

# **E.S.T.A. Business Conference**

## **Crisis, Retail and Payments**

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# EuroCommerce

- Established in 1993 to represent retail, wholesale, international trade
- Members: 60+ retail federations from 29 EEA countries plus 30 large retail companies
- Represents commerce to Europe's 490m consumers
- Commerce = 11% of EU GDP; 6 million companies; 30 million employees
- Provides advice and representation for members across all European Union policy areas



# Future of retail payments: Issues

- SEPA: the future
- Interchange fees and cards
- Payment means and the economic crisis
- Direct debit
- Priorities for the future

# Single Euro Payments Area

SEPA **should** bring:

- Cross-border payments should be as secure, quick and efficient as domestic payments **and as cheap**
- More transparency
- More competition
- Business opportunities for innovative players
- A pan-European debit card scheme
- Savings of up to 23 billion euro

*BUT MIF at the core of danger to SEPA*



# SEPA threat: debit card schemes

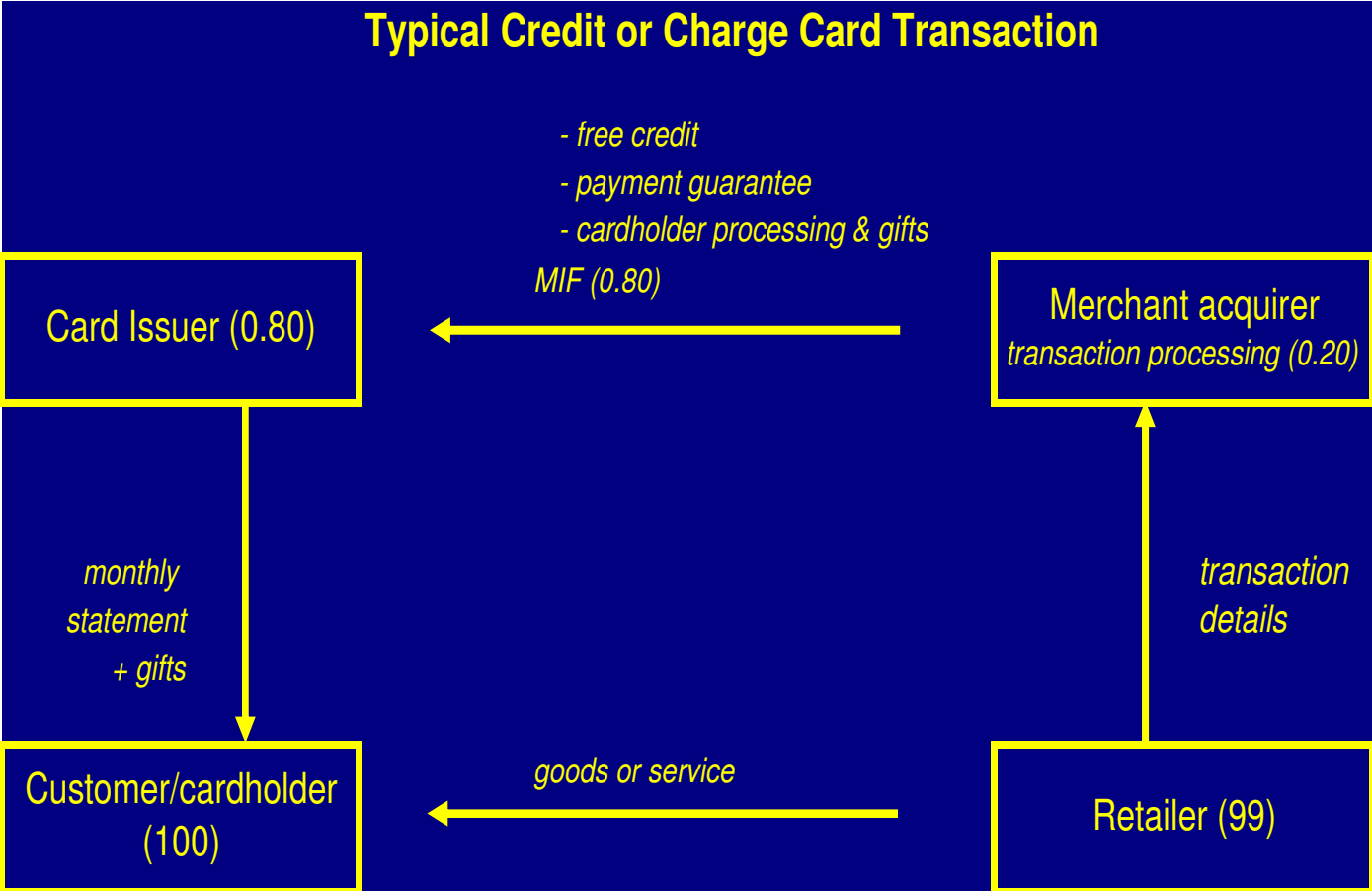
- Debit is most efficient payment means (MIF = 5 euro cents (eg Netherlands PIN))
- MIF makes Maestro/V-Pay more lucrative to banks
- MIF creates threat of disappearance of efficient national schemes
- Can imply huge costs (e.g. in the UK)
- Where is the promised third scheme ??? New entrant business model?

*Commission action to date has not removed this threat*  
How will SEPA fulfill its promises if based on MIF card products?

# SEPA: the future

- SEPA governance – European Payments Council
  - Users have only been allocated a consultative role
  - EPC complaint to Commission 2008
- Commission SEPA Action Plan
- Direct Debit post 2012
- SEPA for Cards – the interchange fee; standards (the Volume)
- End Date?
- Third Card Scheme: Monnet; EAPS, Payfair

# Cards: the interchange fee (MIF)



# Cards: State of Play

- Lack of transparency
- Lack of competition
- Unfair distribution of costs
- No single and cost-based fee structure
- Fees vary from country to country and from sector to sector
- Different fees for domestic and cross-border transactions
- Price-fixing cartel mechanism

*MIF = A €10 billion per year issue for European commerce and consumers!*





# EU MasterCard decision, Dec 2007

- **Breach of Article 81:** a decision of undertakings which restricts competition
- MasterCard has failed to satisfy 81(3) exemptions (economic progress & fair share of benefit for consumers)
  - the MIF as stands is a cartel
- Covers cross-border MIF for consumer cards
- MasterCard has complied from 21 June 2008
- MasterCard has appealed to European Court of Justice

# MasterCard Undertakings 1 April 2009

## MasterCard undertook as from July 2009 to:

- MIF to be calculated on MAX weighted average:
  - 0.30% for consumer credit
  - 0.20% for debit
- Withdraw Oct 2008 scheme fees
- Enhance transparency – unbundling of rates

## Legal effect

- MC complies with Dec 2007 decision → no non-compliance action
- MIF levels *interim* until:
  - Commission study on cash (Nov 09)
  - Appeal (2010/11)

# MasterCard Undertakings 1 April 2009

## Methodology

- 'Tourist test' = 'avoided cost test' = 'balancing fee' - balances benefits for merchant of cash/cards
- Merchants derive transactional benefit if card payment reduces their costs relative to cards → merchants are indifferent to whether cards or cash is used.
- To extent fee passed to cardholder → he internalises cost saving and makes efficient choices (NB surcharging)

## Actual amount:

- costs of accepting cash vs cards
- calculated by MC based on MC figs from central banks of Netherlands, Belgium, Sweden



# Costs of Cash

- Recent study from UK (covers 50% of UK retail sales)
- Cash is still most popular payment means
  - Cash used in 56% of transactions
  - £33 in every £100 spent in cash
- Cheapest for retailers: *Costs 2pence per transaction*
- Costs for payment collection: £535 million
  - 82% (£440 m) on merchant service charge
  - 48% (£285m) on credit card acceptance alone (yet only 11% of total transactions)

# Cash/cards and the economic crisis

- Cheques declining in most member states
- Shift from credit card to debit
- Indications of lower use of credit
- Cash still very popular
- But costs of cash still lower than cost of cards

*Efficient, fair Europe-wide payment systems essential for the long-term health of economy*

*SEPA could contribute to beating the crisis in Europe*



# Cash/cards and the economic crisis

- Cash is NOT efficient. It carries inherent fixed costs:
  - Transport
  - Security
  - Personnel costs
- Cards COULD BE efficient
  - Electronic
  - Versatile
  - New means of payment – mobile, internet, contactless
  - Combined cards: transport/payment/fidelity

*Pegging cards to cash ties costs of an efficient payment method to those of an inefficient method*

# Cards: Significant worries remain

- *Cash v cards - 'tourist test' method*
- *Still ad valorem - % fee wholly unjustified*
- Difference between debit/credit - wholly unjustified
- Losses on scheme fees: Oct 08- June 09 =
- Will not prevent withering away of national debit cards (may even promote this)
- Once MC/Visa in duopoly, fees could increase

## Issues left unaddressed:

- Honour all cards rule (can only choose debit/credit)
- Restrictions to cross-border acquiring
- Commercial cards

# Cards: Open competition actions

- **Visa:** statement of objections issued 3 April 2009
  - NB: Visa reduced rates as from 11 March 09 - Commission: "These measures are a step in the right direction BUT they do not remove concerns that Visa's MIF restricts competition."
- **Commercial cards:** under investigation
- MUST not forget the **national MIFs**. For domestic, as for cross-border:
  - MIF illegal because distorts competition
  - MIF not indispensable
  - MIF is a tax on retail transactions
  - Retailers happy to pay for their costs (processing)



# Cross-border acquiring

Many large retailers would like to centralise card acquiring with the most efficient acquirer in the EU.

- In a free internal market this should be possible.
  - Increase efficiency of payments in Europe
  - Create equality and new opportunities for acquirers
  - Could cut costs of large retailers by 500% (real example)

But MasterCard and Visa rules force members to apply the domestic interchange fee of the point of sale

- Merchants cannot take full advantage of more efficient acquirers
- Multi-country merchants cannot develop new pan-EU systems to benefit from 'real' central-acquiring

# Direct Debit: good news

- Commission and ECB guidance 4 Sept 2008
  - MIF may be allowed (if justified) for temporary period
- Regulation 2560
  - 8.8 cents for cross-border
  - 3-year interim
- ECB/EC statement 24 March 2009
  - 3 year transitional period (Nov 09 – Nov 2012)
  - From 1 Nov 2012, no MIF on cross-border OR national
  - Per transaction interchange fee not justified
  - Possible MIF for errors/returns

*Gertrude Tumpel-Gugerell: « This provides a clear scenario for the long-term »*

# Immediate priorities

- Revision of 1 April agreement following Commission study
- Removal of ad valorem fee structure
- A similar decision on Visa and commercial cards as MasterCard
- Domestic MIFs - national jurisdictions follow MasterCard
- Ban of other anti-competitive rules
- Equal say in SEPA governance
- Basic 'no-frills' cost-based (3rd) card payment service :
  - fixed fee per transaction
  - User-pays principle
  - Transparent

***Lower card costs for retailers* → *increased purchasing power for consumers* → *increased card acceptance***

*Thank you!*

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