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## **1. Belgian banks plan to shut down national Clearing & Settlement in 2011: Implications for debit cards**

As is well known, the Belgian banks have postponed their decision to switch to an international scheme for an indefinite time. Therefore, for the time being, the national system, Bancontact/MisterCash will be kept alive. The question is, however, how Bancontact/MisterCash transactions will be settled in the future.

The Belgian banking community has decided not to invest in the current Belgian ACH (“CEC”) in order to become PE-ACH-compliant. If everything goes according to plan, the CEC will be shut off on September 22, 2011.<sup>1</sup> As Belgian banks point out, this decision has important implications for card payments. Currently, the card processor ATOS Worldline (former Banksys) credits the payee via a Belgian credit transfer message and debits the payer via a Belgian direct debit message. Thus, if Bancontact/MisterCash is to survive, something has to happen. According to the latest version of the SEPA Migration Plan, several options are currently analysed and a formal decision is expected by mid 2009.

### ***Our Comment***

*The situation in Belgium highlights the fact that, for the moment, SEPA does not offer a suitable card clearing system. So, the options basically are:*

- 1. introduction of a “SEPA Cards Clearing”*

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<sup>1</sup> See Febelfin and National Bank of Belgium: The Belgian SEPA Migration Plan. Belgium as part of the Single Euro Payments Area, Version 4.0, October 2008.

2. a proprietary (non EPC) solution – possibly using elements of SDD
3. shutting off national card systems

*It will be interesting to see, which option the Belgian banks will be choosing. For sure, option 3 would meet stiff resistance of merchants. Option 1 has been pushed by German banks but has met, so far, little enthusiasm in the EPC. Thus, option 2 might be the outcome. Processors like Equens, Voca or SIA-SSB should be delighted to offer such a solution.*

## 2. Finnish debit cards go international – or do they?

Early on, the banks active in Finland decided to dis-continue the Finnish debit system and switch to Visa and MasterCard. As in some other countries, this decision has not been welcomed by merchants and anti-trust authorities. In a press release from January 2008 the Finnish Competition Authority (FCA) states that SEPA implies a “*risk that the low cost payment cards will be replaced by more expensive international cards, and the expenses accrued will be paid by the retailers and in the long run by the consumers.*”<sup>2</sup> In line with the decision of the Dutch anti-trust authority (see our Newsletter from Nov./Dec. 2008), the FCA threatens regulatory action if bank should jointly decide to shut off the national debit system.

### **Our comment:**

*The statements of the FCA in its press release (quoted above) and its annual report<sup>3</sup> are remarkable, in particular, for their clarity.*

“The banks are still free to offer national payment cards to their clients despite the SEPA-regulation.” (See Press release cited in footnote 2)

“The FCA shall intervene with the banks’ cooperation, if they jointly create unjustified impediments for the use of the national payment card.” (See Press release cited in footnote 2)

“The ECN [European Competition Network] network has been utilised particularly as regards the SEPA account.” (FCA Yearbook 2008, p. 24)<sup>4</sup>

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<sup>2</sup> See Press release: FCA monitors impacts of SEPA for competition in the payment card market, 28 January 2008. <http://www.kilpailuvirasto.fi/cgi-bin/english.cgi?luku=news-archive&sivu=news/n-2008-01-28>

<sup>3</sup> FCA Yearbook 2008. <http://www.kilpailuvirasto.fi/tiedostot/vuosikirja-2008-englanti.pdf>

<sup>4</sup> And the FCA adds: “The ECN cooperation was seen to have greatly benefitted the handling of the case.” (FCA Yearbook 2008, p. 24.) Thus, when it comes to “SEPA benefits”, the following will have to be added in the future: enhancement of the co-operation between national anti-trust regulators.

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*Thus, there seems to be a commonly agreed position of European anti-trust authorities with respect to national debit systems:*

- they will be allowed to continue in business and*
- they will be difficult to shut down.*

### **3. MasterCard believed to bid for Italian processor SIA-SSB**

The Italian processor SIA-SSB which is owned by a number of banks and Telecom Italia is up for sale. Serious contenders in the bid are Telecom Italia (which already owns a stake) and Atos Origin. According to press information<sup>5</sup> MasterCard is teaming up with Telecom Italia.

SIA-SSB is offering a wide range of services including credit and debit card processing, payment systems, capital market services, and networking services. In 2009 SIA-SSB has processed 6.4 billion transactions – including 3.7 billion debit and credit card transactions. Together with Atos Worldline, SIA-SSB owns SiNSYS, an issuing and acquiring processor active in 11 countries.

#### ***Our comment:***

*In some countries, national card systems have made use of the national clearing and settlement infrastructure for credit transfers and or direct debits (see, for instance, Section 1 in this newsletter). However, the clearing and settlement of international card transactions has usually been a world apart. This is likely to change. Processing is scale business and a player that can integrate credit transfer and direct debit processing with card processing will be able to reap large economies of scale. MasterCard seems to be moving towards offering the whole range of card processing services. Thus, it would seem only natural if MasterCard also eyed other parts of the payments market. SIA-SSB with its wide scope in services and geographical reach would be an ideal building block for implementing such a strategy.*

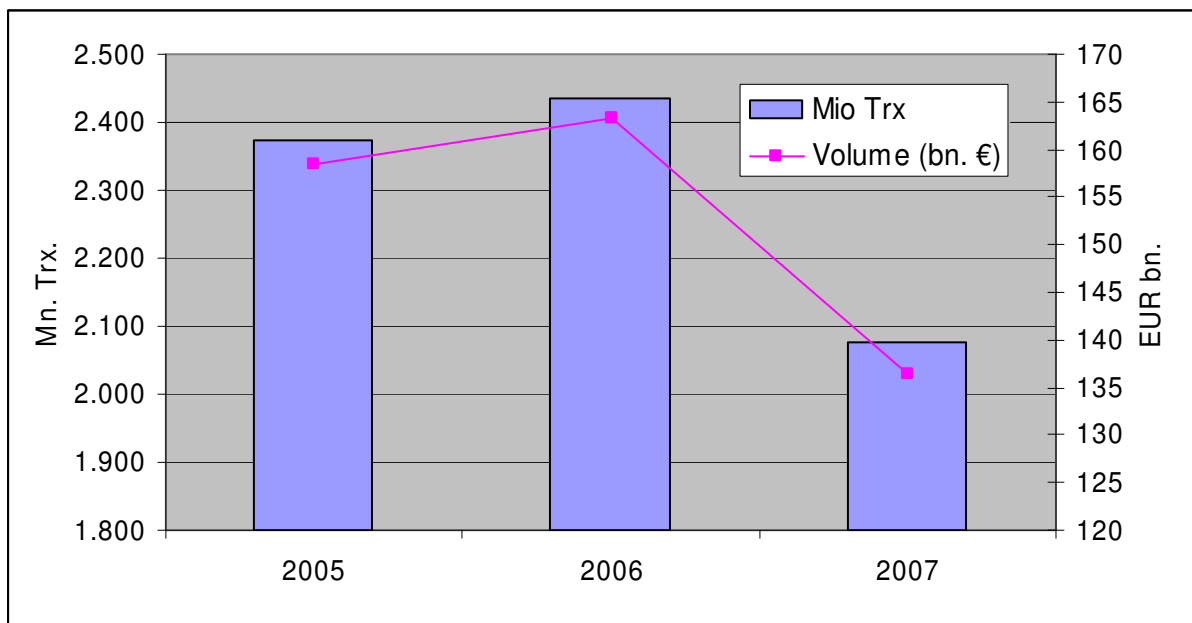
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<sup>5</sup> See „MasterCard eyes up SIA-SSB bid“, Cards International, Issue 415, 10 February 2009.

#### 4. German card market in decline?

The so-called “Blue Book” of the ECB is one of the central sources of European payment data. It is published annually and provides a wide range of data on retail and wholesale payments. For those, interested in German payment data the latest edition of the Blue Book provides some surprises. First and foremost, from the point of view of the card industry, the Blue Book records a steep decline in card activity in Germany (see Chart).

**Card payments with cards issued in Germany (Blue Book version)**



Source: ECB, Blue Book.

Looking at the data, it seems almost as if the German card market has fore shadowed the crisis of 2008.

**Our comment:**

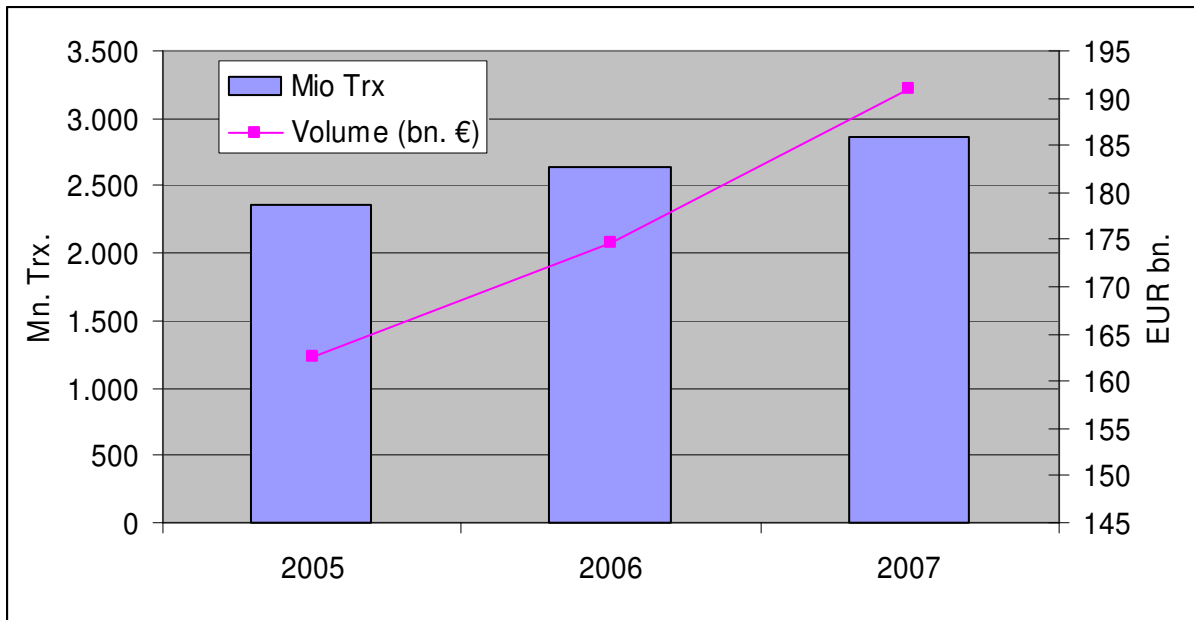
*As everyone well knows who is familiar with payment data, gathering data and making them comparable across different countries is not an easy task. Thus, understandably, the ECB's collection of payment data underwent many revisions. The latest edition is the first after implementing new guidelines meant to make data more consistent.*

The Blue Book data for Germany are collected by the Deutsche Bundesbank. The Bundesbank now collects data from credit institutions directly (not from the schemes). So, a possible source of error lies in the figures reported by banks. Moreover, in 2007, only approximately 75% of all credit institutions participated in the survey (from 2008 on they will be obliged to participate). So, the data of the institutes not participating had to be estimated – another factor that may produce mistakes.

Overall, the estimated figures are less than satisfactory. If Blue Book data were used, the result would be an enormous decline of card sales' volumes (minus 26%!) in Germany. But all available data from market participants show that the market has been growing. So, foreign observers of the German card market and investors without special knowledge of current developments in the German market would get a completely wrong picture if they used the Blue Book data.

Better data can be obtained from the PaySys study of the German card market. Our estimates are based on all available information from individual issuers, acquirers, network service providers, processors and schemes. Our data show that the German card market has been growing healthily in 2007.

**Card payments with cards issued in Germany (PaySys version)**



Source: PaySys Consultancy, Payment Cards in Germany Statistics 1998 - 2007

## 5. Cash – a product in decline?

The end of cash – that is a song which has been sung many times. Yet, the patient simply refuses to die. In fact, this time honoured product seems to be healthy and well. The overall amount of Euro banknotes was a staggering EUR billion 717,- at the End of January 2009 – up 13.5% from January 2008.

Statistics of Visa Europe point into the same direction. Whereas in 2008 POS sales volume grew only from EUR trillion 848 to EUR trillion 883 (plus 4%) the volume of cash withdrawals grew from EUR trillion 424 to EUR trillion 504 (plus 20%).<sup>6</sup>

### **Our comment:**

*The rise of cash has to be seen in perspective. First, throughout Europe, banks are still busy trying to divert their customers away from the teller to the ATM. Thus, growing volumes of ATM transactions may simply reflect an ongoing substitution process from tellers to ATMs. Thus, against the trend of rising card usage it can be inferred that cash is still losing ground against cards. In one or the other country, growing card usage may also go hand in hand with declining check usage but in most countries the check has been of little importance in retail payments for many years. So, if card volumes are rising stronger than retail sales we may be safe to infer that cash usage at the POS is declining.*

*Second, cash is not just held as a medium of transactions. It is also held as a store of value. This becomes immediately evident when looking at per capita cash holdings. When dividing the total stock of Bank notes by the Euro area population we can derive an average cash holding of EUR 2,240 per person. That is far more cash than is required to carry out retail purchases. So, strong growth in the stock of cash and cash withdrawals need not reflect a shift to cash away from other means of payment. It may rather be the result of a lack of trust in the financial system and a shift out of other financial assets such as term and savings deposits into cash.*

*Taking these two factors into account, it is unlikely that we will see a large surge of cash at the POS. At the same time, however, it is extremely unlikely that we will see radical declines in cash usage.*

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<sup>6</sup> See „Cash makes a big comeback“, Cards International, Issue 414, 28 January 2009.

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