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1. No agreement on application selection

According to information published by the German Association of Public Banks (VOEB) there is no agreement within the EPC how to handle application selection at the point of sale.¹ Therefore, it was decided not to deal with this aspect in the SCF. As a consequence, this important aspect would not be standardised across Europe.

The VOEB itself favours a variable approach. In all cases where it does make a difference for card holders, they should be able to choose. Examples mentioned are choice between debit and credit card payments or between payments that offer bonus points and others that don't. In cases where it does not make a difference for card holders, they should not be provided with a choice. An example is the choice between two debit brands. As the VOEB points out, the second option has the advantage to reduce complexity for card holders and speed up the payment process at the POS. What the VOEB does not say is who should make the choice for the customer.

On this point, the German Savings banks are more explicit. In a brochure on SEPA², they describe a "ZKA-model". A terminal accepting various debit brands would first check whether the card is ec cash capable. If so, ec cash would be selected; if not the terminal would check whether the card is EAPS capable. If so, EAPS would be selected, if not some other brand would be used.

¹ VOEB, Der Übergang vom nationalen zum europäischen Zahlungsverkehr – Single Euro Payments Area (SEPA) – Mai 2008, p. 75.

www.voeb.de/de/publikationen/fachpublikationen/publikation_sepa_2008.pdf

² Sparkassen-Finanzgruppe: Eine Karte für Europa ganz Europa.

http://contentangebote.sparkasse.de/sepa_fk/download/Broschuere_Kartengeschaeft.pdf

Our comment:

Application selection at the POS remains a thorny issue. As far as banks and merchants are concerned there clearly are opposing interests. But the information published by the VOEB seems to indicate that not even in the banking camp a common position can be found. These problems underline our argument that co-branding in SEPA is something very different from the traditional co-branding witnessed in the pre-SEPA world. One possible outcome may well be that there will be less co-branding in the future. Banks could switch to issuing two cards. this would allow them to use pricing in order to steer card holders into the desired direction.

2. Dutch PIN system declares itself SEPA-compliant

In its recently published annual report for 2007, Currence, the owner of the Dutch brand “PIN”, states (p. 16):³

“During 2007, Currence amended the rules and regulations for its PIN product in line with European requirements, making them SEPA-compliant. As a result, PIN Licensees will be able to offer the product on the market after 2010, provided there is sufficient demand. SEPA compliance means that PIN can be used as a benchmark for measuring the efficiency of other European payment brands that come onto the Dutch market, and will also encourage the costs of European products to converge at around the level of Dutch costs.”

Between 2011 and 2013, Currence plans to move PIN from magnetic stripe to chip. Dutch banks will have to decide whether they want to go along and move PIN to the chip or not. Leaving PIN on the magnetic stripe would imply that it could not be used anymore by the end of 2013.

“The banks have promised to let Currence know by the start of 2009 whether they will continue to offer PIN transactions to their clients after 2011, in which case they will have to put the PIN application on the EMV chip. This would help promote the operation of demand-driven market forces during the transition to European card payments.” (p. 17)

Thus, whether and to what extent PIN will survive depends on the Dutch banks. ING/Postbank have decided to leave the PIN application on the magnetic stripe and move international brands onto the chip. This has been interpreted by retailers as a move to slowly

³ <http://www.currence.nl/Currence.uk/gfx/download/CurrenceJVUK2007.pdf>

phase out PIN. This has provoked an outcry of Dutch merchants and concerned remarks from the minister of finance.⁴

Our comment:

So far, there do not seem to be any national debit schemes that are being closed down due to SEPA. Most schemes have declared themselves SEPA compliant either through use of co-branding or alliances (EAPS). The Dutch PIN scheme is yet another example that strives to survive. Interestingly, even schemes that will not be made SEPA compliant, such as the Belgian Bancontact/MisterCash scheme, have not yet set a clear end date. Thus, when looking at debit cards in SEPA, a French proverb comes to mind: „Plus ca change, plus c'est la même chose“.

3. First Data acquires stake in Eufiserv

First Data has signed an agreement with Eufiserv and its fifteen shareholders with the intention of expanding and developing the European inter-bank processing network that is managed by Eufiserv.⁵ First Data will acquire a 50% equity stake in Eufiserv's interbank processing business, which will be renamed to reflect the new joint ownership structure. Eufiserv together with First Data plan to further develop existing solutions for inter-bank switching of POS and ATM transactions, including authorisation, clearing, settlement, which will be compliant with the SEPA framework requirements.

Our comment:

The deal between First Data and Eufiserv and its shareholders has to be seen against the current developments in the European card landscape. Eufiserv is co-founder of EAPS – a venture to link European POS and ATM systems. EAPS has the support of many scheme processors and of some banks (mainly from the savings banks sector). But banks seem to have been reluctant to invest more than token amounts into the venture. With First Data as a partner, the idea of linking and eventually merging existing systems seem much more realistic. The resulting scheme could well be strong competitor for Visa and MasterCard. Thus, the deal can be seen as an important step into the direction of a third card scheme.

⁴ Bos vreest dure pinbetalingen, 15.4.2008

www.cbw.org/view.cfm?template=nieuws_details&website_id=205&news_id=321&ref_page_id=8848

⁵ http://www.eufiserv.com/site/press_firstdata.asp

Ironically, the scheme would be set up with heavy American involvement. As is well known, the ECB and the European Commission want a European scheme. So we wonder, is this joint venture “European” enough?

4. The SEPA end-game

French banks have decided against a mandatory date for closing down national (non-SEPA) products. Rather, the purpose is to wait until critical mass has been achieved.⁶

The start and end dates for the transitional period will be different for each SEPA instrument (credit transfers, direct debits and cards) and will depend on their specific constraints. The National Committee will decide when to discontinue each national instrument that is to be replaced by a SEPA instrument, based on a reporting tool that measures when use of the equivalent new SEPA instrument has reached critical mass. Critical mass is defined as 75% of transactions and 50% of order originators.

In Holland, the Netherlands Bankers' Association, the Dutch Central Bank and Currence agreed in 2007 that there should be end dates for non-SEPA products. However, in its latest annual report, Currence states (p. 17):⁷

“As far as the Incasso product [direct debit] is concerned, the European banks will start to offer European direct debits at the end of 2009, following the implementation of the PSD. The existing Dutch Incasso product will continue to be offered in its current form in the Netherlands alongside European direct debits until users feel that the relative value for money offered by the European product justifies a transaction.

”

A similar approach is envisioned for debit cards (see topic 2 above).

Our comment:

In our last newsletter we reported on conflicts within Germany about the future of the German direct debit. The controversial issue still not resolved is the question whether there should be an end-date for the German scheme. The question, when to shut off national

⁶ National SEPA Committee: The French migration plan, Version 2 – October 11, 2007, p. 26.

<http://www.sepafrance.fr/en/content/national-migration-plan-v2>

⁷ <http://www.currence.nl/Currence.uk/gfx/download/CurrenceJVUK2007.pdf>

schemes has also been tackled in other countries. As the examples from France and from the Netherlands show, there seems to be some support for the notion that there should be no mandatory end date. That implies that the current systems still may be around for quite some time. Of course, the Commission could step in with a regulation. But that would basically imply to impose a cartel solution on the market.

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