**FEEDBACK FORM**

Name of undertaking: **Koninklijke Ahold N.V. (Ahold)**

Industry: Ahold is an international group of quality supermarkets and foodservice operators based in the United States and Europe.

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Participated in the questionnaire:

- Yes
- No

Specific questions from Executive Summary:

**Remark: Ahold has chosen to answer not all the Commission´s questions. Ahold further concurs with the cotribution of our two representational bodies in Brussels, EuroCommerce and the European Retail Round Table (this goes in particular for Sections D and E).**

**A. Financial analysis of the industry**

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

Yes. As a retailer we pay vast amounts in merchant service fees every year. A large part of these fees is formed by the interchange fee, over the level and composition of which we have no say. In particular, we do not see why we should always pay for a bundle of services (in the interchange fee) instead of being free to choose if, and from whom we want to buy such services.
If we were to be allowed to (centrally) acquire transactions at the (interchange) rates that apply in the country where the acquiring bank is located (instead of the current situation where the location of the point of sale is decisive) that would bring much needed competition into the cross-border acquiring market.
Apart from the above, unjustifiably high merchant fees have an effect on the overall price level for consumers in our stores, which has an impact on the overall economy.

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

No.

The cost of processing a transaction for our stores should be more or less the same in all parts of Europe; therefore, we cannot see compelling justifications for large variations in how and how much we are charged for those transactions. We feel supported by decisions of regulatory bodies in many Member-States that have ruled that the way merchants are charged for accepting payment cards is not in accordance with (competition) law.

A particular reason for different and high merchant fees is the fact that in several (Central and Eastern European) Member-States, interchange fees for debit and credit cards are identical and are both percentage fees. As the interchange fee is a large part of the Merchant Service Charge, this has a big influence on what retailers pay. We think that we should be paying a flat fee for all card transactions.

As pointed out in our answer to the previous question, we think that allowing for cross-border acquiring (whereby we can choose an acquiring bank in any Member-State that offers the best deal) would be an effective tool to stimulate competition among acquirers across the EU. Visa and MasterCard currently oblige acquiring banks to charge the interchange fee of the country where the transaction took place rather than that of where the acquiring bank is based.

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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?**

Through the Merchant Service Charge, that includes the interchange fee, we end up paying the bill for a bundle of services over which we have hardly any say. It was only since competition authorities and other regulators started investigating these matters that we were offered an insight into what we were paying and for what services.
The Commission rightly finds that current revenue transfers through interchange fees are excessive, and righty doubts the necessity of interchange per se. We fully agree with the arguments that have been put forward by the European retail community in recent years, namely that:

- any fee must be limited to the cost of processing a transaction plus a reasonable profit margin, i.e. ‘cost plus’, (and processing should cover only that part of processing which benefits the merchant, so not including cardholder services such as sending out statements to cardholders). Other extraneous costs such as the interest free period, advertising etc. must be excluded from the fee.
- the level of the fee and its cost basis must be transparent.
- the fee should be fixed and not *ad valorem* since the actual cost of processing is the same whatever the value of the transaction.

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

It is clear from the Interim Report that the issuing banks´ profits are extremely high. The card schemes´ rule that obliges acquiring banks to also issue cards (“no acquiring without issuing”) has the effect that competition between banks leads to higher interchange fees instead of lower merchant charges.

Innovation should logically lead to increased efficiency, economies of scale and thus lower costs per transaction. However, fees have been rising steadily ever since.

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

There is much ado about steering consumers towards the most efficient means of payment for a given transaction. We do like card payments, as long as they are competitively priced. We think competition in the financial sector could be improved by full transparency about how much we pay for which payment card services, and by being allowed to make this visible for our customers. Currently, card schemes often forbid any differentiation between methods of payment. In other words, we are kept from offering discounts to customers who pay with a cheaper method of payment or surcharging those who use an expensive means of payment. This rule is known as the Non-Discrimination Rule (NDR).

Another rule set by the card schemes is the Honour All Cards Rule, that obliges us to accept all cards bearing the card scheme´s logo once we accept one of their cards. As a consequence, we cannot refuse payment with any new payment card introduced by the card schemes even if that new product has a much higher interchange- and thus merchant fee attached to it. This is particularly the case with commercial (or corporate) cards: the MSC is significantly higher for these cards although we do not see any added value in accepting that kind of cards compared to ´normal´ consumer cards.
The HACR, combined with the Non-Discrimination Rule, causes us to reflect higher fee levels in the overall price level in our stores for all consumers, regardless of whether they are paying by card or not.

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

Ahold wants to pay a fair price for services that it benefits from. Pricing those services should always be cost-based. Ahold also wants to steer customers to the most efficient means of payment, although it is at Ahold´s discretion whether and how to do so. The NDR (see our answer to question 5) keeps us from discriminating between means of payment. If this rule was to be abolished, we could put pressure on payment services providers to remain competitive in terms of fees.

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

Yes. The current pricing practices result in unduly high fees across the board, and to a large extent for international scheme debit cards (i.e. mainly MasterCard and Visa debit cards). Because these cards carry high fees, we are reluctant to accept them.

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## B. Market structures, governance and behaviour

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

- we should be able to negotiate the whole merchant service charge (MSC) with our acquirers, i.e. including services that are currently covered by the interchange component of the MSC; we should be at liberty to choose whether and from whom they want to buy services other than the pure processing of a transaction;
- from the above it follows that any fee is a fixed fee;
- fees should be based on true costs that are made transparent to the merchant.
- any market structure should work on the basis of transparency and be cost based.

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

From our answers to the previous questions, it follows that the current interchange fee arrangement underpinning schemes such as Visa and MasterCard fails to deliver efficient outcomes. Competition between these schemes serves only to increase card-issuers’ income and not to deliver efficient outcomes for all stakeholders in the payments chain.

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

Scheme rules should not be designed to exclude or frustrate new entrants.

Current governance arrangements in certain schemes allow for the interchange fee to be inflated to such a level that there is no incentive for participating banks to come to lower cost, bilateral arrangements.

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

Currently, card schemes set default interchange rates that include several cost components that do not benefit the merchant but rather the card holder and the issuing bank (i.e. cost components other than processing costs). Any governance arrangements that put an end to these practices is welcomed by Ahold and would be an incentive for banks to compete over merchant fees.

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12. What access conditions and fees are indispensable?

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

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## C. Future market developments

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

We hope that regulatory interest in the payment card market, both on a Pan-European and on Member-State level (as well as in third countries), continous to put pressure on the card schemes to end their anti-competitive behaviour. Apart from several interesting investigations and rulings by competition authorities, we welcome the EC´s proposal for a Directive on Payment Systems in the Internal Market as a tool to achieve greater transparency and enhanced competition.
Of course, the banking community´s project to achieve a Single Euro Payments Area (SEPA) will also impact the future EU payment card market. However, we do stress the risk involved that international card schemes impose their international debit products (e.g. Maestro) on national markets. We have reason to believe (having noted recent developments in some Member-States) that fee levels will very likely increase instead of decrease when efficient existing national systems (such as the Dutch PIN) are being bought by Visa or MasterCard. This is all the more worrisome considering SEPA´s goal of making payments throughout the Eurozone as cheap and efficient as domestic payments.

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

Technological change and innovation will hopefully make payment transactions easier and more cost-effective. Regulators should oversee the setting and composition of the fee structure and fee levels related to new technologies such as paying by mobile telephone and other contactless payments.
We would like to stress that the industry´s efforts to combat fraud by replacing magnetic stripes by chips (EMV) should logically lead to a significant drop in interchange (and thus merchant) fees, taking into account that fraud related costs currently make up for some 50% of the interchange fee (the interchange fee being some 80% of the merchant service charge, this equals 40% of the merchant service charge).

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### D. Potential solutions to market barriers

16. 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?

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

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18. 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?

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### E. Lessons for SEPA

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

See our response to question 14.

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20. How could competition between schemes in SEPA be strengthened?

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

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22. What governance requirements should SEPA schemes meet?

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

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

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<u>General comments:</u>

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<u>General questions:</u>

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.

**Thank you for your contribution!**