Payments pricing and competition rules
the European debates

Jean Allix
European Commission,
DG Competition,
Antitrust payment systems
A payment is a transfer of funds.

- **Credit transfer**
  - Eu: 30
  - Us: 6.5

- **Direct debit**
  - Eu: 34.5
  - Us: 54.5

- **Card**
  - Eu: 10.5
  - Us: 28.5

- **Cheque**
  - Eu: 25
  - Us: 10.5
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

<table>
<thead>
<tr>
<th>Card type</th>
<th>Old System</th>
<th>New system</th>
<th>Percentage reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit</td>
<td>0.8% to 1.9%</td>
<td>0.3%</td>
<td>62% - 85% saving</td>
</tr>
<tr>
<td>Debit</td>
<td>0.4% + 5 cents to 0.75% + 5 cents</td>
<td>0.2%</td>
<td>More than 50% - more than 73% saving</td>
</tr>
</tbody>
</table>
Interchange fee in the classic four parties scheme

ONLY IF 100% pass-through
Result is the same

Rebate given by the 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
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

COMPETITION/REGULATION in the field of payments

Jean.allix@ec.europa.eu
☎ +32.2.296.31.79

http://ec.europa.eu/comm/competition/index_en.html

European Commission,
DG Competition, Antitrust Payment Systems Unit