FEEDBACK FORM

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Industry: Financial Institution

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Participated in the questionnaire:

Introduction:

ABN AMRO welcomes the opportunity given by the European Commission to open this interim report in the spirit of the Better Regulation approach to comments. Below, please find the areas we selected on which to share our thoughts with DG Competition. As such, we have provided our responses to specific topics.

Financial analysis of the industry:

The Interim Report touches on the several types of payment instruments e.g. “cash, e-purse, debit and credit cards”, and how Financial Institutions (FI’s) will simultaneously offer these to their clients (cardholders and merchants). The report suggests (pg. 10 “Competition among means of payment”) that there may be some “cross-subsidizing” of other payment methods by credit and debit cards and that interchange plays a role in this activity. It also describes the challenge financial institutions have regarding the application of cost-based pricing strategies for cash as “prisoner’s-dilemma”.

We are convinced that a relevant issue to be considered is the current reality that charging consumers for different payment methods is often hindered by public preference, pressure or sometimes government interference. Thus a barrier for competition between payment methods exists which leads to suboptimal choices and cross subsidizing.

It should in our opinion be further examined by the Commission how cost based charging for every payment method (including cash withdrawals) be realized everywhere in the EU to achieve a situation which might make the artificial method of interchange fees unnecessary and lead to optimal competition between payment methods and their providers.

We consider the differences of interchange fees in the EU as an obstacle to be overcome in order to fully realize the Single Euro Payment Area. The decisions of the competition authorities in the EU in relation to interchange fees have up to this moment not created the clarity wanted about interchange fees from the perspective of competition law. A clear point of view of the European Commission with regard to interchange fees in relation to competition law would therefore be very welcome

Two-sided markets.

In our opinion the complicating factor of the two-sided markets for payment services (the issuing and acquiring markets in the case of card payments) with separate supply and demand mechanisms needs further consideration with respect to its effect on competition and the promotion of the use of the most efficient payment methods.

The choice for a specific payment method depends on both the cardholder and the merchant. The cardholder will take into consideration the cost (card fee, other cost) and benefits (convenience, possible use of credit line or delayed payment). The merchant will also take into consideration the cost (merchant fee, terminal cost etc) and benefits (ability to sell to customers who cannot or do not want to pay with cash, safety, cost savings compared to cash handling, etc.). Based on this consideration, the merchant may choose to accept or not accept specific payment methods or even surcharge or give discounts to the consumer per transaction to reflect the difference in cost and benefits for the merchant.

Scenario 1.
Surcharging/discounting.

Surcharging/discounting by a merchant depending on the payment method chosen by the consumer would lead to the best market mechanism because the choice of payment method would be neutral for the merchant and the choice is entirely made by the consumer based on the integral cost and benefits for both parties involved (consumer and merchant). This way the two-sided market would be reduced to one market. The transparency created this way would optimize competition.

As to the effect of interchange fees, we think that surcharging/discounting by the merchant as described above would neutralize any effect.

Scenario 2.
No surcharging/discounting.

Generally there is not the practice of such surcharging/discounting. Possibly this method is found too impractical by most merchants. Assuming that in the absence of surcharging/discounting, optimal functioning of the market would require another mechanism that would lead the choice of payment method. One that offers the best total benefits/cost ratio for both consumer and merchant. Interchange fees should have the purpose only to adjust the two separate markets (issuing and acquiring market).

Therefore, referring to the text sub 1.2 of the report, we rather think of POS interchange fees as a "tool" rather than a "price for services provided by issuing banks to acquiring banks". The reason for this is tied to the difficulty of determining precisely which part of these services are the responsibility for issuing banks, and which portion should be the responsibility for acquiring banks.

In our opinion banks should in principle charge their own customers to cover their full cost plus a reasonable profit for their payment services. An interchange fee should only be considered so far as charging one's own customer would lead to the use of less efficient payment methods. In the case of card payments, the situation often occurs that the benefits for the merchant cannot be (fully) reached when the cardholder has to pay charges covering full issuer cost plus a reasonable margin. If such a charging would lead to a choice by cardholders for less efficient payment methods (e.g. cash) an interchange fee payable by the merchant would be justified. It should be noted that the need for and level of interchange fees depends on the ability or inability in the market to charge for other payment methods e.g. (cash withdrawals, checks).

The use or level of interchange should be the responsibility of the scheme, but be based on the above mentioned principals. Competition between schemes and the participation of issuer's, acquirer's, cardholders and merchants will balance the level of interchange. If the level of interchange is too high, merchants will not accept the scheme, if the level is too low, financial institutions will not issue the scheme.

If interchange exists, the ability of financial institutions to create bilateral agreements between each other should be allowed as long as it is not monopolistic or creates barriers of entry for competition.

Market structures, governance and behaviour.

Separating scheme owner, processor, issuer and acquirer supports competition and access or participation for new entities. Having membership exclusive to FI's vs. allowing membership to non-FI companies will maintain the security/integrity of the network (settlement), compliance and reliability for the participants because FI's are regulated and audited differently than private or public processing companies. FI's can continue to sponsor non-members to the scheme, but the sponsoring member is responsible to the schemes rules, other participants and requirements for it's direct and sponsored activity.

Potential solutions to market barriers.

Operating rules, membership requirements and pricing should be the sole responsibility of the scheme. For clarity purpose, "scheme pricing" includes fees paid by participants to the scheme and interchange if applicable, paid between issuers and acquirers. The historical investment made by the schemes (long-term members) should influence the "joining fees", but they need to be appropriate for new entrants, and not a barrier to entry and competition. Competition will guide these activities, all the above will determine participation within the scheme, and create room for differentiation and innovation between competing schemes.

General Comments.

The report compared international credit and debit schemes with domestic debit schemes, and communicated the disparity of pricing between these payment methods. We believe further analysis might provide possible explanations around these disparities. We have listed possible questions to be reviewed below:

1. When a interchange fee is used for domestic debit transactions, is the interchange fee always lower compared to a international debit transaction?
2. For the countries that have domestic interchange fees for debit, is the pricing for this interchange similar to each other, or are there wide differences by country? Why?
3. Did the number of processors (issuing and acquiring) influence the use and level of interchange for domestic debit schemes? If so, was the interchange lower or higher based on the number of processors?
4. When the domestic debit scheme pricing is high (compared to other countries), is the international debit or credit card pricing high too? Is there any relationship to these similarities or differences?
5. Regarding International Credit and Charge card interchange, do domestic interest rates influence the level of interchange (higher interchange fees where the interest rates are domestically higher)?

General questions:

1. Did you find the content of the report easily accessible and understandable?

■ **yes, fully**;

2. Did you find that the level of detail in the report was:
See response and comments.

3. Did the information contained in the report was:

4. Did the market analysis in the report:

■ represent a mix of both aspects.

Thank you for your contribution!