However, the infrastructure alone does not bring much.[7] It is the services that are created on this basis that are more important. Here, the EU is lagging behind the United States.

Instant payments: Paving the way for a European payment system for POS and eCommerce?

The EU Commission hopes that it will be possible to find solutions for the physical POS and eCommerce (both summarized as "point of interaction" PoI) based on instant payments ("instant payments" IP).

"*IPs also offer opportunities for banks and financial technology companies (fintechs) to develop new solutions for payments at the point of interaction (PoI), whether at physical points of sale or in e-commerce transactions (e.g. using mobile payment applications on smartphones).*" (Proposal, p. 1)

Increased interest income and reduced interest expenses lead to corresponding losses for the payment service providers.

After a whole series of unsuccessful attempts to create a European card payment system, a technical innovation, instant payments, is now supposed to bring the breakthrough.

At this point, one can ask why one would want to try real-time settlement if the payment at the POS has not been tried before with a traditional credit transfer (t+1 settlement). After all, the confidence of a payee to actually receive the promised payment is not necessarily based on real-time settlement. In most cases, a credible assurance that the payment will arrive is sufficient.[8]

However, real-time settlement has the advantage that the payee receives immediate confirmation from his bank that the payment has been received. Thus, there is no need to involve another service provider.

Nevertheless, a simple bank transfer is only conditionally suitable as a POS payment system. Standardized procedures for transmitting payment information from the merchant to the customer are needed; refunds, reservations and similar additional functionalities would have to be defined. Furthermore, it would have to be asked whether the envisaged maximum times are acceptable: 10 seconds to receive a confirmation of payment receipt and 20 seconds to receive an abort message (if there are problems in the processing). Finally, it would also need to be clarified whether every account holder can be a payee in such a system or whether a separate acquiring function is needed. With the introduction of instant payments, the success of a European POS payments scheme is by no means a foregone conclusion.

The issue of risk

The proposal's introductory remarks point out that it is in line with the strategic objective "*Towards a stronger international role of the euro*," in which the EU Commission calls for a fully integrated payments market with the goal "*to reduce risks and vulnerabilities in retail payment systems and to increase the autonomy of existing payment solutions*...." (Proposal, p. 3)

The introduction of instant credit transfers is thus also intended to reduce "risks and vulnerabilities." However, at the same time it is pointed out that users are concerned about the security of the instant payments. Therefore, the EU Commission proposes additional security measures. The aim seems to be to allay users' fears. But these fears are quite justified. After all, it has been shown that "real-time" is an attribute that is also attractive to fraudsters.

In the United Kingdom, Authorized Push Payment fraud (APP fraud) is the fraud type with by far the highest growth rates. This involves payments that account holders have authorized themselves, but based on false information about the recipient.

Admittedly, this is a type of fraud that can operate on the basis of a variety of payment instruments. But instant payments are particularly well suited for it. This is because even if the victim realizes the fraud after just a few minutes or a few hours, it is too late. Therefore, it is no coincidence that in the United Kingdom

Box: Fraud with authorized push payments

Authorized Push Payment fraud (APP Fraud) is a major problem in the United Kingdom and has been repeatedly addressed by regulators. The UK Finance Fraud Report states (p. 47):

" *In an authorised push payment scam, a criminal will trick their victim into sending money directly from their account to an account which the criminal controls.*

Criminals' use of social engineering tactics through deception and impersonation scams is a key driver of authorised push payment scams and, as highlighted earlier in the report, the use of social engineering tactics to defraud people has only increased during the pandemic. Typically, such deception and impersonation scams involve the criminal posing as a genuine individual or organisation and contacting the victim using a range of methods including via the telephone, email and text message. Criminals also use social media to approach victims, using adverts for goods and investments which never materialise once the payment has been made.

	No. of fraud payment			Value (m. UKP)		
Payment methods	2020	2021	Change	2020	2021	Change
Faster Payments	236.641	335.451	42%	349,4	504,5	44%
CHAPS	501	764	52%	14,5	22,5	55%
BACs	1.193	1.695	42%	23,5	20,4	-13%
Intra Bank Transfer ("on us")	3.113	3.358	8%	10,6	7,5	-29%
International	3.123	3.869	24%	22,7	28,3	25%
Total	244.571	345.137	41%	421	583	39%

Table 1: APP Fraud in the United Kingdom
Source: UK FINANCE ANNUAL FRAUD REPORT 2021, p. 68. Faster Payments: UK real-time system, CHAPS: large-value system, BACs: "normal" credit transfer. Faster Payments accounted for 63% of transactions and 39% of transaction value in Oct. 2022. (Faster Payments: Single Immediate Payment, BACS: direct credits).

APP fraud losses continue to be driven by the abuse of online platforms used by criminals to scam their victims. These include investment scams advertised on search engines and social media, romance scams committed via online dating platforms and purchase scams promoted through auction websites. Once the victim has authorised the payment and the money has reached the criminal's account, the criminal will quickly transfer the money out to numerous other accounts, often abroad, where it is then cashed out. This can make it difficult for banks to trace the stolen money: however, the industry has worked with Pay.UK to implement new technology that helps track suspicious payments and identify money mule accounts.

If a customer authorises the payment themselves current legislation means that they have no legal protection to cover them for losses – which is different to unauthorised transactions."

As the figures in Table 1 show, criminals are primarily turning to Faster Payments, the UK's instant payment scheme.

most cases of APP fraud are based on the instant payment system Faster Payment (see Table 1).

Instant credit transfers, therefore, do not per se contribute to greater security. Quite the contrary. They can lead to new risks. This explains the EU Commission's proposal for an "improvement" in the form of a check on the matching of payee and IBAN (CoP).[9]

It has been shown that "real-time" is an attribute that is also interesting for fraudsters.

However, it is questionable whether this is an effective way to limit APP fraud. Experience in the United Kingdom clearly speaks against it. CoP is already widely implemented there (at 92%). The high fraud values from Table 1 therefore persist despite CoP. The targeted coverage of almost 100% will presumably not change this.[10]

The implementation of CoP will therefore hardly protect users of instant credit transfers from fraud. At the same time, it will make the system more expensive for providers and more complex and confusing for users. Interestingly, regulators in the United Kingdom seem to see it that way as well. That's because the Payment Systems Regulator (PSR) is already proposing additional measures. Payment service providers are to reimburse customers for losses incurred in cases of APP fraud.[11] You don't have to be a clairvoyant to foresee that corresponding regulation will also be introduced in the EU sooner or later.

At the end of the day, we will end up with a product that required the creation of a new infrastructure, that requires additional auditing routines, that is unnecessarily complex, and that will probably be associated with new liability rules sooner or later - without the banks being able to hope for additional revenues. Is this the way to create a competitive European payment system?

Russia: Exclusion and sovereignty in the payment card business

(hg) Only a few days after Russian troops invaded Ukraine, on 28 February 2022, the Ukrainian finance minister demanded that the American card systems Mastercard, Visa and Amex exclude licensed issuers and acquirers in Russia. As a result of the exclusion of major Russian banks from SWIFT, several licensees were already de facto excluded on 1 March. On 5 March, Selenskyj reiterated this demand for all Russian licensees in a meeting with key US senators. A few hours later, in a concerted action, the US-based schemes complied with this demand, also due to pressure from the US government, and donated 2 million dollars to Ukraine's reconstruction fund.

The immediate impact, however, is small. Since then, Russian issuers and acquirers can no longer use the global network of the International Card Schemes (ICS). ICS cards issued in Russia can technically no longer be used abroad. Conversely, the cards of these schemes issued abroad cannot be used at merchants and ATMs whose transactions are processed by acquirers based in Russia. The lion's share of card transactions is not affected by this, however, because for years domestic transactions have had to be processed via the Russian central bank's *National Card Payment System* (NSPK) without the involvement of the ICS networks.

Our comment:

The establishment of a national authorisation, clearing and settlement system for domestic transactions with ICS cards and their mandatory use since 2015 was a clever move by the Russian government and central bank. The strategic measure is intended to contribute to the overarching goal of greater national sovereignty in payments. It reduces dependence on American card systems.

Do these sentences sound somehow familiar? In the EU, we are pursuing exactly the same goal of self-sufficiency - among others with the European Payments Initiative (EPI) and the digital euro. I will come back to this later.

The sanctions imposed by the US and the EU against Russia in the wake of Russia's occupation of Crimea in the spring of 2014, which are much less severe than they are today, were the immediate cause of Russia's self-sufficiency efforts in the card business. The Russian measures were successful. In 2020, about 98% of the transactions generated with payment cards of all schemes (domestic and foreign) issued in Russia were processed via the NSPK system.[12]

Compared to other countries, the share of cross-border payments of Russian cards is relatively low (Eurozone 2020: 10.9%[13]). This is partly due to the great popularity of prepaid "all-inclusive" foreign trips by Russian tourists, a Russian card expert explained to me. At the holiday destination, the card is hardly ever used.

With 98%, Russia has thus achieved a high degree of self-sufficiency in the card business. Despite sanctions, ICS cards can still be used freely within Russia. This applies at least to the plastic cards and the virtual cards in the wallets of Russian banks, but not to the cards in the wallets of Apple and Google.

What are the consequences of the sanctions for Mastercard and Visa?

The payment volume with cards issued by Russian banks amounted to USD 1,426 billion (RUB 105,052.9 billion) in 2021.[14] The market share of Visa and Mastercard was approximately 72% (Visa 40% and Mastercard 32%; estimated[15]). Based on these market shares, Visa would have lost 5.2% and Mastercard 7.7% of their global payment volume (excluding ATM) if sanctions had been imposed in 2021.

In its 2022 annual report, Visa estimates the revenue loss to VISA's coffers from POS and ATM payments by Russian cards at 4% for the fiscal year 2022 (Q4/21-Q3/22).[16] This includes seven sanction months. The shares of the Russian business in the total payment volume of both schemes estimated above are therefore quite realistic.

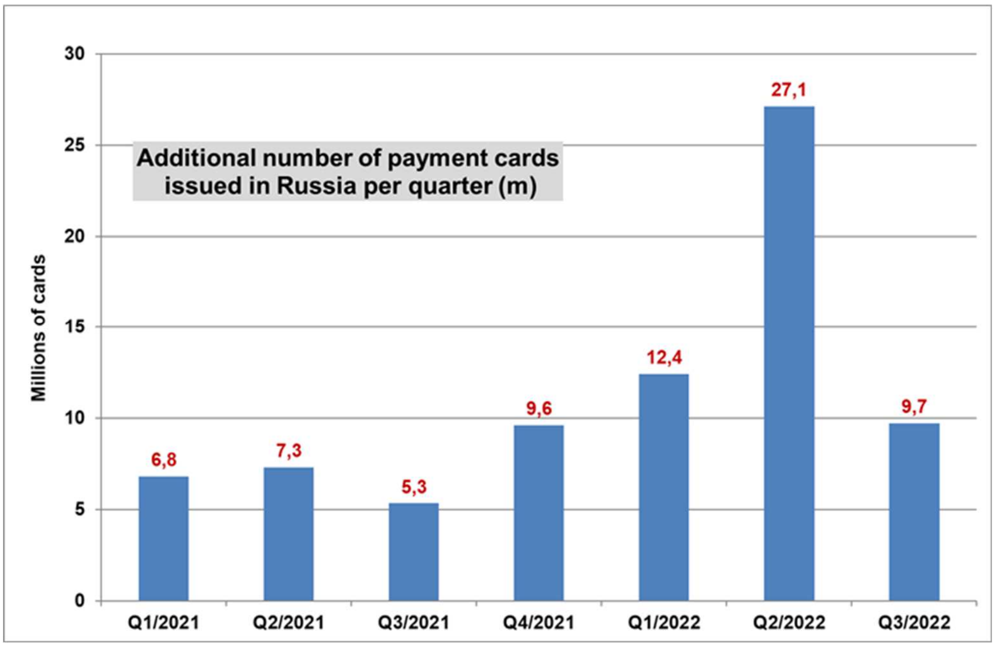
The loss is by no means marginal. Even if the processing for the domestic transactions is carried out in-house, the issuers paid the usual scheme fees (excl. processing fees) until the boycott.

The US ICS have largely dismantled their local support and representative offices at the request of the US authorities. Visa estimates the cost of this withdrawal at USD 35 million.[17]

Russian consumers can still use their ICS cards domestically, but only until the card expires. The card can no longer be renewed or issued as a replacement card. The only substitute is the card of the domestic card scheme MIR.

Domestic Card Scheme MIR

As a further measure towards self-sufficiency, the establishment of the national card scheme "MIR" took place in July 2014, in addition to the development of the national clearing system. Until then, the ICS dominated the Russian card business.



Graph 3: Increase in the number of payment cards issued in Russia.
Source: Central Bank of Russia

What can we learn from the relatively unsuccessful sanctions against Russia?

Does a "European" Card Scheme have to be "home-grown" or "European-grown"?

In the meantime, the Russian issuing banks have issued about 130 million MIR cards (as of 2Q 2022). Accordingly, every third card already bears the local brand.

According to system regulations, banks based abroad can also issue MIR cards. So far, there are no signs of this. Co-badging (branding of the domestic scheme and an ICS on a plastic card), which is common in the EU, is rare in Russia. It is practised on a small scale only with the Asian card schemes JCB and UnionPay.

The issuer can offer the card in the usual scheme variants as a debit or credit card. The existence of a card account as a prerequisite for certain government transfers, such as pension payments, has certainly contributed to the "forced" popularity of the MIR card. The use of the card is also often rewarded with incentives (e.g. price reductions when using the metro).

Within Russia, there are currently hardly any differences in the acceptance of MIR cards compared to ICS cards. The turnover per card - according to the system operator[18] - now reaches about 75% of the turnover of an average Russian ICS card.

Consequences of the USA sanctions for the MIR Scheme

With the help of foreign banks, the MIR scheme has built up a network of acceptance points (POS and ATM) outside the Russian Federation in recent years, especially in the favourite holiday destinations of Russian consumers and in friendly countries: Turkey, Belarus, Cuba, Venezuela, Armenia, Kazakhstan, etc. Expansion into other countries (such as Iran, Bulgaria and Thailand) was planned.

After the boycott of the American Card Schemes, these expansion efforts were intensified from the MIR side, but without much success. Last summer, Russian tourist organisations already reported a reduced acceptance in Turkey, a popular holiday destination especially among Russians. Acceptance was often only possible "hidden" under the counter (without MIR logo sticker on the terminal).

Only Iran (also affected by international sanctions for years) continued to express interest[19]. It is not clear from the reports whether the cooperation with MIR is limited to acceptance. It would also be conceivable to grant a MIR issuing licence to Iranian banks and other payment service providers.

Photo: PaySys Consultancy

These expansion plans were partly successfully torpedoed by the threat of "secondary sanctions" by the US. The US Treasury reported on 15 September 2022:

"*Accordingly, those non-U.S. financial institutions that enter into new or expanded agreements with NSPK risk supporting Russia's efforts to evade U.S. sanctions through the expanded use of the MIR National Payment System outside the territory of the Russian Federation.*"[20]

Fearing sanctions by the US agency OFAC[21], acquiring banks in several countries, including Turkey, then officially stopped accepting MIR. Prior to this, the Chinese card scheme UnionPay (UP) had already significantly reduced its operations in Russia. Several Russian banks issue UP cards (often co-badged with the MIR brand).

The number is currently estimated at half a million cards.

In the spring, Russian issuers were still hoping to circumvent the blockade of the American ICS by migrating to the Chinese brand. After all, UP cards also enjoy worldwide acceptance. Obviously, for the UP Scheme, blood is thicker than water.

Since then, Russia has been desperately looking for ways to compensate for its exclusion from international payments (SWIFT, card payments, etc.). In April 2022, the Russian Finance Minister Siluanov proposed a link between the national payment systems of the so-called BRICS member states (Brazil, China, India, Russia and South Africa) as a SWIFT alternative.[22] The cooperation is also to relate to card schemes.

At the end of November 2022, the Eurasian Economic Union (EAEU, with Russia as the most important member) declared that, together with the BRICS countries, they are currently investigating not only a SWIFT alternative, but also the option of a new joint card scheme.[23] It could possibly include the existing card schemes UnionPay (China), RuPay (India), Elo (Brazil) and MIR.

It is questionable whether a card giant like UnionPay or RuPay would give up its autonomy. A common brand for co-badging would probably be more realistic. However, as with the lofty, now failed plans of the European Payments Initiative (EPI) to build a European card system, paper is patient. Scepticism is in order.

Political visions of individual states and central banks are one thing, the implementation through investments of the potential scheme owners is another thing, at least outside Russia (scheme owner of the MIR system is the Russian central bank). However, at least Visa takes this BRICS initiative seriously in its new annual report and considers these transnational self-sufficiency efforts as a potential threat to its future market position.[24]

A direct consequence of the withdrawal of Visa and Mastercard was the surge in demand for MIR cards in Q2 2022. As no more new ICS cards could be issued, the growth of 27 million cards in this quarter is predominantly due to cards in the MIR system. See Graph 3.

What can we learn from the relatively unsuccessful sanctions against Russia?

The Covid pandemic and the war in Ukraine confirm the importance of the European Commission's policy goal of "*open strategic autonomy*" in the economic sphere as a geopolitical strategy. This goal is to be achieved not only in trade, but also in the financial sector. As an important component ("Pillar 1") of this strategy, the Commission already mentioned the establishment of "*digital and instant payment solutions with pan-European reach*" in its paper "*Retail Payments Strategy for the EU (September 2020)*".

In the area of credit transfers and direct debits, this goal has largely been achieved - at least in the SEPA area. Only card payments are still lagging behind. After all, 52% of all payment transactions in the EU are card payments.

The second-best solution for EPI would be the "Russian" solution.

Now that the establishment of a European card scheme as an answer to the narrative of the "dominance"[25] of the American card schemes - after the failure of the European Payments Initiative (EPI) of the European banks - has been shelved, the plan for a "*fully integrated instant payment system in the EU*"[26] is coming to the fore.

Such an account-to-account system is also supposed to displace the "old school" card payments at the POS and in e-commerce as the "new normal". It remains to be seen whether the allegedly more cost-efficient system will prevail on the basis of the market economy alone or whether the regulators (Commission, ECB, etc.) will have to help it along with further coercive measures. See also our first article in this report.

At this point, the geopolitical dimension of the status quo ("*today's normal*") should be considered a little more closely. To what extent can we act autonomously in the area of card payments in the EU? What would be needed to increase the autonomy of existing card schemes and reduce the consequences of extraterritorial sanctions? Does a "European" card scheme with pan-European reach need to be "*home-grown*" or "*European-grown*"?

Simulation game: US sanctions against the EU

In the EU-27, there are seven significant DCS (domestic card schemes) and three ICS (Amex, Mastercard and Visa). On a turnover basis, there is a relatively stable balance between DCS and ICS. Both groups had a 50% market share in 2020.[27]

What would be the consequences of a boycott of ICS due to American sanctions for the European card business? It is worth playing out this scenario once.

Why "European grown"? Isn't "European-used" sufficient according to European rules of the game?

In the seven member states with DCS, domestic card sales would hardly be threatened, as these residents (63% of the EU population) usually already have a DCS card or can easily obtain one. However, the remaining 37% of residents in the twenty remaining member states would have a serious problem, as these are predominantly ICS cards whose transactions are usually processed through ICS networks (there are only a few exceptions). Moreover, cross-border card use would be blocked for all residents, at least at the physical POS[28] inside and outside the EU.

Ensuring strategic autonomy could be ensured by setting up a European Card Scheme. This solution is currently not considered realistic.

As a second-best solution, the "Russian" solution could be considered: the clearing and settlement of all intra-European card payments would no longer take place via the ICS networks, but via one or more European networks. With the Interchange Fee Regulation (IFR 2015), the Commission has already cleared the way through the required separation between scheme and processing (Art. 7). As far as is known, this option has not been discussed within the EPI (at least not with open doors).

With a European processing in place, a boycott would only affect the relatively few incoming and outgoing non-European card payments. Processing in a European system has other advantages apart from cushioning potential sanctions. European issuers and acquirers would be independent of scheme fees charged by ICSs for processing intra-European transactions.

More importantly, the transaction data would remain within the EU, invisible to the eyes of foreign schemes. Assuming that - at least in the future - consumer payment data is one of the most valuable assets in the data economy, the treasure remains within the EU. Accordingly, the Joint Statement of the governments of seven member states on the EPI initiative (November 2021[29]) read: "*As payments and payment data have become strategically and economically significant, action is more than ever needed*".

What is "American" about a Visa or Mastercard branded card issued in Europe today?

- The issuer is a bank based in the EU. The cardholder is a European. The card is usually produced by a European card manufacturer.
- Most transactions are made with EU-based merchants and are processed by European acquirers.
- Card payments are made in a currency unit set by the ECB or other European central banks. Cardholder and merchant accounts are claims (or liabilities) against EU-based banks and PSPs.
- The Scheme already has a pan-European reach and the card can additionally be used worldwide.

- The scheme is subject to European regulation and supervision.

After implementation of the "Russian" solution, this would be added:

- All intra-European transactions will be processed on European networks. This transaction data remains invisible to the "American" scheme owners.

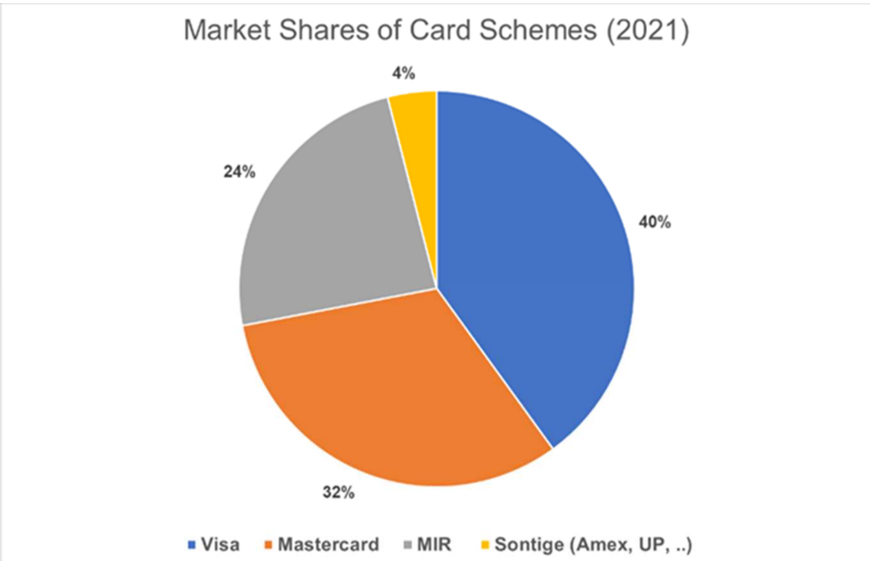
Only the company headquarters and governance would then not be in European hands, or only partially (depending on the participation of European investors). Is this a serious argument with regard to the desired autonomy? What requirements must a card scheme fulfil in order to meet the autonomy requirements from a strategic point of view? Why "*European grown*"? Is a "European-used" according to European rules not enough?

The now de facto largely "European" card scheme would continue to benefit from the multi-billion dollar innovations implemented by the card scheme giants Mastercard and Visa worldwide. Hand on heart: Has a European DCS ever been a leader in this field?

Appendix: The card business in Russia

Each Russian resident had an average of 2.3 payment cards in 2021, predominantly debit cards (88%). The three card schemes Mastercard, MIR and VISA dominate the market with relatively equal weight. See graph 4.

In a relatively short period of 10 years, the use of cards for payments (without cash withdrawals) has increased extremely in Russia. In 2011, the approximately 200 million payment cards (debit and credit cards) issued in Russia were used for payments (mainly domestic) only about 10 times. Currently, with a volume of 335 million cards, this figure is approx. 180 (2021).



Graph 4: Market shares of the card schemes based on card payments volume in 2021.
Source: MIR scheme data and PaySys calculations.

Graph 5: Card transactions of payment cards issued in Russia (issuing)
Source: Central Bank of Russia

The figures are based on the detailed statistics of the Russian central bank.[30] In contrast to the data from the Chinese central bank, the figures on card business are consistent and credible. If one compares the data with the card business in the EU, Russia has long since overtaken the EU in terms of card use (transactions per inhabitant in 2021; excl. ATM):

Transactions per inhabitant 2021 in the EU: 166[31]
Transactions per inhabitant 2021 in RU: 426

Even the member state Denmark, with the highest card use per inhabitant in the EU (393 transactions[32]), is behind the record holder Russia.

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Footnotes

1. Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) 2021/1230 as regards instant credit transfers in euro, Brussels, 26.10.2022, COM(2022) 546 final. („Proposal")
2. See also the „Impact Assessment": Impact Assessment Report. Accompanying the document „Proposal for a regulation of the European Parliament and of the Council amending Regulations (EU) No 260/2012 and (EU) No 2021/1230 as regards instant credit transfers in euro, Brussels, 26.10.2022, SWD(2022) 546 final."
3. https://www.ecb.europa.eu/paym/integration/retail/instant_payments/html/index.en.html; It is unclear why more up-to-date figures are not currently available. The European Payments Council (EPC) reports "There are equally no payment statistics available for the number of payment transactions carried out in accordance with the Instant Credit Transfer (SCT Inst) scheme at this moment." https://www.europeanpaymentscouncil.eu/what-we-do/be-involved/sepa-payment-statistics
4. The Impact Assessment (p. 6) states: "*If IPs were to become universally used, these funds would become immediately available for economic use, either consumption or investment, thus contributing to growth*."
5. In the past, a significant portion of payments revenue consisted of interest gains, which arose because accounts used for payment purposes are usually non-interest bearing. However, these earnings (seigniorage) have declined considerably in times of low or even negative interest rates. On this topic, see: Krueger, Malte and Franz Seitz: Kosten und Nutzen des Bargelds und unbarer Zahlungsinstrumente. Modul 1: Übersicht und erste Schätzungen, Frankfurt/M., 2014
6. The loss of efficiency would rather be due to the fact that the corresponding payment services would be underused relative to other goods and services.
7. Michael Salmony: The future of instant payments: Are we investing billions just for mobile peer-to-peer payment?, Journal of Payments Strategy & Systems, Volume 11, Number 1, 2017.
8. See, for example, Salmony 2017, p. 62.
9. Interestingly, the EU Commission does not talk about risks of instant credit transfers but about "*concerns of payment service users*." Is this to say that the problems are not real but only in the users' minds? The "Impact Assessment" addresses possible security risks (Annex 5). But it seems that matching the IBAN and the account holder's name is seen as a proven way to significantly reduce risks. Unfortunately, experience in the United Kingdom suggests otherwise (see Box on APP fraud).
10. See Payment Systems Regulator (PSR): PSR directs 400 firms to introduce the payment protection measure, Confirmation of Payee (https://www.psr.org.uk/news-updates/latest-news/news/psr-directs-400-firms-to-introduce-the-payment-protection-measure-confirmation-of-payee/).
11. Payment Systems Regulator: Consultation paper. Authorised push payment (APP) scams: Requiring reimbursement, September 2022.
12. Bank for International Settlements (BIS), Red Book Statistics - Russia
13. ECB Payment Statistics
14. Source: Russian Central Bank. This represents more than half of card sales in the eurozone (2021: USD 2,666 billion).
15. Several unverifiable sources point to a slight lead of Visa over Mastercard. The figures published by Statista (Visa: 45%; Mastercard: 36%) for 2020 are too high. Cf. https://www.statista.com/statistics/1116613/russia-payment-card-usage-for-ecom-and-pos-by-brand/
16. See Annual Report Visa 2022, p. 27. It remains unclear why Visa estimates the corresponding revenue losses for the fiscal year 2021 at 2%, as there were no Ukraine-related sanctions against Russia in this period yet.
17. See Annual Report Visa 2022, p. 36 and S. 63.
18. Tass Press release of 15 June 2022; https://tass.ru/ekonomika/14919887?ysclid=lbkqjy3rwk291555226
19. See Der Spiegel, Iran will russisches Zahlungssystem Mir einführen, 27.07.2022; https://www.spiegel.de/wirtschaft/unternehmen/iran-will-russisches-zahlungssystem-einfuehren-mir-statt-visa-und-mastercard-a-8914bd16-5116-4c48-8986-6e7bf27e45fd and from a Russian perspective: https://www.russia-briefing.com/news/iran-set-to-join-russia-s-mir-card-payment-system.html/
20. https://home.treasury.gov/policy-issues/financial-sanctions/faqs/1082
21. OFAC: Office of Foreign Assets Control (Control Authority of the US Government in relation to sanctions).
22. See Retail Banker International, Russia calls on BRICS nations to integrate payment systems and cards, 11.04.2022; https://www.retailbankerinternational.com/news/russia-brics-nations-payment-system/
23. See EAEU looks to establish a common Payment System with the BRICS, 30.11.22; https://www.russia-briefing.com/news/eaeu-looks-to-establish-a-common-payment-system-with-the-brics.html/
24. See Visa Annual Report 2022, p. 21
25. Politicians and central bankers continue to persist in using the term "dominance", although in the EU card market (EU-27) the market share of the American card schemes is "only" about 50%.
26. https://finance.ec.europa.eu/eu-and-world/open-strategic-autonomy/international-role-euro_en
27. See Do Mastercard and Visa dominate the European card market? In: PaySys-Report, No. 10 (Dec. 2021). More recent figures are not yet available. In this report, we will soon report on the results for 2021.
28. In e-commerce, DCS brands are increasingly accepted across borders within the EU.
29. https://www.bundesfinanzministerium.de/Content/DE/Pressemitteilungen/Finanzpolitik/2021/11/2021-11-09-joint-statement-epi.html
30. See UnionPay: Card Champion of the World, PaySys-Report, Nr. 1 (2019), p. 6
31. Source: ECB Payment Statistics – comparative tables (7.4)
32. The Member States Luxembourg and Lithuania with the highest ratios (410 and 440 transactions per inhabitant, respectively) are eliminated as benchmarks in the country comparison due to the high volumes in cross-border issuing.

We wish all our readers a Happy New Year!

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