



Is euro cash as safe as other methods of payment?

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# Counterfeit cash

- Counterfeit cash is not a significant problem for retail
- Most big stores have check larger notes (50/100/500):
  - raised print; watermark; hologram
  - Some do not accept €500s
  - Technology to check notes is not very cost effective
- Adequate competition between CIT providers – prices fairly competitive
- Suggested improvements
  - Cash recycling
  - Technology to check notes is not very cost effective

Real issue:

Counterfeit cash: 0.0001% - 0.0052% per annum BUT

Annual percentage fraud for cards 0.02% ie 5 times higher than cash



# Cash v Cards

- 'War on cash'
- ECB study on social costs on cash
- Payment methods come and go: postal orders, bankers drafts, cheques
  - euro cheques, travellers cheques
- Retailers are happy to accept all forms of payment which are cost efficient for their business
- Consumers like cash:
  - 7-8 out of 10 payments in EU are in cash
  - Low-value transactions overwhelmingly are cash
  - Dec 2007: €677 billion euro bank notes in circulation = 3x 2002 value introduced
  - 1 in 4 adults in the EU only carry cash as a means of payment\*

But cash need not, should not be the only way to pay.

\*The Future of Cash' 2008, AGIS Consulting, Paris



# The real problem for retail is cost of cards - the interchange fee

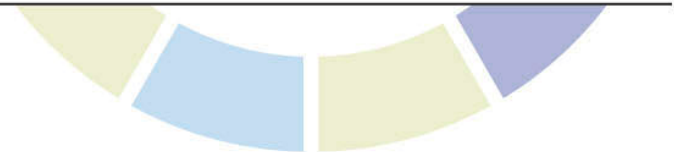
Card payments cost retailers AND consumers €12 million per annum

The multilateral interchange fee (MIF):

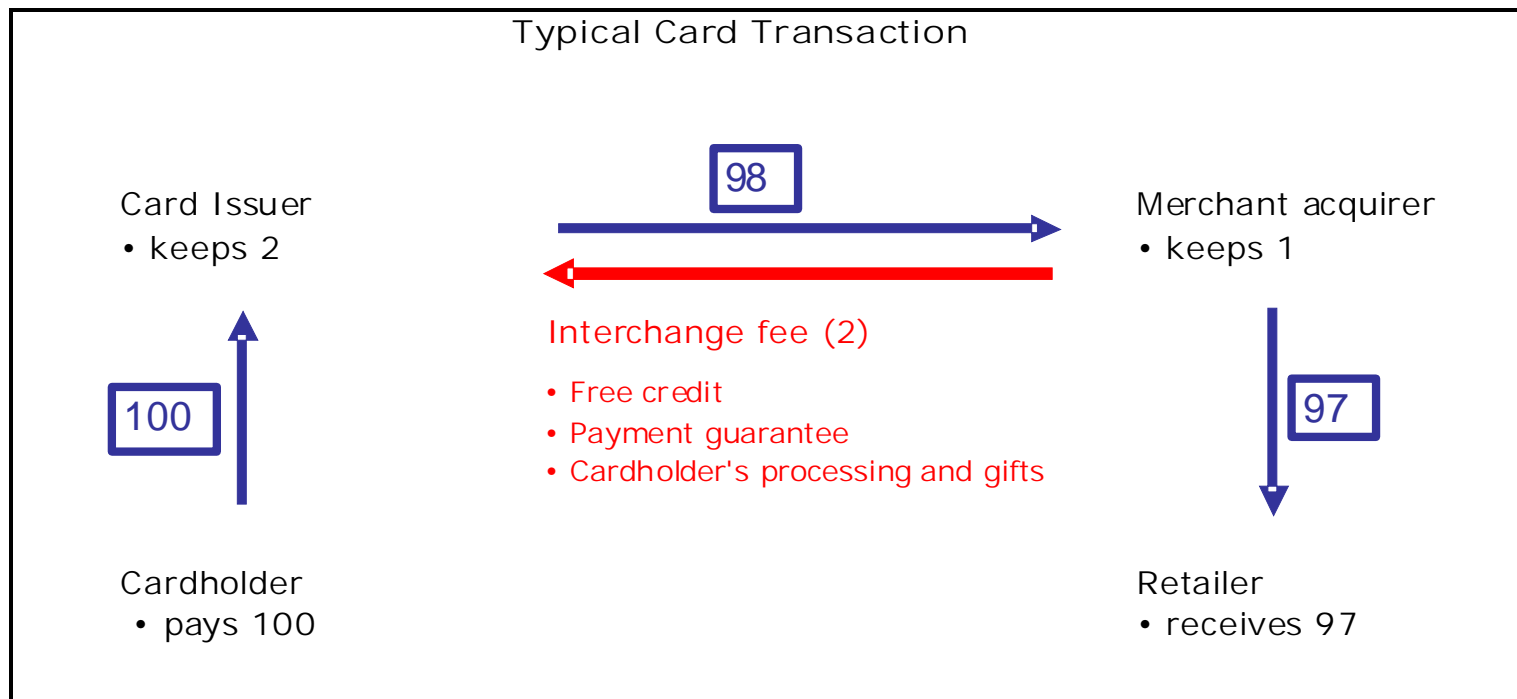
- a price-fixing mechanism and a market entry barrier
- SEPA will remove national debit • duopoly of international schemes
- No viable third European scheme (EAPS, Monet, Payfair)

Further issues :

- Lack of transparency and competition
- Unfair distribution of costs
- Fees vary by country, sector, domestic & cross-border
- Other anti-competitive rules: Blending, HACR (honour all banks, honour all products), restrictions on cross-border acquiring, scheme fees



# How it works



# EuroCommerce card complaints

## MasterCard

- Decision December 2007: MC MIF breaches Art 81
- Settlement April 2009:
  - Cross-border MIF at 0.30% (credit) and 0.20% for (debit), on weighted average
  - Roll-back scheme fees increase to level before 10/08
  - Improve transparency and “un-blend” rates

## Visa

- 2001-2002: Visa I/II decisions • exemption to 2007
- March 2008: Commission opens new investigation
- April 2010: proposed commitments on debit ONLY – 0.2% (same as MC); unblending; transparency
- Commission minded to accept commitments • Article 9 decision - fixed for 4 years



# What's Next?

MIT : Commission Merchant Indifference test – to derive an “acceptable” cost of cards • study on cost of cash (EIM) BUT:

- Maximum level à no incentive to improve
- inefficient à cards should be cheaper than cash!
- Impossible to compute

## MasterCard

- Review of the settlement rates, based on EIM study
- Appeal

## Visa

- If Commission accepts commitments, must be dependent on costs of cash study
- And substantial issues remain open
  - Credit and deferred debit
  - HACR
  - Cross-border acquiring



# Cash v cards – missing the point?

- Moves by some to reduce usage of cash – eg Netherlands
- But still danger that SEPA leads to higher card costs (In Netherlands, PIN and ChipKnip not EMV - will be phased out by 2012)

The question is not, 'Which is better, cash or cards?'

- The two should co-exist
- New payment methods should emerge
- Crucial issues:
  - Cost-based business model
  - Competition
  - Transparency

