**FEEDBACK FORM**

Name of undertaking: Currence

Industry: Scheme owner for PIN debit scheme

Address: Beethovenstraat 300, Amsterdam (PO box 83073, 1080 AB Amsterdam)

Country: The Netherlands

Name of contact person: P.M. Mallekoote

Phone of contact person: 020-3051920

Email of contact person: p.m.mallekoote@currence.nl

Participated in the questionnaire:

- Yes
- No

## General comments:

**Introduction**
Currence is the independent scheme owner for the Dutch domestic debit scheme PIN. Currence has been established as the independent scheme owner for the collective national products in the Dutch payments industry as a result of the 2002 recommendations by the Wellink working group, investigating the payment sector[1].

We would like to take this opportunity to submit feedback and address some issues that we feel could benefit from clarification, correction or interpretation not present in the interim report as it was distributed.
It concerns the following issues:
1. Governance
2. Interchange
3. Surcharging

**1. Govenance**
*The Currence model for independent scheme management and stakeholder involvement*
In the discussion of vertical integration in card payments systems (Chapter IX) PIN is categorized as a level 1 'minimally integrated' payment system. Further on it is noted that PIN could also be seen as a level 4 (-quite-) integrated system as the ownership of the processing entity is largely the same as the ownership of scheme management.
This, however, does not do justice to the governance structure that has been developed for the scheme management entity. The governance explicitly ensures independence for the scheme from its shareholders. Thus, the fact that the shareholders for the scheme are the same as for the processor does not make that the two operate as one, or even pursue the same interests.
PIN, in our view, should be seen as a level 1 payment system. This view is confirmed by the 'informal point of view' that Dutch competition authority NMa has released regarding the Currence governance structure[2].

In Chapter X the governance of card payment systems is discussed. The text seems to analyze card systems from the point of view that the relationship between a card scheme and its participants is always one of 'membership'. Although membership organizations seem to be for now the dominant organization form for schemes, we argue that for the PIN scheme this is not the case.
The model developed for the PIN scheme could provide an opportunity to tackle a number of issues identified in the Commissions' interim report, such as the concentration of power with a limited number of incumbent players in membership-based governance structures.

The Currence model recognizes two classes of participants: licensees (for issuing and/or acquiring institutions) and certificate holders (for supporting roles like processing and the manufacturing of payment terminals).
Both licensees and certificate holders have an advisory voice, but decision-making is conducted exclusively and independently by the independent executive board (Directie). In making its decisions the executive board takes into account the interests of additional stakeholders like retailers and consumers, as well as the opinions voiced by licensees and certificate holders. The result is always a 'balanced' decision.
The non-executive board (Raad van Commissarissen), in which only a minority of seats is reserved for participating banks, makes sure the executive board can operate independently.
With the above governance structure, the scheme is able to operate independent of the individual interests of its licensees and is not restrained to act in the interest of the entire stakeholder community, including retailers and consumers.

Another feature of the Currence governance model is its open licensing model. Rules and regulations are laid down that give objective criteria for entry and participation applied equally to all institutions in a given role. This ensures a level playing field for participants, regardless of size or any other parameter.

[1] See the DNB quarterly bulletin of June, 2002 for an article on the Wellink recommendations. (www.dnb.nl)
[2] Filed as case# 4174 (in Dutch) on the Netherlands Competition Authority website www.nmanet.nl

The executive board decides independently about entry of new participants, based on objective criteria. In case of a rejection, parties can appeal their case at the Netherlands Arbitration Institute.

The Currence model for independent scheme management could be of use across the EU to ensure that schemes act in the interest of their entire stakeholder community. The drawbacks of the member-based model identified in the interim report (such as a concentration of power with incumbent players; decisions about new entrants to be made by established members; sensitive operational information that is passed on to governing members that are also competitors) are not found in the Currence model.

**2. Interchange fees**

As stated in the Commission's report, there is a significant scientific basis for the use of interchange fees as a mechanism to achieve optimum cost allocation in the two-sided market that the cards market is.

The fact that the interchange mechanism can serve to provide issuers with an unreasonably large source of income, as the report suggests, should not be a reason to ban interchange per se, as it can put to fair use just as well.

In Chapter IV of the interim report, the Dutch scheme PIN is mentioned as one of four European schemes that do not have an interchange fee structure. In reality, however, this is not the case. As a result of changes in the way PIN acquiring is organized, and the anticipated change from a more implicit interchange fee to an explicit one, at this time no fee is established and no settlement of interchange fees is taking place. Nonetheless, all transactions are being registered for fee-settlement at a later date, after negotiating parties will have established interchange rates. Under the influence of Dutch competition authority NMa, negotiations are currently taking place between the banks participating in the scheme for a system of bilateral interchange fees. We expect these negotiations to result in agreed explicit interchange fees in the second half of this year. After completion of the rate negotiations the scheme owner plans to incorporate interchange in its rules and regulations framework.

Currence believes the interchange mechanism should be used to provide cost-based compensation to issuers for their processing and authorization efforts. For setting a fair cost-based interchange fee, an independent scheme management entity like Currence could fulfill a key role in setting an objective fee. This could serve as a model for other European countries.

**3. Surcharging**

When the commission addresses the phenomenon of surcharging, in chapter XIII, the conclusion seems to be that reductions in the merchants' freedom to surcharge their customers for the use of cards payments may hinder competition.

We think, however, that the bigger evil here is the fact that surcharging of efficient electronic payment methods effectively favors cash payments by the individual consumer, as even in mature markets price elasticity will make the consumer choose 'free' cash over an electronic payment with surcharge. This is in total contradiction with the efforts of the entire payment industry and governments alike to encourage efficient payment methods. In total cost to the community, cash is a more expensive payment method than the debit card.

What could serve the cause of efficient payment behavior is the introduction of a cost-related fee for all (or all but the most efficient) payment methods[3]. It is clear that, in that case, a cash payment shall incur a higher cost to the payer than a PIN payment. In this way transaction pricing is introduced as a mechanism to help conduct consumer behavior towards the most efficient payment methods.

Regulatory effort could be directed towards increasing the transparency of costs associated with cash handling.

[3] An interesting article on the effects on consumer behavior of transaction pricing was published by DNB in working paper # 71 (www.dnb.nl). Its main conclusion: transaction pricing does provide an incentive for consumers to choose the more efficient (i.e. electronic) alternative, but not as great an incentive as the availability of terminals for electronic payment.

General questions:

1. Did you find the content of the report easily accessible and understandable?
- yes, fully;
- the report was too general;
- the report was too technical.

2. Did you find that the level of detail in the report was:
- about right;
- not sufficiently detailed;
- too detailed.

3. Did the information contained in the report was:
- generally new to you/the payment cards industry;
- mostly known to you/the payment cards industry.

4. Did the market analysis in the report:
- confirm your views on the operation of payment cards market;
- challenge your/industry's views on the operation of payment cards market;
- represent a mix of both aspects.

5. Did the report raised the right policy issues;
- yes, covered most of the key issues;
- no, there were some significant issues left out.