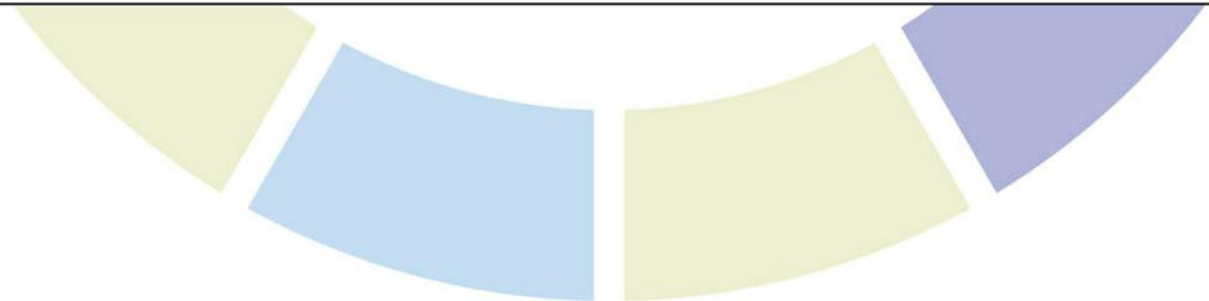




Retail payments: changes and challenges

Ruth Milligan, EuroCommerce
ESTA Annual Conference, Bratislava, 11-12 June 2012



EuroCommerce

- Established 1993 as the retail, wholesale and international representation to the European Union
- Members: 60+ retail federations from 29 EEA countries plus 30 cross-border retail groups
- Represents commerce to Europe's 490m consumers
- Commerce = 11% of EU GDP; 6 million companies; 31 million employees
- Our mission:
 - Lobby / educate EU decision makers / inform members
 - Image of commerce
 - Active on payment issues since 1997

*****The right product in the right place at the right time*****



Payment from the retailers' view

- Retailers happy to accept *all* types of payment
- No cash/electronic payment bias BUT believe electronic payments should and could be *much cheaper*
- Payments should be:
 - efficient
 - secure
 - guaranteed
 - cheap
 - subject to open competition among payment methods
 - market open to innovation

Cash: ups and downs

Consumers know and LIKE cash:

- blanket acceptance
- anonymous
- inclusive and available to all, including non-banked
- used in circa 78% of retail payments in Europe

For retail:

- Significant costs of transport, security, labour
- Attraction of new technologies:
 - Mobile payments: marketing, vouchers, wider market
 - Growth of e-commerce

BUT cash still cheaper than cards - MIF

MIF: the effects

Multilateral interchange fee (MIF) leads to:

- Perverse competition → card fees artificially high
 - No efficiency; no competition
 - Duopoly Visa/MasterCard
 - Barrier to entry
 - Obstacle to innovation
 - Risks of replicating issues to internet and mobile
- Profit the model gives to banks → reluctance to take up cheaper models (SCT/SDD)

Retail wishes from SEPA

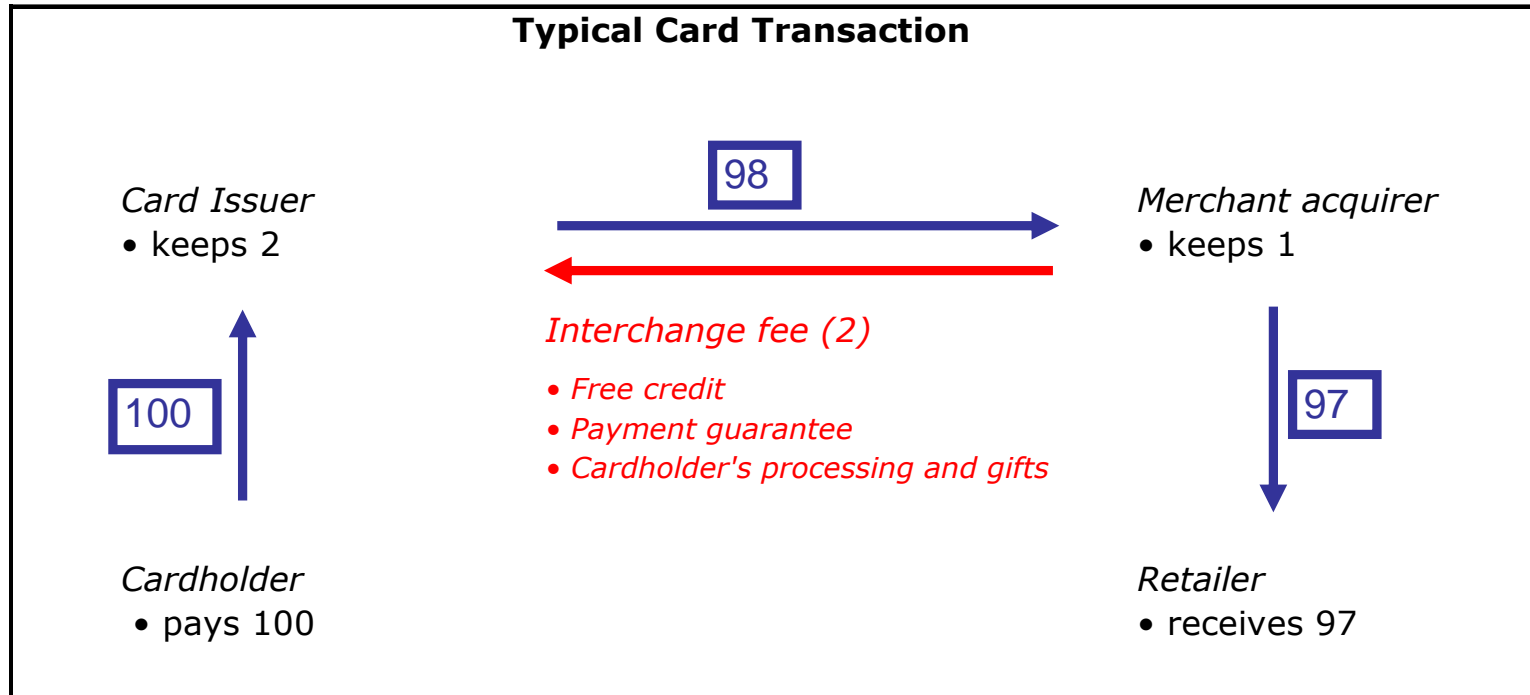
SEPA has removed national debit card & no replacement
Europe needs open competition in electronic payment
market with:

- New entrants
- Alternative payment models
- Basic payment service

This requires removal of barriers:

- Business model - MIF
- Access to bank accounts
- Standardisation
- Proper governance model

The Multilateral Interchange Fee (MIF)



EuroCommerce competition complaints

Legal basis: Article 101 EC Treaty: anti-competitive agreement (cartels)

First EuroCommerce complaints: 1997

MasterCard):

- Dec 2007: Commn decision: breach Art 81 →remove x-border MIF
- April 2009: Settlement:
 - 0.20% debit; 0.30% credit (weighted average)
 - Transparency; remove 2008 scheme fees
 - Tourist test – cost of cash
- Appeal May 2012 (EuroCommerce intervenor): appeal dismissed

Visa (cross-border consumer plus 9 domestic)

- Exemption: Dec 2002- Dec 2007
- March 08: new investigation; April 09: SO; May 09:new EC complaint; Nov 09:Hearing
- Dec 2010: settlement, debit *only*: 0.2%
- Investigation continues on credit



MasterCard Appeal, 24 May 2012

Grounds: IPO; MIF necessary; merchants benefits

Appeal dismissed. Commission decision confirmed. Held:

- Despite IPO, still 'association of undertakings' because:
 - banks continued with collective decision-making
 - commonality of interests
- MIF not objectively necessary for functioning of MC system
- Even w/out MIF, unlikely banks would cease to issue cards or change terms of use
- W/out MIF merchants could exert greater competitive pressure on costs
- No Art 101(3) exemption because:
 - MC overestimates bank costs for issuing
 - Inadequately assessed merchant advantage

MIF: what happens next?

Re MasterCard:

- Commission decision reactivated: MC's cross-border MIF must be removed w/in 6 months
- Present commitments removed

BUT

- Open to MC to renegotiate commitments
- MC has already stated it will appeal to ECJ on point of law

Visa

Debit: Still has 0.2% commitments (to 2014)

Credit: Commission investigation/SO pending

MIF : what happens next

Domestic MIFs

- Commission decision only applies to cross-border
- Many national competition authorities had halted action to wait for the appeal
- Appeal now means NCAs should go ahead on same lines

Europe-wide

Still Q on what MIF, if any, would be within competition law

2 options:

- Continue with tourist test to set 'acceptable MIF'
- Resolve issue through Regulation

Tourist test (merchant indifference)

- Theory

Ascertain acceptable level of MIF by balancing it with cost of cash to retail. Retailer then indifferent to whether cash or card used

- Problems:

Practical:

- Cost of cash study – methodology

Theoretical:

- Cash as suitable benchmark
- Credit aspect
- Bank-to-bank level vs merchant level

Green paper on payments (COM 2011/941)

- Scope: cards, internet and mobile payments
- Goal: to obtain views on obstacles to single market:
 - Market access/entry for existing & new providers
 - Payment security and data protection
 - Transparent and efficient pricing of payment services
 - Technical standardisation
 - Inter-operability between service providers.
- Consultation closed April 11 2012
- Statement on policy expected in July
- Possible legislative proposals to follow

Very much welcomed as 'the last chance to fix SEPA'

Green paper: our key arguments

Need to acknowledge that current models are outdated
Urgent need to solve issues on cards or they will spread and hinder innovation. Need a *radical approach*.

Specifics:

- Basic Card Payment Service
- IF on card is the main obstacle to competition
- Need for new entrants, innovation
- Restrictions to cross-border acquiring
- Surcharge
- Access to bank accounts
- Governance

Fixing all rules but MIF is not a solution

Basic Card Service

Not an abolition of the MIF, or a regulation on price but imposition of the *availability to all of a basic payment*

- On every card
- Europe-wide
- Low cost
- Basic payment guarantee
- Additional services charged separately
- User pays principle
- Mandated by regulation