



European Commission

Competition

Federal Reserve Bank of Chicago

2009 Payment Conference

Payment Pricing: who bears the cost?

Payments pricing and competition rules the European debates

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SCHEME

A payment is a transfer of funds



Payment Service Provider



Payment Service Provider

Eu: 30
Us: 6.5

Credit transfer

Eu: 34.5
Us: 54.5

card

Direct debit

Eu: 25
Us: 10.5

cheque

Eu: 10.5 Us: 28.5



Payer



Payee



SEPA: three projects

- SEPA credit transfer (28.01.2008) Already launched
 - Merge existing schemes
 - No brand
 - No mif

- SEPA direct debit (01.11.2009)
 - New Scheme
 - No brand
 - Migration: transitory mif. No Mif (2013)

- SEPA Card framework (01.01.2011)
 - Various competing schemes (Visa, MasterCard, National schemes)
 - Brands
 - Rules under discussion



2006: Retail banking sector inquiry

- A global vision of the card market
- Very limited competition
- Many obstacles to competition
- High profitability of card schemes
- High profitability of issuing banks, even without a MIF
- Very efficient debit schemes without a MIF



2008-2009: discussions with MasterCard

- June 2008: MasterCard abolishes its cross-border MIFs;
- October 2008: MasterCard introduces scheme fees increases
- April 2009: MasterCard gives Undertakings



MasterCard's Undertakings

Card type	Old System	New system	Percentage reduction
Credit	0.8% to 1.9%	0.3%	62% - 85% saving
Debit	0.4% + 5 cents to 0.75% + 5 cents	0.2%	More than 50% - more than 73% saving

Direct Debit SCHEME



Payer's
Bank



Payer



Interchange fee in the classic
four parties scheme

ONLY IF 100% pass-through
Result is the same



Rebate given by the
payee



Payee's
Bank

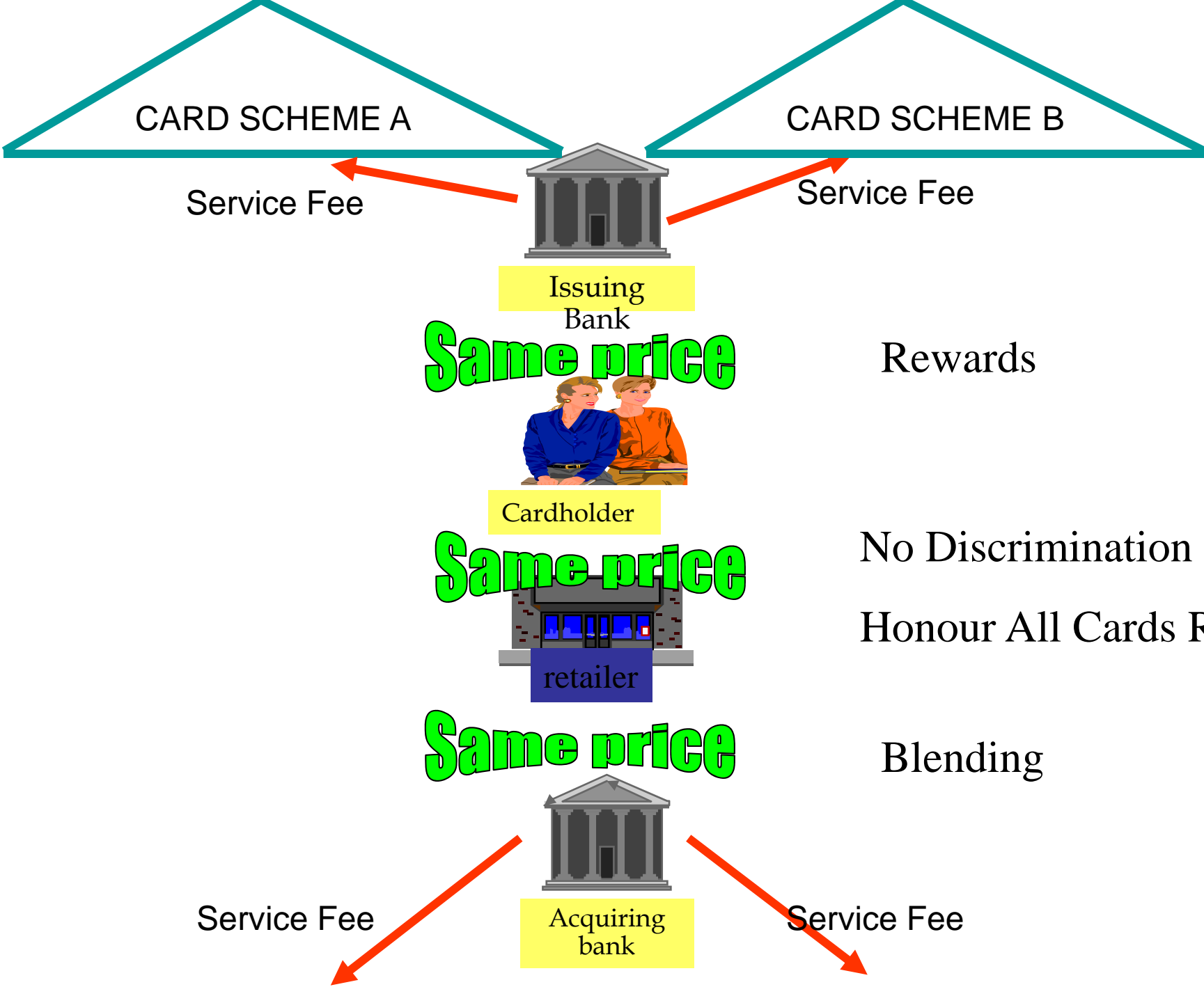


Payee



VISA Europe

- Investigations started in November 2006
- 5-year exemption under Visa II decision of 2002 expired at the end of 2007
- Proceedings initiated publicly in March 2008
- Merchant & Acquiring Surveys July – Nov 2008
- Statement of Objections sent to Visa Europe on 3 April 2009



CARD SCHEME A

CARD SCHEME B

Service Fee

Service Fee

Issuing Bank

Same price

Rewards



Cardholder

Same price

No Discrimination Rule

Honour All Cards Rule



retailer

Same price

Blending



Acquiring bank

Service Fee

Service Fee



REBATES and SURCHARGES

- Card schemes prohibit surcharges (No Discrimination Rule in their jargon)
- Surcharges will be allowed by Payment Services Directive
- Incentive for the consumer to use the less costly payment instrument : beneficial to competition



Rewards

- Incentives by banks to use the most expensive payment instruments (air miles, gift, bonus....)
- Indirectly paid by the retailer who cannot refuse to be paid with cards
- In the absence of surcharge, at the end, paid by the cash user.



Honour all cards rule

- Honour all identical cards from different banks: useful for the consumer
- Honour all products from the same brand: reinforces MIF negative effect



Blending

- Same Merchant fee for different cards (US: Wal-Mart case)
- Prevents competition between schemes and between cards



Mastercards undertakings

- Unblending
- Unbundling of processing
- Surcharge
- Identification of commercial cards

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/09/143&format=HTML&aged=0&language=EN&guiLanguage=en>



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Competition

COMPETITION/REGULATION in the field of payments



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