On the Importance of Application Selection

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PaySys Consultancy

- Independent consultancy founded in 1993

- Focus on card-based payment systems (incl. cash withdrawal)

- Founding member of EPCA

- Platform provider for industry discussions

- Services:
  - Strategic consulting
  - Benchmarking studies
  - Market research
  - Implementation assistance

- Geographical scope: Germany and other European countries

PaySys Consultancy

|	Issuers	Acquirers	Processors Schemes Other PSPs	Merchants	Regulators
SEPA-Strategy	👍	👍	👍	👍	
Business Case	👍	👍	👍	👍	
Market Studies	👍	👍	👍	👍	👍
Benchmarking	👍	👍	👍	👍	
RFPs and RFIs	👍	👍	👍	👍	
Regulation	👍	👍	👍	👍	👍

Contents

Application Selection at the POS:

• **Different Scenarios**

• **The Rules**

• **The Strategic Importance**

Application Selection at the POS: Different Scenarios

Scenario 1: Pre-selection on chip

Brand decision

Super Card

Mr. Smith

Dream Card
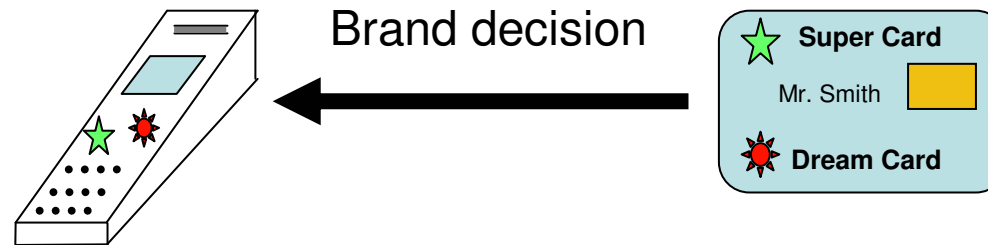
- Card holder decides when applying for her card.

- Issuer implements card holder decision on the card.

- Automatic application selection at the POS

➡ Opportunity of issuers to „steer" customers.

Application Selection at the POS: Different Scenarios

Scenario 1: Pre-selection on chip

If a merchants accepts both, Super Card and Dream Card, I want to pay with

☐ Super Card

☐ Dream Card

Please choose one of the two options.

If a merchants accepts both, **Super Card** and Dream Card,

☐ I prefer to collect sensational bonus points with my **Super Card** ⭐
To learn more about the advantages of Super Card turn to page 6 or www.supercard.com.

☐ I prefer Dream Card

Make the right coice! It's easy!.

Application Selection at the POS: Different Scenarios

Scenario 2: Application selection embedded in terminal-customer interface
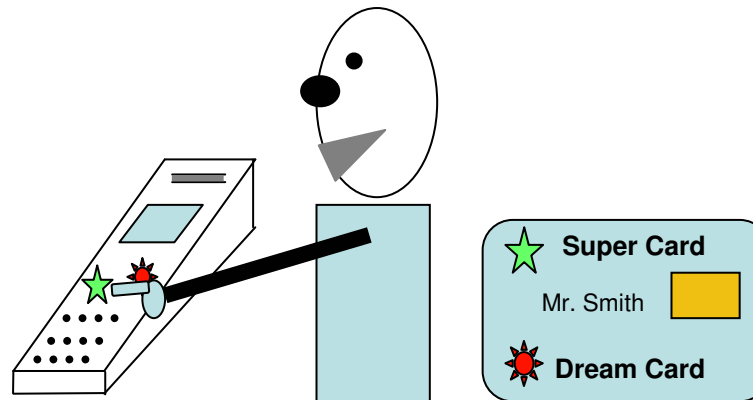
- Terminal indicates application choices.

- Card holder selects preferred application.

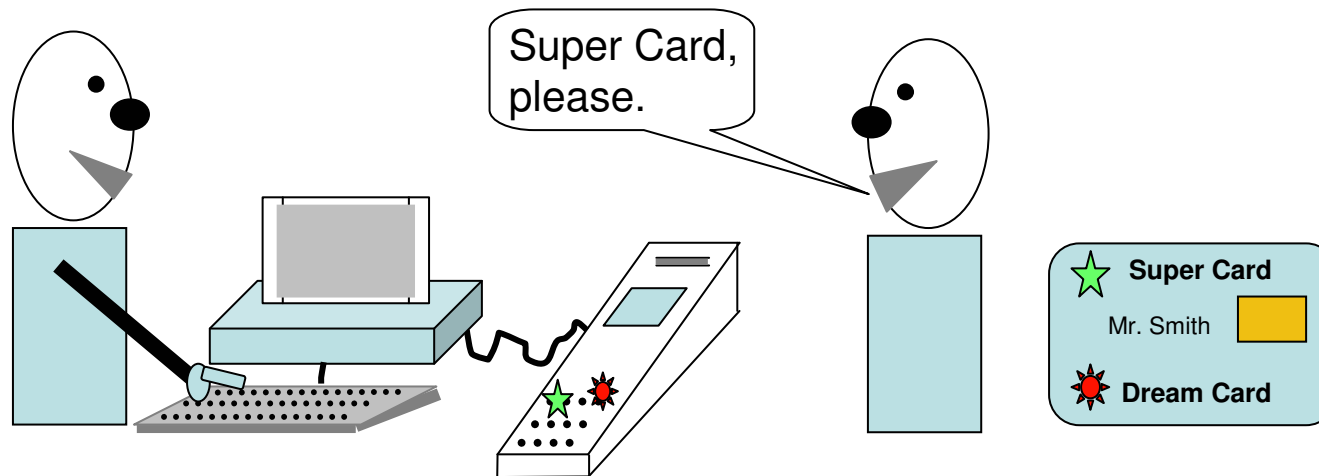➡ Opportunity for issuers to „steer" customers (bonus points, etc.)

➡ Opportunity for merchants to „steer" customers:
-> surcharges,   -> rebates

➡ Uninformed customers may slow process at the POS.

Application Selection at the POS: Different Scenarios

Scenario 3: Application selection embedded in terminal-cash register interface

➡ **Customer decides**

Super Card, please.

Super Card
Mr. Smith
Dream Card

- Card holder informs attendant about his preferences.
- Attendant selects payment brand at the cash register.

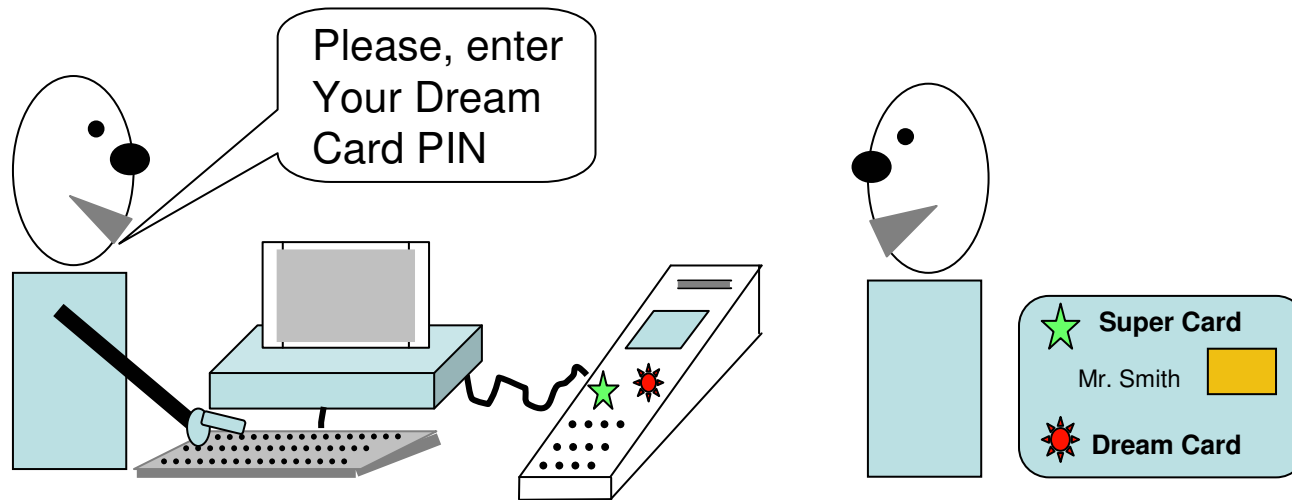➡ Opportunity for issuers to „steer" customers (bonus points, etc.)

➡ Opportunity for merchants to „steer" customers:
-> surcharges,   -> rebates

Application Selection at the POS: Different Scenarios

Scenario 4: Application selection embedded in terminal-cash register interface

➡ **Merchant decides**

- Attendant selects payment brand at the cash register.
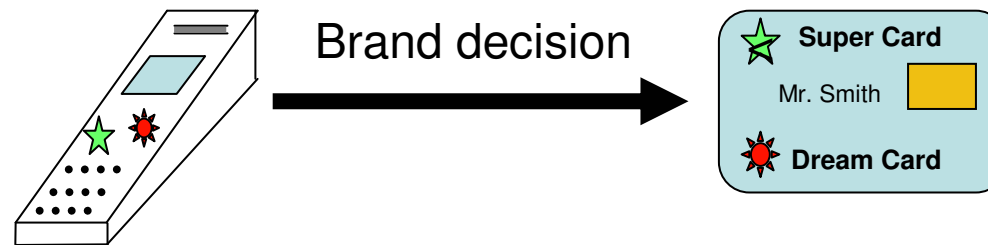- Attendant tells card holder which card to use.

➡ Merchants can select cheapest card.

➡ Attendant must be educated about applications/brands.

➡ Possible resistance by card holders / ignorance of PIN.

Scenario 5: Pre selection in the terminal

Brand decision

Super Card

Mr. Smith

Dream Card

- Terminal selects brand.
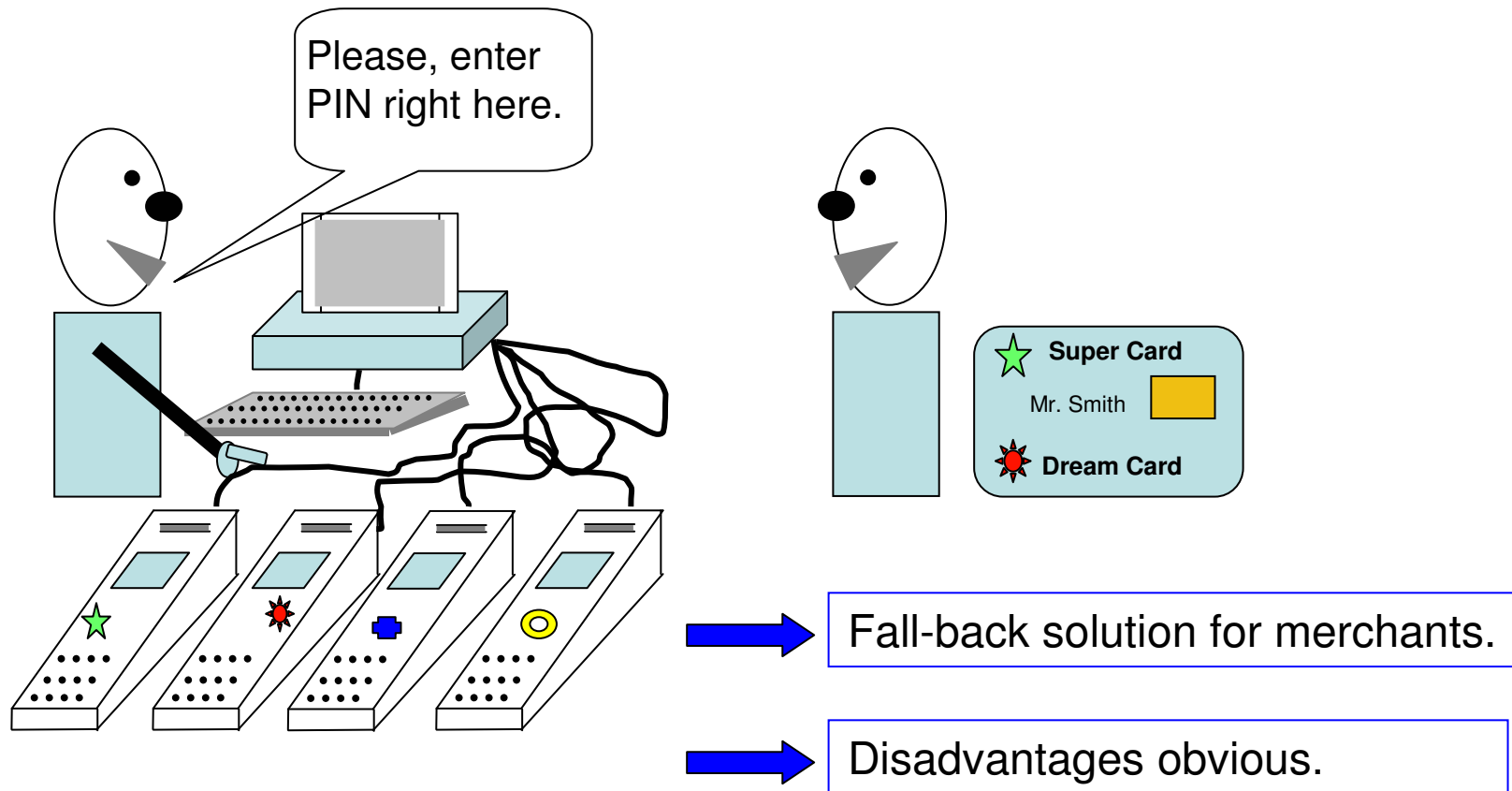- Card holder is told by terminal which brand is used.

➡ Merchants can select cheapest card.

➡ Possible resistance by card holders / ignorance of PIN.
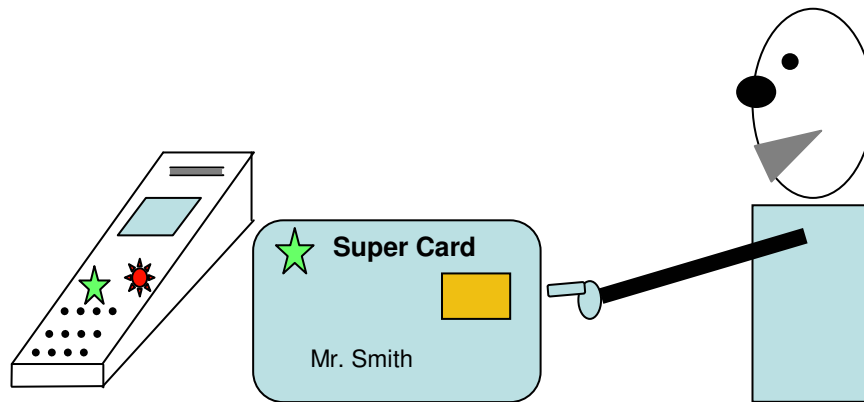
Application Selection at the POS: Different Scenarios

Scenario 6: The multi-terminal solution

Please, enter PIN right here.

Super Card
Mr. Smith
Dream Card

Fall-back solution for merchants.

Disadvantages obvious.

Application Selection at the POS: Different Scenarios

Scenario 7: The end of co-branding

Super Card

Mr. Smith

➡ Fall-back solution for issuers.

➡ Improves issuers' bargaining position with merchants.

➡ Problem for issuers:
- Not all brands provide wide coverage.
- If international coverage is desired, there is little choice.

Contents

Application Selection at the POS:

- **Different Scenarios**

- **The Rules**

- **The Strategic Importance**

SEPA Cards Framework, Version 2.1, 18 Dec. 2009, p. 17

… cardholders will have through their cardholder agreement with their card issuer the choice of which payment application they will use provided the merchant accepts it and its POS equipment supports it[46].

[46] For example, where the POS equipment is limited to certain transaction types e.g. motorway tolls: in such cases the default application set by the issuer should be used.

The agreement between the cardholder and the issuer will define the choices available to the cardholder. **Prevalence at POS or ATM for a particular payment application may not be mandated by a card scheme or ATM operator or merchant.**

Application Selection at the POS: The Rules

SCF Standardisation Volume, Version 4, 18. Dec. 2009 p. 46

4.3.2.3.1 Application Selection for Cardholder Present and Remote Transactions
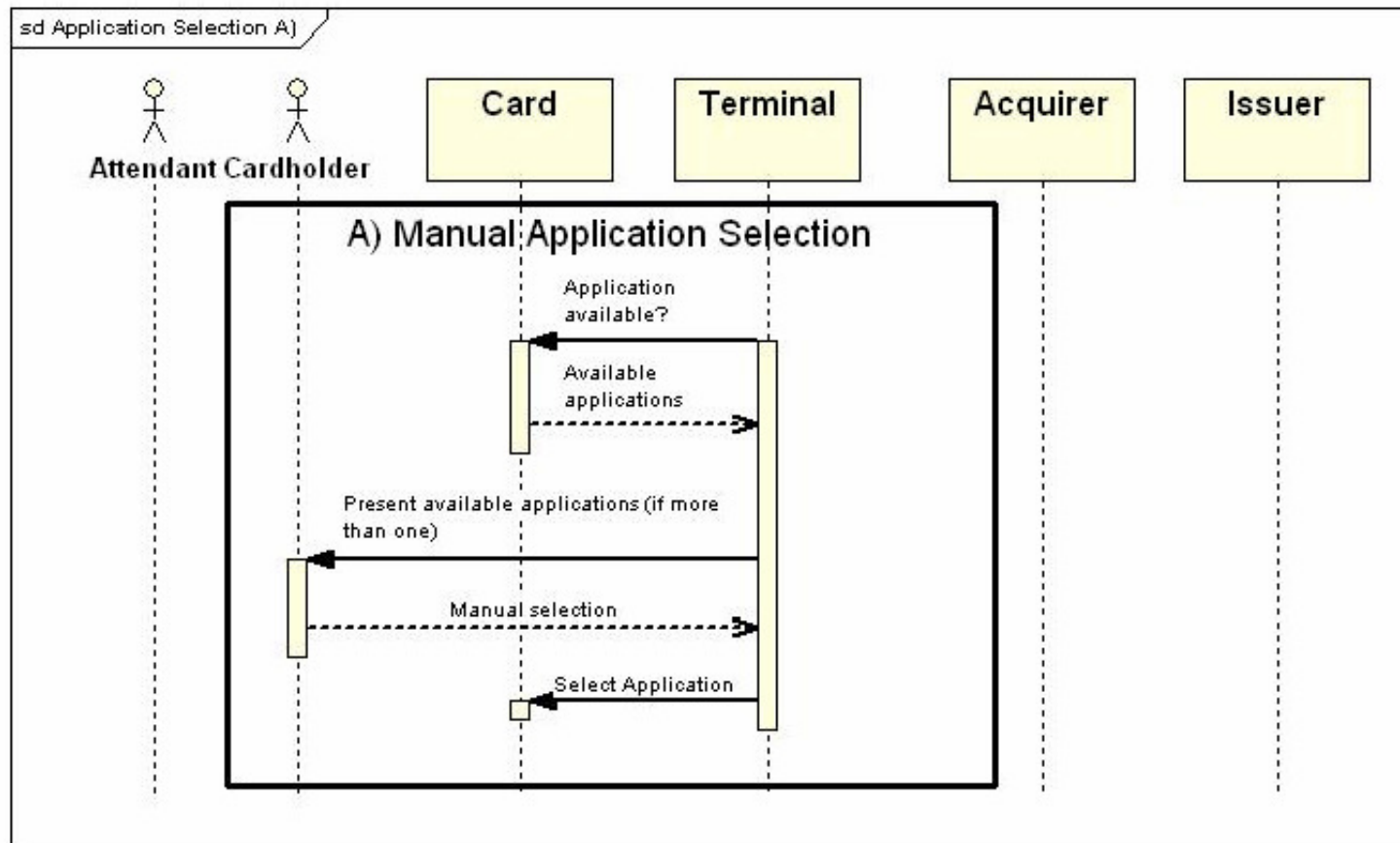
FIGURE 17 APPLICATION SELECTION FOR CARDHOLDER PRESENT AND REMOTE TRANSACTIONS - MANUAL

Malte

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Application Selection at the POS: The Rules

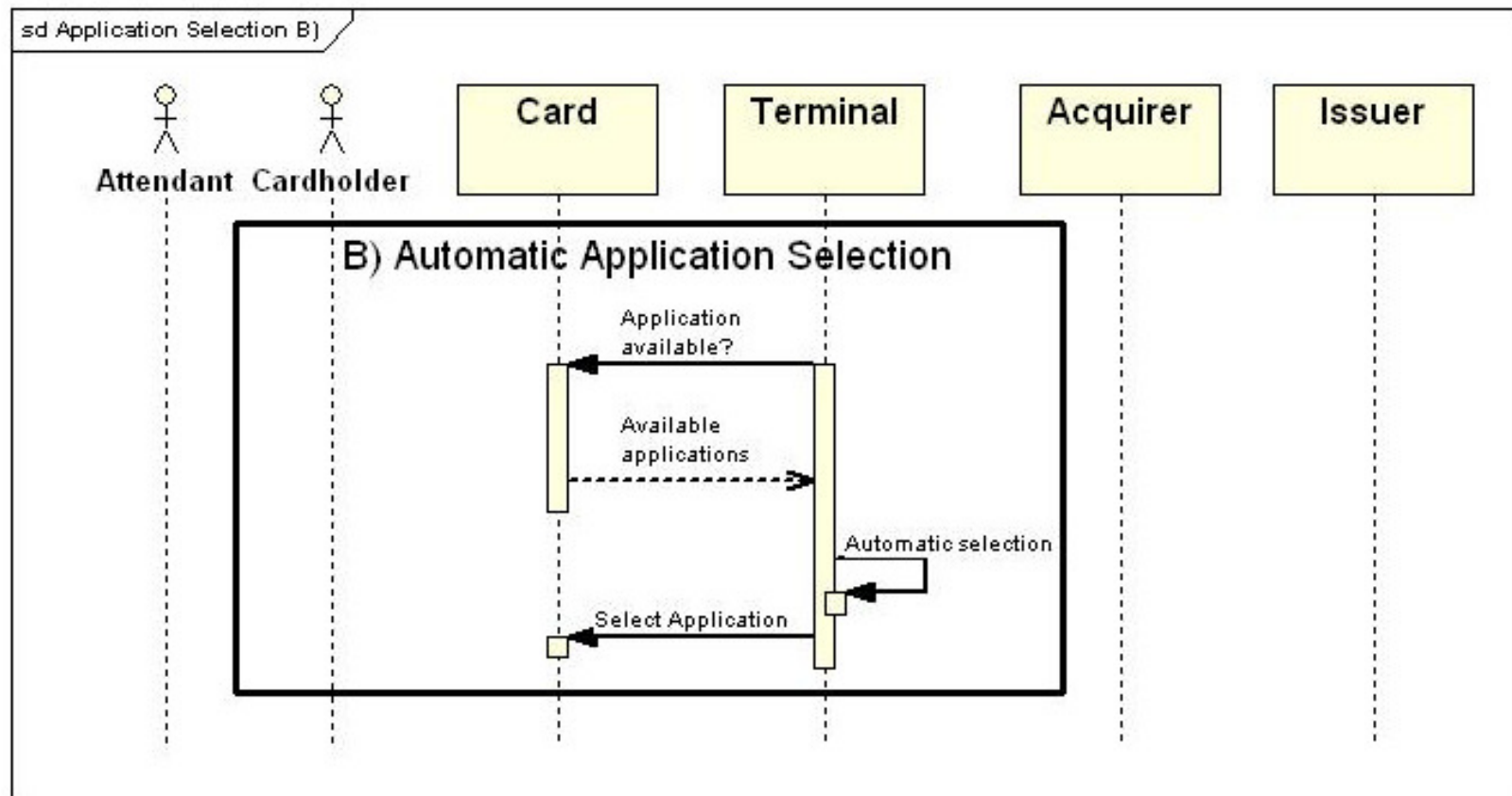**SCF Standardisation Volume, Version 4, 18. Dec. 2009**   p. 46

FIGURE 18 APPLICATION SELECTION FOR CARDHOLDER PRESENT AND REMOTE TRANSACTIONS - AUTOMATIC

Application Selection at the POS: The Rules

SCF Standardisation Volume, Version 4, 18. Dec. 2009

4.4.3.3.2 Application Selection

p. 67

Req T25: Application selection must follow EMV rules.[4]

[4] Application selection should also follow the rules and guidance provided in the SCF (http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=18) and the related Q&A (http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=132 .

4.4.4.3.1 Application selection

p. 73

Req T73: The cardholder shall select one of the payment products shown by the POI that matches one of the payment product logos set on his payment card (physical or virtual card).

Application Selection at the POS: The Rules

EMV:

EMV 4.2 Book 4 Cardholder, Attendant, and Acquirer Interface Requirements
June 2008

11.3 Application Selection   p.91

A terminal supporting more than one application should offer the cardholder the ability to select an application or confirm the selection proposed by the terminal.

A terminal not offering the cardholder the ability to select or confirm a selection shall determine those applications supported by both the card and the terminal that may be selected without confirmation of the cardholder according to Application Priority Indicator, if present. The terminal shall select the application with the highest priority from those.

Application Selection at the POS: The Rules

Mastercard SEPA Rules
2008

Non discrimination rule

No priority rule at acquirer or terminal level

No technical blocking of MasterCard transactions

The card holder must have the choice

If choice is not feasible: issuer priority rules apply

„technical blocking": Where does that start and where does that end?

Application Selection at the POS: The Rules

European Central Bank:
TERMS OF REFERENCE FOR THE SEPA COMPLIANCE OF CARD SCHEMES
4 March 2009, p. 7

18. Where several payment applications are contained in the same card and supported by the same terminal, cardholders and merchants[18] will have the choice of which payment application they will use. (SCF)

Is it ensured that scheme rules do not prevent that both the cardholder and merchant have the choice of which payment application (e.g. debit or credit or choice among different schemes and brands) is used out of several ones contained in the same card and supported by the same terminal?

a. Are you aware of any practical difficulty in your country or elsewhere where the cardholder or the merchant is prevented from choosing the payment application to be used? Please describe.

[18] "and merchants": addition of the Eurosystem to the SCF requirement.

Summary

Most rule books prescribe application selection by

- card holders and/or

- **issuers**

The ECB prescribes application selection by

- **card holders <u>and</u> merchants**
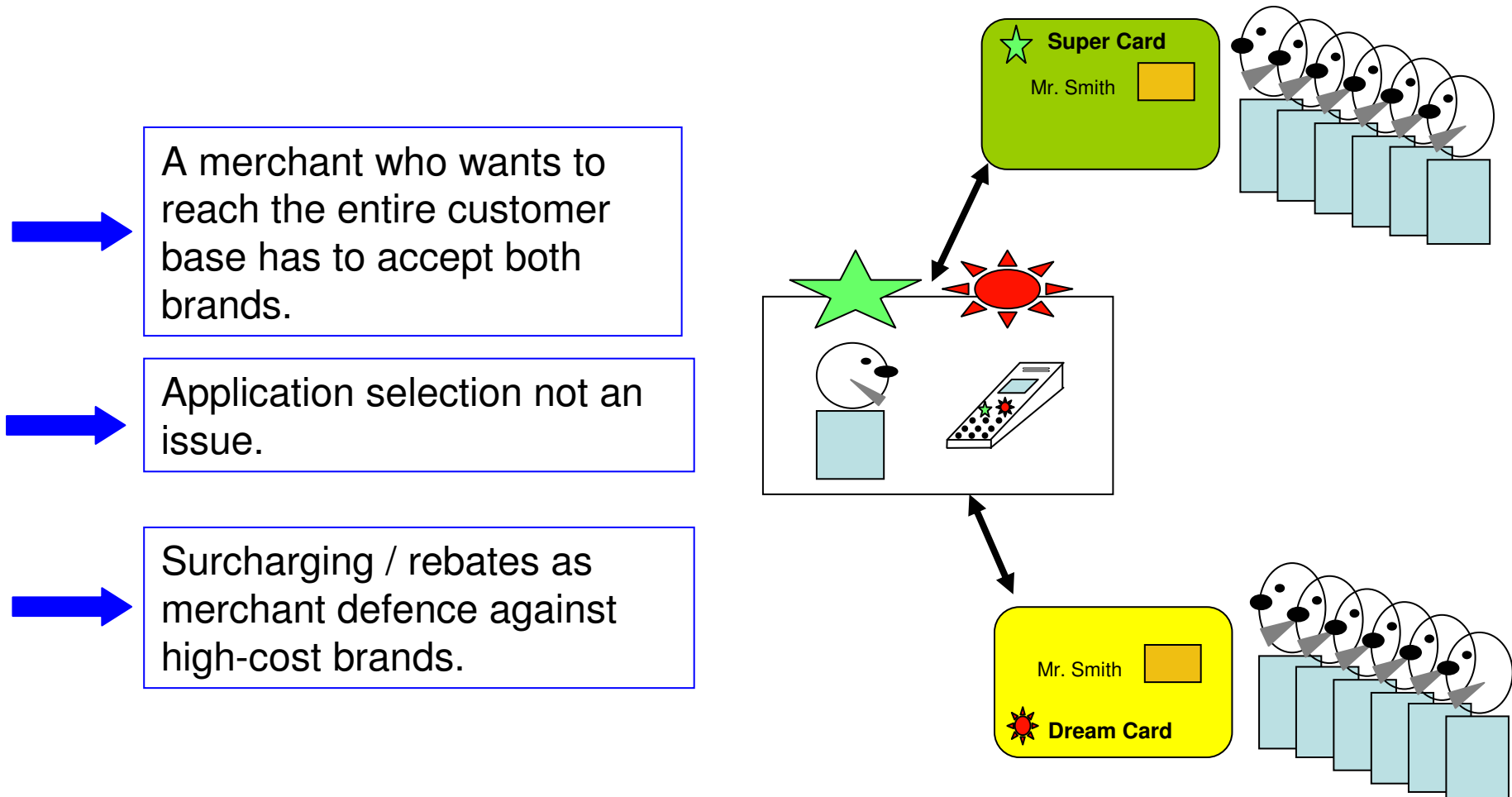
(Whatever that means!)

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The strategic importance of co-branding and application selection

Single-branding: no real competition on the acquiring side

➡️ A merchant who wants to reach the entire customer base has to accept both brands.

➡️ Application selection not an issue.

➡️ Surcharging / rebates as merchant defence against high-cost brands.

Super Card
Mr. Smith

Mr. Smith
Dream Card

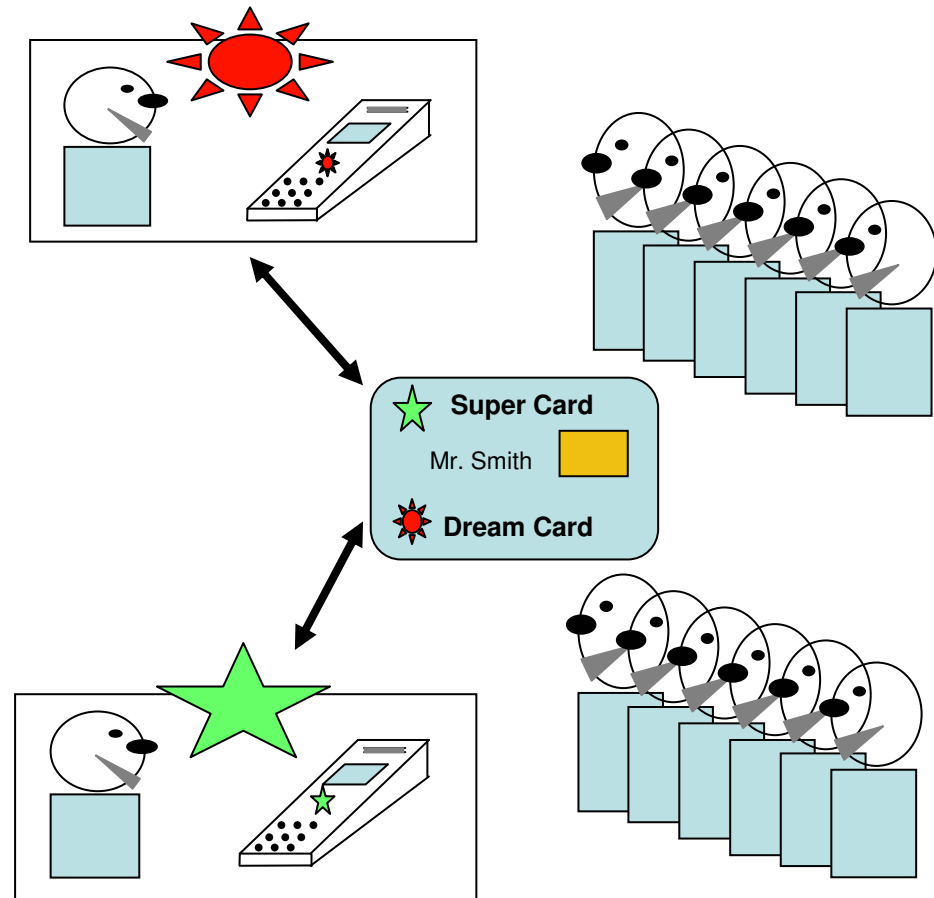# The strategic importance of co-branding and application selection

100% co-branding: Very good bargaining position for merchants
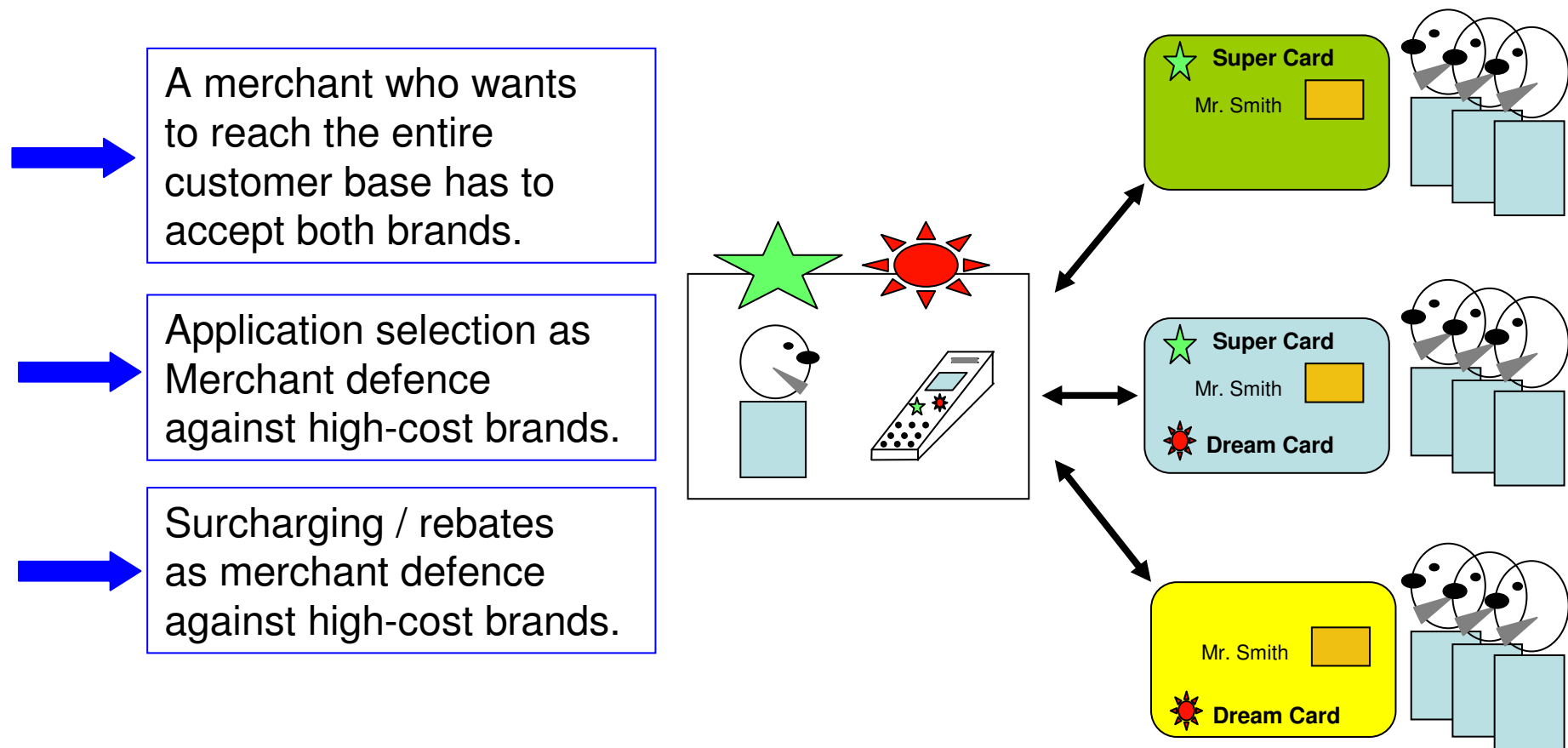
→ Each merchant needs to accept only one brand.

→ Application selection and/or surcharging is less important in this case.

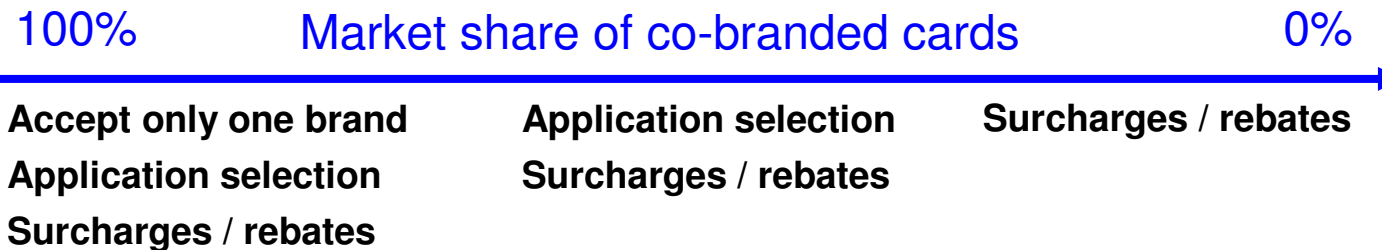# The strategic importance of co-branding and application selection

Single and co-branding: limited competition on the acquiring side

A merchant who wants to reach the entire customer base has to accept both brands.

Application selection as Merchant defence against high-cost brands.

Surcharging / rebates as merchant defence against high-cost brands.

Super Card
Mr. Smith

Super Card
Mr. Smith
Dream Card

Mr. Smith
Dream Card

The strategic importance of co-branding and application selection

The bargaining power of merchants vis-à-vis issuers.

Merchant options determined by the state of co-branding

100%   Market share of co-branded cards   0%

Accept only one brand   **Application selection**   **Surcharges / rebates**
Application selection   **Surcharges / rebates**
Surcharges / rebates

Application selection is particularly important

- if surcharges / rebates are forbidden or costly

- if the share of co-branding is neither close to 100% nor close to 0%.

We expect the issue to remain highly controvercial.

Thank you for your attention!

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