



PAYSYS REPORT

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France: War of the Card Schemes

We would like to thank Emmanuel Caron, Senior Manager at our EPCA partner Galitt Payment Consulting who provided us with valuable information on the French card market.

(mk/hg) „War has been declared“ – this is how the French financial newspaper Les Echos describes the relationship between the French domestic card scheme Cartes Bancaires (CB) and the international schemes (ICS) MasterCard and Visa.¹ With the introduction of application selection at the POS, CB and the ICSs will compete head on. 95% of French bank cards are co-badged so that in almost

all transactions merchants and/or card holders will be able to choose which brand to use. Transactions with French CB cards in France will no longer be automatically CB transactions. It is expected that the ICSs will use their financial firepower to convince merchants, card holders and issuing banks to opt for MasterCard or Visa rather than for CB.

Our Comment:

For the moment the industry seems to be mainly concerned with the implementation of regulation 2015/751 on interchange fees for card-based payment transactions regarding application selection at the POS. However, once this issue has been settled all eyes will be on the relationship between domestic and

international card schemes. So far, SEPA and the accompanying competition policy has been a double-edged sword for the international schemes. On the one hand, they had to substantially lower interchange fees.

But on the other hand, they were able to gain market share and even replace domestic schemes in some markets (most notably in Holland and Finland). Now, they seem to have set their sights on France, in terms of card volume by far the biggest prize in SEPA (see Figure 1).

Figure 1 The French card market

	Number of trx*	Value of trx*
France (2015)	9.8 billion	440 b. €
France (2014)	9.1 billion	420 b. €
Euro area (2014)	26.9 billion	1,335 b.€
EU (2014)	47.5 billion	2,351 b.€
France in % of euro area	33,8%	31,5%
France in % of EU	19,2%	17,9%

*: Payment transactions

Source: Cartes Bancaires and ECB data warehouse

Apparently, the ICSs are already actively trying to gain market share. The main tool consists of “incentives”.

- Large merchants like Carrefour are offered favourable deals in order to preselect MasterCard or Visa.
- Issuers are receiving incentives to issue single-brand cards (dropping the CB brand). Some banks owned by retailers are already offering single brand cards (MasterCard-only or Visa-only).
- For card holders there is the well-known stock of bonus programs, selective discounts, etc.

For a bank-owned company such as CB it is hard to match this strategy. After all, it can hardly ask its own-

ers for additional funds in order to pay them incentives. Thus, a lot depends on the leading banks who are card issuers and acquirers and who own CB. For a card scheme of its size (roughly 10 billion transactions), CB’s operating costs of 27.5 million EUR are fairly modest.² Even if, at the moment, MasterCard and Visa are willing to undercut CB’s fees, this may change in the long run. Moreover, in terms of governance, a switch to the ICSs would imply a loss of control.

Looking beyond CB, there is also the issue of who processes transactions. In France, card transactions, as well as credit transfers and direct debit are processed by STET, one of the largest clearing houses in the world. Regulation 2015/751 regulates that scheme and processing must be separated and open to competition. Thus, the ICSs could also offer to process CB transactions - taking volume away from STET. Given STET’s huge transaction volume (more than 20 billion transactions per year), the ICSs may not be able to achieve the same level of costs. But they may be willing to incur temporary losses. So, even STET may come under competitive pressure. Looking across the channel to the UK, there is also the example of MasterCard simply buying the local clearing house (Vocalink).

Overall, it has to be concluded that in spite of huge transaction volumes and almost complete dominance of the French market, neither CB nor STET are safe in their current positions. Should the ICSs succeed in winning the French market it would become much more likely that there will be just two SEPA card schemes in the end: MasterCard and Visa.



JCB technology for Danish Debit Card scheme

Nets, the Nordic payment processor, has just announced, a technology agreement with the Japanese credit card company JCB on using their contactless technology for mobile debit and credit cards.

Mobile payment technology has been tested in Japan for many years. With the agreement Nets gets access to both

JCB's extensive experience in the field and a very large network worldwide. JCB is larger than both American Express and Diners. So it is certainly an interesting player for Nets. Nets on the other hand is introducing JCB to the Nordic region and giving recognition to its technology. This can be helpful for JCB when trying to enter other European markets.

Our Comment:

(written by our guest author Henning N. Jensen managing director of our Danish EPCA-Member PlusCON)

The Nets-JCB deal has interesting implications for the Danish card market. In connection with the development of mobile payments the mobile digital wallet on the cell phone can't have a co-branded VISA/Dankort card, since payment terminals would not be able to distinguish between the two systems. Moreover, when opening their wallets, card users have to select which card they want to pay with, in the Danish case, either Dankort or Visa. But this does not work with a co-branded card.

So, eventually, the mobile will contain both a "pure" debit card and a "pure" digital VISA card, and there will also be an option for a "pure" digital MasterCard, SAS bonus card, Coop bonus cards, digital driving license, etc.

The biggest news is not mentioned in the press release. The cooperation with JCB in the field of mobile payments also means that the 30-year collaboration

with VISA on different cards technologies has not been extended to include the mobile payment area. This will probably come as a surprise to most observers.

One can only speculate about the reasons for this issue not being mentioned in the press release. Factors may include:

- JCB is considered a better long-term partner for mobile payments because of its experience from the Far East, where they are far ahead of Europe.
- JCB has offered new functionality, not mentioned yet, but functions Nets would like to have access to.
- JCB complies with internationally recognized standards and protocols.
- VISA may have raised its prices for the use of its technology after VISA Europe was sold to VISA International.
- Working with VISA might have become more difficult over time.

That Dankort is not cooperating with VISA in the mobile payment area does not immediately "break" the cooperation with respect to the physical VISA/Dankort card or over contactless payments. The agreements in these areas run far into the future. But in the long term it may mean that VISA's interest in this cooperation is reduced.

In the short term, there is hardly a prospect of a major debit or credit card war on the Danish market. But in the longer term, Danish issuing banks will undoubtedly have a greater choice of debit card products.

We will have to wait and see whether Danish consumers switch to new products or, out of habit, remain loyal to the current products over the coming years.

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At the same time VISA may become more interested in the Danish banks issuing "pure" physical VISA cards. However, Danish banks have been able to do so for years without using this option very much. As far as pure credit cards are concerned, MasterCard has been chosen as the preferred partner for banks.

Notes

- 1 Renaud, Ninon: Cartes bancaires: la guerre est déclarée entre réseaux de paiement, www.lesechos.fr, 7 June 2016. See also Renaud, Ninon: Cartes bancaires: l'avenir incertain des systems domestiques, www.lesechos.fr, 2 November 2015.
- 2 2015 Activity Report of Groupement des Cartes Bancaires.
http://www.cartes-bancaires.com/IMG/pdf/rapport2015interactif_version_courte_site_internetEN.pdf

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