

Ms Neelie Kroes  
Commissioner for Competition  
European Commission  
B-1049 Brussels

Date June 23, 2006  
Réf.  
Objet  
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Traité par

Dear Ms Kroes,

Herewith Fortis takes the opportunity to respond to the European Commission's interim report on payment cards based on the Sector Inquiry on retail banking. Fortis would like to hereby state that we support the key components of the response provided by EBF on the interim report. We like to put an emphasis on some particular points though, which are not in contradiction with the EBF viewpoints. We also want to thank the Commission for the thorough analysis of the cards industry that has been conducted and will encourage any further initiative that the Commission undertakes for realising a real SEPA.

The first issue we want to discuss concerns the financial analysis of the industry. This analysis does not take into account the combined functions of card payments and ATM withdrawals with cards, which is a characteristic of almost each card scheme. Leaving out of the analysis the cash function of cards leads to wrong profitability figures, as the cost of a cash transaction is much higher than the cost of an electronic payment transaction.

When we take the Belgian market as an example, banks don't charge any cost - or only a very low cost - to the customer for their ATM transactions. As a consequence profits of the electronic payments function compensate losses of the cash function. In addition, as no clear guidance was provided to the revenue/cost allocation, i.e. what profits have to be really allocated to the POS function and which to the ATM function, this allocation has not been done consistently by banks. It means that the resulting profitability figures could be biased.

As a second remark, we wish to draw to the attention of the Commission that the Profit-to-cost ratio is not the appropriate measure for the profitability of banking activities. The industry normally uses the operational profit margin and the cost-income ratio. As such a 65% profit-to-cost ratio for credit cards corresponds to a 40% operational profit margin or a 60% cost / income ratio. For debit cards, a 47% ratio corresponds to a 31% operational profit margin or a 69 % cost / income ratio. These figures prove that the cards business does not show an exceptional profitability.

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Indeed cost-income ratio's of between 60 and 70% are completely in line with the figures of the whole industry.

Thirdly, the interim report considers the situation of the cards industry "as is" and does not take into account the future changes in the market that will be due to the introduction of the SCF.

We believe that the implementation of the SCF clearly caters for increased competition and removal of market barriers. As such we clearly welcome the standardization of the infrastructures and the rationalisation of the number of schemes in Europe to facilitate the true realisation of a SEPA domestic market.

Finally, we truly believe that opening up the national boundaries and promoting competition within the 'SEPA domestic arena' is the evolution path that the industry needs. As such, a key lesson learnt is that we should ensure that the timing of 1<sup>st</sup> of January 2008 is respected and adhered to by all markets. The SCF is about the implementation of competitive principles and the vanishing of national rules preventing the emergence of new entrants. A formal support by the EC in the form of legislative action should be considered in order to ensure that the competition principles, as promoted by the SCF, are enforced by 1 January 2008.

A level playing field can indeed only be ensured if the SCF compliant brand schemes, processors and acquirers have a guaranteed access to all markets from the same time on in the future.

Fortis hopes that its responses to the interim report will be taken into account when the Commission will elaborate the definitive report. We are fully at your disposal to discuss further any item of the underlying report.

Yours sincerely,

Freddy Van den Spiegel,  
Chief Economist – Director Public Affairs.