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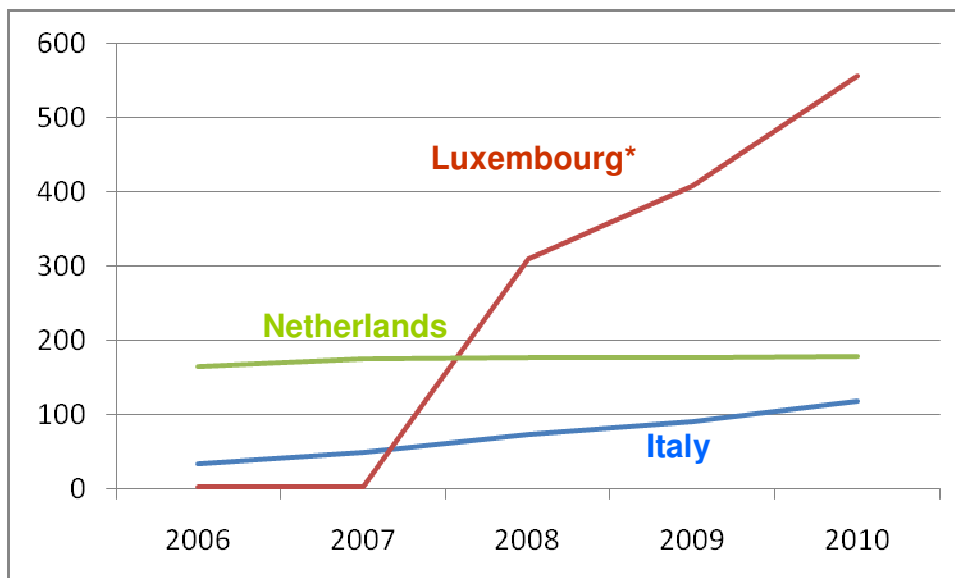
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## **1. In search of a European e-money champion: And the winner is ... Luxembourg!**

In its recently published eSEPA newsletter, the ECB highlights some of the key data provided by the annual update of payment figures (“Blue Book”) of the ECB. The Blue Book contains a wealth of figures on European payments and in its eSEPA newsletter, the ECB particularly stresses the striking growth of e-money payments.<sup>1</sup>

E-money transactions in the EU grew by almost 20% in 2010 reaching a volume of 1.09 billion transactions. The total value of e-money transactions has increased from 20.7 to 28.3 billion EUR (+36.6%). In terms of the number of transactions the three largest markets are Luxembourg, Italy and the Netherlands.

**Chart 1 Number of transactions carried out with e-money (million)**

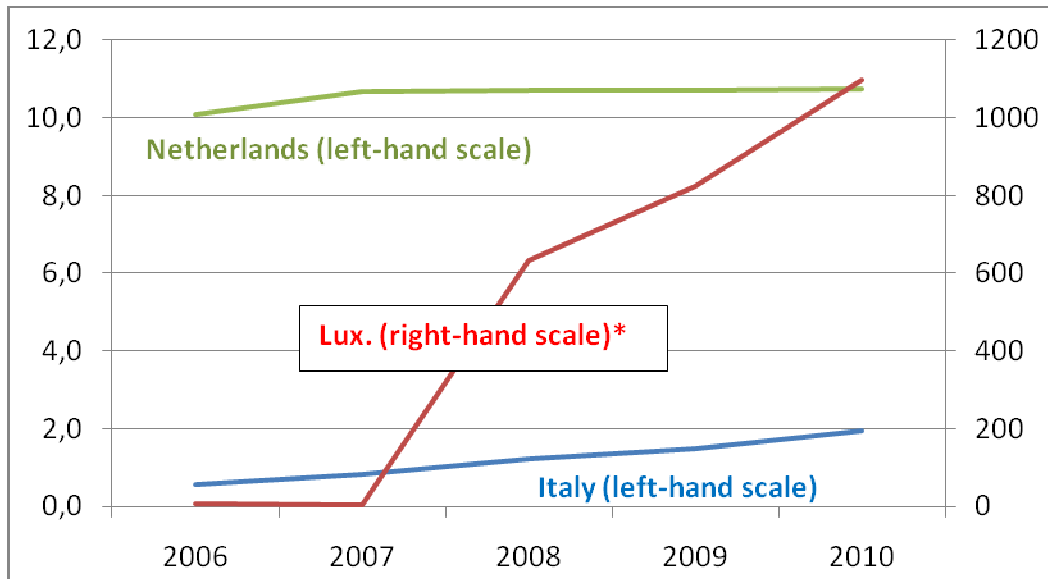


\*: In the years 2008-10 including transactions with “other e-money storages”. Source: ECB Blue Book data

<sup>1</sup> See “EU payment statistics for 2010 (former Blue Book addenda)” eSEPA Newsletter No 6 (Autumn/Winter 2011).

Moving to per capita figures, Luxembourg's lead in e-money payments becomes even more striking. The calculated average number of e-money transactions per head in 2010 was 1096. Compare this with 11 in the Netherlands and only 2 in Italy!

**Chart 2 E-Money transactions per capita in three countries (transactions per year)**



\*: In the years 2008-10 including transactions with "other e-money storages".

### **Our Comment**

*It almost looks like a miracle and thus perfectly fit for our December edition. More than 1,000 e-money transactions per head, an average stock of e-money of more than 1,700 EUR per person and a purchase value carried out with e-money of over 38,000 EUR. In Luxembourg, retail payments seem to be carried out almost exclusively with e-money. How can that be explained? First, digging deeper into the numbers we find that almost all of the transactions are carried out not with cards but with "other e-money storages". Card-based e-money was used, on average, only about 3.3 times per person. That sounds more like comparable figures in other European countries.*

*But what about the "other e-money storages"? Sometimes, it pays to have a look at the explanatory notes. With respect to data for Luxembourg, we learn that "e-money purchase transactions with other e-money storages: - the figures include P2P transactions - the transactions are counted according to the principle of the residence of the account. A large part of e-money account holders are not LU residents." So much for the "Luxembourgian miracle". The figures cited seem to reflect European use of certain instruments rather than only use of people based in Luxembourg. But this raises the question who may be the*

provider of such a large e-money scheme. The regulatory authority is the Commission de Surveillance du Secteur Financier (CSSF). The CSSF has registered one e-money institution, AMAZON PAYMENTS EUROPE S.C.A. Well, Amazon is certainly big and it is an active PSP – but has it secretly become Europe’s largest e-money issuer? We looked at its gift vouchers. But these vouchers do not seem to be e-money. Thus, we looked at the list of banks registered in Luxembourg and, indeed, there was a candidate: PayPal (Europe) S.à r.l. et Cie, S.C.A.. So, for “e-money in Luxembourg” we may as well read “PayPal in Europe”. The figures are impressive indeed. Particularly noteworthy is the continuing high growth.

**Table 1 PayPal in the EU**

	2008	2009	2010	Growth in 2010
Value held in PayPal accounts (€ m.)	451	625	869	39,0%
PayPal transactions (m.)	306,61	406,54	554	36,3%
Value of transactions (€ b.)	11,02	14,11	19,49	38,1%

Source: ECB data for Luxembourg and own calculations.

The example shows that payment statistics have to be interpreted with caution. This is true not only for the Luxembourg data. If we also look at the other two countries included in our charts, Italy and the Netherlands, we see that the meaning of the term “e-money” may vary from country to country or from statistics to statistics. The data for “e-money” in Luxembourg refer to funds held in wallets that can be used for internet payments (and increasingly also for payments on the mobile internet). The Dutch data refer to balances held on the national e-purse Chipknip. It is an instrument that is mainly used for small-value payments such as parking or meals in canteens. It comes closest to the initial idea of e-money as a bearer instrument, meant to replace cash. Similar instruments can be found in other countries such as Austria or Germany. Finally, in Italy, “e-money” mainly consists of balances held in accounts that are lined to a Visa or MasterCard branded credit cards. Such cards are also known as “prepaid credit cards”. In Italy, these cards are relatively popular because bank accounts are expensive and the cards and the accounts behind them) allow for a kind of limited banking. Thus, the average amount per transaction is about 60 EUR in Italy and only 2.64 EUR in the Netherlands. Thus, the instruments covered under the heading “e-money” vary substantially. Worse, statistical coverage is not uniform. Prepaid credit cards are not only used in Italy. But in many countries, these cards are lumped together with other credit cards. This makes it almost impossible to conduct meaningful inter-country comparisons.

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*We are certainly aware that collecting data on payments is a difficult and time-consuming task. But sometimes the authorities should tell the users of their statistics more about their limitations.*

## **2. Recent developments in the Italian debit card market (by Marco Fava)<sup>2</sup>**

The Italian market of debit payment cards has developed and grown around the national debit scheme namely PagoBancomat (along with Bancomat, i.e. ATM cash withdrawal functionality) sponsored by Consorzio Bancomat part of ABI, the Association of Italian Banks.

Recent data (source: ABI) show that over 97% of Italian banks offer debit cards with PagoBancomat/Bancomat functionalities while debit cards linked to international debit schemes are offered by 88% of banks. Also while all major and large banks offer both types of debit cards to their customers, 15% of medium size banks do not offer PagoBancomat/Bancomat cards and 23% of them do not have debit cards that support international debit schemes in their card offer catalogues.

Although the national debit scheme is more widespread, especially among consumers, cards that offer international debit schemes features are becoming more the norm than the exception. In fact while at the end of 2007 over 65% of debit cards in circulation issued by Italian banks supported international debit schemes today the penetration of international debit cards is approaching 80%.

On the acquiring side the penetration of POS accepting PagoBANCOMAT cards is next to 100% while that of POS accepting international debit cards was 84% in 2007 and is slowly approaching 90%, therefore at a lower pace than the growth in penetration of international debit cards.

Most debit cards branded with the international debit schemes are co-badged, so the domestic transactions made with these cards are in fact PB-transactions (and not transaction supported by international debit schemes (eg. Maestro or VPAY).

However not all international debit schemes cards issued by Italian banks are co-badged and an increasing number of them support an international debit scheme only.

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<sup>2</sup> Managing Director of CleverAdvice an independent international business advisory firm and member on the European Payments Consulting Association (EPCA), [www.cleveradvice.eu](http://www.cleveradvice.eu).

So in reality there exists competition between the domestic and international debit brands for domestic debit transactions since MIF (and MSC) for a domestic PB-Transaction is other than the same type of fees for a domestic Maestro or VPAY transaction.

### ***Our Comment***

*Cards that support international debit schemes offer a number of benefits over and above those of domestic debit cards. These include:*

- *Opportunity to use the card abroad in a larger number of countries*
- *Lower fees when using the cards abroad both when paying at POS and when withdrawing cash at the ATM*

*The above mentioned features are particularly relevant for a few cardholders types:*

- 1. individuals that travel abroad,*
- 2. professional with business travel needs and*
- 3. companies that employ a number of individuals that need to travel for business purposes.*

*Other reasons why we expect a bright future in the international debit card space are the increasing effort into that path from international cards schemes and the recent erosion of general economic conditions with consequent reduction of credit easiness which lead to a reduction, to a certain extent, of the diffusion of credit and deferred debit (charge) cards. A number of cards with credit features have been replaced by debit cards, many of which support international debit schemes.*

*Also a number of consumers now prefer debit products as opposed to credit cards as they feel not as comfortable as they used to in buying on credit.*

*Today there is a peaceful co-existence in domestic market transactions due to the high penetration of co-badged debit cards. However this is expected to change, going forward as competition intensifies with International schemes effort to increase their presence toward an increasing penetration of international schemes-only debit cards.*

*Due to the reasons outlined above, in a few years the Italian domestic debit card scheme - PagoBancomat/Bancomat - may start to become out of favor and large international debit schemes may think of acquiring it.*

### 3. A “National Payment Council” for Denmark (by Henning N. Jensen)<sup>3</sup>

The Danish Consumer Association has publicly called for a “National Payment Council” and The Danish Bankers Association has immediately rejected the call as a new unnecessary bureaucratic procedure.

The Danish Central Bank, however, has reacted swiftly. On December 1<sup>st</sup>, 2011 it announced that it will be chairing a new “Payment Council” and will also support it with secretariat.<sup>4</sup>

The Members will be appointed later, but there will be a broad representation of all relevant parties, like public authorities, governmental offices and all the directly involved parties.

#### **Comment**

*Since the creation of the first Dankort-commission to solve the challenges in connection with the Danish Cards Payment Act of 1999, the cooperation between the parties – the retailers’ organization, the bankers’ association and the consumer association – has deteriorated constantly.*

*In 2004 a new round of talks between the parties - under the chairmanship of the competition authorities ended up in an accepted – but by the banks not well liked – amendment of the Payment Act which for the first time included a payment from the retailers to the banks of 7 cent per transaction, which the retailers were allowed to pass on to consumers (via a surcharge).*

*Few days after the introduction of the Law as per 1<sup>st</sup> January 2005, a general election was called in Denmark and surcharging swiftly became one of the biggest election issues.*

*After a few days the Minister of Economics made it clear that the government would change the Payment Act after the election.*

*The new 2005 Payment Act allowed the banks to charge the retailers through an annual subscription. The subscription price covered 25% of the cost of operating the Dankort-system and was increased to 50% of the costs in 2010. At the same time, surcharging was prohibited.*

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<sup>3</sup> Senior partner at PlusCON, a Copenhagen based payment consulting company and an EPCA-partner.

<sup>4</sup> See [http://www.nationalbanken.dk/dnuk/pressroom.nsf/side/PressDNN201115328/\\$file/DNN201115328.pdf](http://www.nationalbanken.dk/dnuk/pressroom.nsf/side/PressDNN201115328/$file/DNN201115328.pdf)

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*In 2010, EU was threatening the Danish Government with a EU court case due to the alleged discrimination between Danish and international issued credit cards.*

*The politicians and bureaucrats had been listening more to the lobby of the retailers and the consumer associations than to the banks, when they decided to allow surcharging on all credit cards, but not on debit cards, including the national debit card scheme "Dankort".*

*This long time of discussions has poisoned the environment of cooperation between the parties and this autumn the bankers' association has announced a one-sided termination of all agreements with respect to the Dankort-system.*

*All parties have excavated themselves deeper and deeper into a trench war over the last 12 years and it is very obvious that the banks now have stopped all investments and other development of the Dankort-system.*

*More and more participants are getting worried, that in a few years it could all end-up in a closure of the Dankort-system, and this should be one of the major worries behind the initiative of the consumer association to form a "National Payment Council".*

*Since the first announcement of the consumer association, there has been a remarkable silence of all parties and this must be considered a good sign. It must also be a relief for all parties that the Central Bank is taking the clear lead - even so it is expressed in a traditional bureaucratic language. The parties now will be guided – most likely through studies and reports from the Danish Central Bank – to find a new compromise which can secure the survival of the Dankort-system, since it is the cheapest and most efficient card payment system for all parties in Denmark.*

**Should you have any questions or comments please contact**

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