

## EURO 6000 FEEDBACK FORM

Name of undertaking: EURO 6000, S.A.

Industry (network, current/potential acquirer, current/potential issuer, processor, other third party provider (e.g. merchant service provider), merchant (industry needs to be specified), other): Network

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Participated in the questionnaire:

☒ Yes

☐ No

## Specific questions from Executive Summary:

### **A. Financial analysis of the industry.**

#### *1. Are high merchant fees a competitiveness issue for the EU economy?*

Not at the level that most of them currently have. In Spain, fees have not been proven to restrain merchant competitiveness as long as, once they have been substantially reduced, final merchants' prices charged to end consumers have remained the same. We are convinced that merchants competitiveness, in terms of efficiency, security and business volume, has still to benefit from further promotion and deployment of the use of cards, much more than from further reductions of merchant cards' fees.

#### *2. Are there compelling justifications for the comparatively high level of merchant fees observed in some parts of the EU25?*

There are many factors that may influence merchant fees at the different countries, like: whether fees embed the use of terminals as well as other services; the average size of merchants in the country; the level of development and usage of cards already achieved in the country; etc.

#### *3. In view of the apparent profitability of card issuing, is there a generally applicable justification for substantial revenue transfers through interchange fees in card payment systems?*

In the banking business there are many indirect costs, some of them shared among different activities, which are associated to investments in technology, promotion, incentives, etc. In many countries, not to say all, the card business is still in an immature developing phase, deserving high investments like the ones needed for the conversion to EMV and further replacement of cash.

The card issuing business is also comprised of different business niches that get mixed under the overall issuing activity, like debit, credit and, very important in some markets, revolving. All this makes difficult to attest the profitability of card issuing on each of its business niches, let alone to assume that the issuance of cards is generally profitable through most countries and players. As an example, interest revenues on revolving cards may show high profitability on the overall cards issuing business in some countries, up to the point of making up for the hypothetical suppression of interchange fees. In countries where debit cards have no interchange fees, the revenues collected from both domestic and international credit cards interchange fees, may as well make the overall business profitable, subsidizing the debit activity.

#### *4. Are the high profits observed due to innovation or do they arise from some kind of market power in a two-sided industry?*

Our experience does not match the affirmation that profits are high through all countries and types of players. Profits, when realized, are often associated to differentiation, not only through features provided within the products and services, but also in security, customers' loyalty or marketing. In some important countries, profits from credit or revolving business niches, arising mainly from financial interest charges, may make up for losses on the remaining activity. We do not share, for this reason, as a general conclusion that the core issuing business could live up without the support of the interchange fee.

5. *What pricing practices, rules and legal provisions distort price signals to consumers and the choice of the most efficient payment instrument?*

We believe there is not such a distortion between payment instruments. There has not been any concrete evidence of any new payment instrument being more efficient like cards. Cards have already proven to be more efficient, secure, quick and easy to use than cash, cheques or any new proposal. Furthermore, cards still suffer from relevant hindrances that challenge its future development to further substitute notes and coins. Should cards end replacing cash to a much bigger extent, the overall market will definitely achieve top records in efficiency and security, finally fostering the competitiveness of European merchants. For that reason, we believe that the encouragement of a more extensive usage of cards, obviously in an efficient and standardized manner, should be pursued as the most important target, common to all parties involved, for the sake of the competitiveness of the EU retail industry.

6. *Would cost-based pricing promote the use of efficient payment instruments and how could such pricing be implemented?*

Cost-based pricing is, in our view, a weak approach to set interchange fees, only to be used as last resource. It is worthwhile noting that the cards industry is probably the best example of the so called network based bilateral markets. In the cards' market, merchants benefit greatly from the wide distribution of cards among consumers and their disposition to pay with them, as well as the latter benefit from the full deployment of acceptance among retailers.

The Spanish case has also offered some empirical evidence on the welfare effects between the two sides of the market. There is a recent study<sup>1</sup> in Spain that refers to the period (1999-2005), in which some interesting economic relationships are shown. Firstly, consumption is found to be positively and significantly affected by card use both in the long-run and short-run. However, the inverse positive effect of consumption on card use is much lower. This proves that cards contribute to increase retail business. Secondly, merchant fees are found to decrease significantly with consumption, while the long-run and short-

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<sup>1</sup> Santiago Carbó, Francisco Rodríguez and Anthony Saunders (2006): "Card use, interchange and merchant fees: some economic implications for Spain", published in the special issue of *Papeles de Economía Española* on "Payment cards and interchange fees" (pp. 25-45).

run consumption decisions are found to be independent of the fee level. This proves that merchants' fees are to some extent a result of market maturity.

In such an environment, the fixing of the interchange fee purely based on costs does not guarantee enough the full scale development in the issuing side of the industry, which in turn may harm merchants as long as the development of cards as a payment instrument contributes positively to the latter's business.

More precisely, cost-based pricing approaches have not recognized in the past the assessment of costs associated to innovation, efficiency, security or marketing incentives which are relevant for the development of the overall market.

Therefore, we suggest better approaches than that of cost based fixing, like encouraging competition between schemes, negotiation between the banking and merchant industries' associations, as done in Spain, or the enforcement of certain transparency or operational conditions.

7. *Do currently existing practices have a substantial negative effect on cross-border card usage by consumers?*

Not at all. Little by little, the European cards industry is becoming more open as it is moving towards common international brands and standards. It is true that there are still some drawbacks to achieve a seamless pan European market, specially associated to the use of some debit cards, but the removal of such minor disturbances is just a matter of time, as all banks are committed to same standards like chip and pin and international brands get used by most of the players.

## **B. Market structures, governance and behaviour**

8. *What market structures work well in payment cards?*

The so called four parties model, in which any bank can compete in both issuing and acquiring, being both sides interlinked through schemes or processors. This should be complemented with some added conditions to avoid market restrictions, like removing entry barriers to new comers or encouraging the possibility of co-branding between domestic and international schemes.

9. *What market structures do not appear to work well / deliver efficient outcomes?*

Any structure different to the described above. We are also convinced that the interchange fee is necessary for any scheme looking for innovation and leverage of cards as a payment tool. Furthermore,

without an interchange fee, the issuance of cards would get much more concentrated on few competitors.

*10. What governance arrangements can facilitate competition within and between card payment systems?*

The lack of entry barriers, the removal of shared monopolies and the avoidance of some restrictions on the use of brands or technologies.

*11. What governance arrangements can incentivise card payment schemes to respond to the needs and demands of users (consumers and merchants)?*

Not making any restriction on the features that services and products delivered by banks and schemes may have, without prejudice of enforcing the minimum needed standards to ensure interoperability and security.

*12. What governance arrangements can allow minority participants or minority members to receive appropriate information and participate appropriately in decision-making?*

Just allowing non discriminatory participation of members and full transparency of information, non withstanding the acknowledgment that more committed or biggest user members may have the right to better influence decision making as in any company.

*13. What access conditions and fees are indispensable?*

All those needed to sustain the operations, tangible investments of the company and any other good will.

*14. To what extent is separation between scheme, infrastructures and financial activities desirable to facilitate competition and efficiency?*

Separation is not so needed, in our view, as long as some other conditions like non discrimination, no entry barriers, transparency and co-branding right options are in place, together with encouraging the existence of a diversity of competing schemes sharing a minimum set of open standards to provide interoperability.

### **C. Future market developments**

*15. Are significant structural changes to be anticipated in the payment cards industry?*

There has been a consistent movement by all the banking community towards the deployment of chip and pin and the conversion to international brands, which will deliver homogeneity and security in the way cards are used. On the other hand, some domestic schemes will get

merged, some other are being sold to big multinational processors and some other will get interlinked. We still need to find the way to better promote the use of cards in substitution of cash which will in turn foster the competitiveness of the retail market much more than any other measure.

*16. What are the anticipated impacts on the industry of innovation and technological change?*

As can be seen out of the above answers to other questions, we believe the cards business has still to face its most important challenge, after converting to chip. That challenge is the war against cash which will undoubtedly add further strides in contributing to the competitiveness of European merchants. The recognition of such a big challenge shows that the cards industry is still far from achieving its full maturity. Because of all that, we very much advocate for prudence in regulating or eliminating interchange fees, which is a major cornerstone for the development of the overall market.

**D. Potential solutions to market barriers**

*17. How can structural barriers to competition, which may arise for instance from the integration of different functions within a payment system or from acquiring joint ventures, be tackled?*

We do not think certain integration of different services within a payment system or scheme may necessary be negative for the market. On the contrary, they may contribute to facilitate the efficiency and diversity of competitors in acquiring and issuing, as long as they may provide them with wider and better services. Focus should be put on few simple issues, such as entry barriers, possible monopolies, co-branding prohibitions or restrictions to free acquiring.

*18. Are there compelling justifications for the identified possible behavioural barriers to competition?*

We do not think there are barriers to competition in the European market, at least in most of the cases. We suggest to focus on very few specific issues that might be found, avoiding to regulate further, for extra regulation or prohibition may inhibit the development and diversity of the market.

*19. How much need and scope is there for harmonising technical standards in the payment cards industry? How large are the potential benefits and costs of harmonisation?*

It is of great interest that cards could get standardized in the way to provide security and common experience through brands and schemes, at a certain minimum. The evolution to EMV, which has been committed by Visa, MasterCard and the overall European banking industry is the

best example of that target. There are some issues that still need to be tackled for that purpose. One is the freedom and autonomy of other European brands, be domestic or pan European, to use and manage the same standards.

20. *What lessons (best practice) for the design of SEPA schemes can be learnt from existing national and international payment systems?*

SEPA schemes should be allowed to be diverse in order to compete. A common set of standards for cards usage should be encouraged in order to allow interoperability between schemes. Those standards should be open, avoiding restrictions or incompatibilities. The case of Spain has been a good example of that, for three schemes, properly interlinked through adequate connections and standards, have been competing in the market.

21. *How could competition between schemes in SEPA be strengthened?*

Just by allowing access to a minimum set of common standards without restrictions or incompatibilities with other brands or networks.

22. *Which structural and behavioural barriers to effective competition between banks and payment service providers should be removed to achieve SEPA?*

With the exception of few cases, we believe that achieving SEPA is much more a matter of positive encouragement on certain issues rather than negative restrictions on some practices. The definition of a common set of standards accessible by all schemes, refraining those schemes to enforce entry barriers or incompatibilities, is enough to achieve the objective.

23. *What governance requirements should SEPA schemes meet?*

Mainly the ones already mentioned, which can well be summarized in three main items that require further elaboration: non discrimination between members, freedom of choice and alignment with certain open standards.

24. *By what means can interoperable protocols, security and other technical standards be achieved and certification procedures be limited to the minimum necessary?*

We do not think the main problem is how to limit it to the minimum but how to set the appropriate structure and governance to keep those standards updated.

25. *Do the removal of barriers to competition, the observance of pro-competitive governance and the creation of interoperable standards require (further) regulation?*

The banking industry has, to our believe, proven that not only it is ready to cooperate and contribute to building a sound competitive market for the EU, but that cooperation is a much better approach than any regulation. If the Commission feels that through cooperation and self assessment, the industry has not yet made greater strides, we suggest that the Commission address the main players to understand the difficulties and contribute to overcome them. We believe that better common definition of targets, better reciprocal understanding and creativity to find new ways for cooperation are much better means for improvement than any regulation.

### **General Comments:**

The first thing we suggest is that the problem we face be redefined in positive terms as how to improve the competitive stage of the retail business in the EC through a more efficient, secure and balanced development of the cards activity. We believe cards represent the best proven alternative to cash (accepting nevertheless its possible evolution to new technologies, patterns and standards) and we are fully aware that it has not reached its maturity at all yet.

The improvement of the current situation in the EC can lean on three main areas: the schemes, the standards and the interchange fee.

Schemes should not be limited in their number or restricted in their activities, provided they comply with few and obvious governance criteria with regard to non discrimination of members, freedom of choice and submission to standards.

The definition of a common set of minimum open standards to provide interoperability between schemes requires to set the adequate structure and governance to fulfil efficiently that purpose.

Lastly, the interchange fee should be accepted as a necessary component that contributes to the development of the bilateral market represented by consumers and retailers. The setting of the interchange fee can be made by the banks themselves, avoiding either regulation or cost based fixing, as long as a sound set of objective criteria are met in the fixing of the said fee in order to ensure that it reaches on its own its market fair value.

In Spain, the Government has sponsored an agreement between the banking and the retail industries which has brought about the reduction of interchange and merchant fees together with a common commitment by all parties to contribute to promote the use of cards.