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1. In search of a European card scheme: And the winner is ... EUFISERV!?

October 13th, 2011 EUFISERV Payments announced the start of POS operations "within the EUFISERV Card Scheme".[1] At first, the new service can be used by customers of German Savings banks who can carry out EUFISERV payments at the terminals of the Spanish Euro6000 scheme owned by the Spanish savings banks. Thus, at the moment, 45 m. card holders may use this service at 226.000 terminals. But general manager, Gerd Förster, announced that the expansion of the scheme is in the pipeline.

The new service complements the existing activities with respect to ATM transactions that had been re-modeled in 2008 in order to comply with SEPA requirements. In 2008, scheme and processing were separated and EUFISERV Payments became brand owner and license manager, whereas the newly founded company Trionis (jointly owned with FirstData) became the technical processor.

Our Comment

No doubt, the news that German and Spanish savings banks are intensifying their co-operation in the fields of card payments is important in itself. However, at least equally important is what is missing in the press release announcing this co-operation: there is not a single mentioning of EAPS! That comes as a surprise. After all, EAPS was positioned as a European scheme fulfilling the demands of the ECB and the European Commission. One of the main drivers behind EAPS has been the German banking system, including the German savings banks. But something seems to have changed. In the press release announcing the

[1] See "EUFISERV Scheme launches POS. Major milestone for the European card market." (www.eufiserv.com/site/pdf/Press20111013.pdf)

co-operation, Wolfgang Adamiok, Chairman of EUFISERV Payments and Head of Payments & Card Strategies at the German Savings Banks Association, is cited: "EUFISERV Payments is proud to announce this major milestone for the European card market. As the only scheme providing ATM and POS cross-border transactions besides the existing international schemes, the EUFISERV Scheme is an attractive economic alternative.*"*

So, in the end, the one scheme that stands a chance to actually become a European scheme with wide coverage may well be EUFISERV. There is a certain logic to this. EUFISERV has been up and running for many years and the EUFISERV brand can be found on the back of many payment cards already.

2. New Kid on the Block: the ECB's Peter Praet on SEPA

In June 2011, Peter Praet followed Gertrude Tumpel-Gugerell as member of the Executive Board of the ECB. Before joining the ECB, Peter Praet has been Executive Director of the National Bank of Belgium. He is no stranger in the world of payments. Thus, for more than 10 years he has been member of the BIS Committee on Payment and Settlement Systems. Within the ECB he is responsible, inter alia, for "Payments and Market Infrastructure" and "TARGET2 Securities".

On August 31, Peter Praet addressed European payments experts at the off-site meeting of the EPC.[2] In this speech he touches a large number of SEPA-related topics. In particular, he

- supports clear deadlines for SDD and SCT migration,
- stresses the need to develop an additional European card scheme,
- sees the need for more standardisation in the field of card payments, cash processing and e/m-payments, and
- recommends "chip only" cards.

Our Comment

Peter Praet basically follows the line of his predecessor Gertrude Tumpel-Gugerell. "Migration end dates" and the "European Card Scheme" are familiar themes. It is noteworthy, however, that he gives particular attention to the topics "innovation" and "competition".

[2] See "A new voice on a familiar topic – SEPA from the perspective of ECB Executive Board Member Peter Praet" (http://www.ecb.eu/press/key/date/2011/html/sp110831.en.html).

Like Commissioner Almunia,[3] *he diagnoses a lack of competition and a need for new solutions, in particular in the field of e-payments. In order to underline the argument, he cites the example of a German web merchant* "that offers either prepayment, cash on delivery or payment by Sofortüberweisung (an overlay service)" *and he continues* "Such slim choice and lack of competition is clearly an obstacle to the growth of e-commerce in Europe".

We find it difficult to understand why the case he cites should lead to such conclusions. First, if the cited web merchant has only a small business, it seems like quite a lot to offer three different means of payment. Second, all of these payment instruments can be used x-border. "Prepayment" basically implies that customers carry out a credit transfer. In the past, x-border credit transfers were expensive and slow and "prepayment" basically was a national payment option. But today, within SEPA, anybody with a SEPA compliant bank account can make a payment to this merchant. So, in a way, this would be a nice example to show how SEPA can provide better service to customers. "Cash on delivery" is known in Germany as "Nachnahme". Deutsche Post offers such a service for national and x-border deliveries within the EU. So, this payment instrument has also become "European". Finally, there is Sofortüberweisung. This is definitely new and innovative and it also allows for x-border payments between a number of countries. Thus, the cited merchant offers three ways to make payments, all of which are usable within the EU or part of the EU. Does this prove that there is a lack of competition and innovation? Peter Praet seems to think it is.

So what is the remedy, he proposes? Peter Praet proposes (or demands) the creation of common standards for innovative payment products. He is aware that there are two ways of standardisation:

- *joint agreement on common standards and*
- *development of proprietary standards.*

As he points out, both have implications for the type of competition prevailing in the market:

- *competition on the basis of common standards and*
- *competition for standards.*

Without much argument, Peter Praet comes out in favour of common standards. "Generally it is more efficient to foster competition on the basis of common standards than to foster competition for standards." *Such a conclusion seems premature. To be sure, the giro systems prevalent in many European countries are the result of co-operative standard setting of national banking communities. So, there are examples where the model has worked well.*

[3] See „DG Competition keeps pressure on banks" in the Sept./Oct. issue of this newsletter.

But when looking at current innovations in e/m-payments or other areas such as mobile phones, it seems that the proprietary model also has its merits. Examples that come to mind are PayPal, Sofortüberweisung, the iPhone or the Android operating system. At the same time, we see that the co-operative approach does not work well in technologically sophisticated markets with many different groups of players. Endeavors to build a European e-purse have failed and talks between telcos, banks and others about a joint m-payment system have been going on for more then a decade – so far without any tangible results. Thus, a dose of competition for standards may not be so bad.

3. E-commerce growth in Denmark is falling by 40% (by Henning N. Jensen)[4]

In 2009 and 2010 e-commerce growth rates in the Nordics have been over 25% p.a. Now the 3rd quarter statistics for 2011 has been released from the large clearing house Nets and the largest PSP in the Nordics DIBS. This latest statistics clearly shows that the e-commerce growth in the Nordics has dropped to app. 15% p.a., which is an alarming drop of 40%.

Comment

First of all, there is no sign of any increase in the growth rate in 4th quarter - despite of Christmas shopping - due to the general decrease in the private consumption, where Denmark is the hardest hit market of the Nordics. The consumers in Denmark have simply started to increase their savings dramatically instead of spending as normal.

Secondly, it is worth to notice that the e-commerce growth rate is still at 15% pa., where the retail trading index in the same period is expected to fall to app. 2 – 3% p.a. in Denmark. (Precise statistics about the retail index will only be available in a couple of months' time).

Thirdly, e-commerce is now getting to be a mature business, which means that most of the big retailers already have opened stores for e-commerce and the number of new openings from smaller e-commerce retailers each quarter are falling. This means that the growth shall come from already established e-commerce retailers and they are experiencing lower growth.

[4] Senior partner at PlusCON, a Copenhagen based payment consulting company and an EPCA-partner.

Fourthly, the hottest growth area of the last quarters has been e-services - often governmental or municipality originated - which are things like paying taxes on the net, paying for your children's lunch at kindergarten or school, paying for new car registration certificates, etc. This is still a major growth area, but the growth rate does also fall here.

Fifthly, for the first time in many years the growth rate for paying by international credit cards like MasterCard has been lower in 3rd quarter than the growth rate for the domestic debit card "Dancard". There are still no good explanations for this, but it is important since the average ticket value always has been considerably higher for these international credit cards than for the domestic debit card "Dancard". This will also mean a lower growth rate in the future if this tendency continues.

The trend has been nearly the same in Sweden for basically the same reasons. Even though the statistics are calculated slightly different, the Swedish growth rate is expected to be app. 14% in 2011.

Conclusion: For many years, the Nordics have been considered one of the most advanced European e-commerce markets and many retailers have been looking for new trends and developments in the Scandinavian area. Although the e-commerce growth rate is still a lot higher than the corresponding rate for physical stores, the days of the "Wild West" are over and might not come back. So, e-commerce retailers better be prepared for lower growth in the future than they might have calculated with in the past.

4. Regulation of debit card interchange fees in the US: The battle continues

On October 12, 2011, the representatives Jason Chaffetz (Republican-Utah) and Bill Owens (Democrat-New York) have introduced a bill [5] that is meant to repeal the debit card interchange price control provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the card-related section 1075 is known as "Durbin Amendment"). Meanwhile merchants have sued the Fed for setting interchange fees too high, violating the provisions of the Durbin amendment.[6] These are two more steps in the ongoing battle over interchange between merchants and the financial industry.

[5] See „Consumer Debit Card Protection Act" (http://www.gpo.gov/fdsys/pkg/BILLS-112hr3156ih/pdf/BILLS-112hr3156ih.pdf)

[6] See „Retailers Sue Fed on Interchange Rule" (http://www.cutimes.com/2011/11/22/retailers-sue-fed-on-interchange-rule).

Our Comment

The stakes are high and neither US banks nor retailers seem to be prepared to give up. For many legislators the Durbin Amendment is simply an example of regulatory price control. Therefore, the proposed bill to scrap the Durbin amendment can count on substantial, support. If passed, it would also eliminate the court case against the Fed.

Initial developments seem to prove the critics right. As anticipated, falling interchange has led to the introduction of debit card fees for card holders and a reduction or alteration of reward programs. Less expected was the demise of one of the debit card schemes (Tempo).[7]

However, on close inspection, things are not as simple. Early attempts of banks to introduce debit card fees have been reversed.[8] *Reward programs have been altered but they have not been completely scrapped. Moreover, US pre-regulation MSCs have been comparably high – suggesting that competition has not worked entirely satisfactory.*

Merchants clearly benefit from lower fees. But as the Australian example shows, it is tricky quantify to what extend such cost-savings are passed on to consumers.[9] *In principle, merchants could use their lower costs to lower prices or they could spend more on rewards for customers. In a way, that would be a more satisfactory approach to card reward programs: If merchants pay for the rewards they should decide who gets them.*

Still, price regulation is a very blunt tool that requires a lot of knowledge of regulators. Thus, it might be preferable to think of other regulatory tools such as prohibiting restrictions on surcharging or routing. Some of these are already contained in the Durbin Amendment, however they would also be scrapped if the Bill were to pass.

[7] See „Regulation of debit card interchange fees in the US: A first casualty" in the Sep./Oct. issue of this newsletter.
[8] See „Bank of America drops debit fees" (http://www.usatoday.com/money/perfi/credit/story/2011-11-01/bank-of-america-drops-debit-fees/51026748/1).
[9] See Reserve Bank of Australia: Reform of Australia's Payment System. Preliminary Conclusions of the 2007/078 Review, April 2008.

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