

## FEEDBACK FORM

Name of undertaking: [AirPlus International c/o Lufthansa AirPlus Servicekarten GmbH](#)

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): [Acquirer, Issuer, Processor](#)

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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 for the European economy. Credit card-issuers contribute in an important way to the substitution of the use of cash. The cost of cash payments for a given EU-national economy is in a range of 0.5 to 1 % of the GNP \(according to relevant studies\). Thus providing credit cards as an issuers helps to avoid these cost to influence consumer prices.](#)

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

[This may partially be for historical reasons. There have been and will be different price models and business calculations. Re. the Interim Report the relatively high merchant fees levied by Three-Party-Systems \(e.g. American Express, Diners\) may have led to finding relatively high average merchant fees. Unlike the Four-Party-Systems \(e.g. VISA and MasterCard\) Three-Party-Systems profit from their significantly higher degree of vertical integration enabling them to carry their high fees with merchants.](#)

[The level of merchant fees is a reliable indicator of the degree of maturity of the specific EU25 country's payment card industry. Displacing cash by cards necessitates major investments by issuers and acquirers in card infrastructure. These investments can only be achieved by merchant fees during this phase. Merchants will permanently benefit after consolidation.](#)

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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?

Yes, it is crucial to the survival of Four-Party-Systems. Whilst the Three Party Systems (originating from outside the EU) may effect substantial revenue transfers internally and thus without having to denominate them as ‘interchange fee’ and without having to face possible regulation, the market is already in the process of regulating itself to lower merchant fees. It needs to be emphasized that the Four-Party-Systems offer in average lower merchant fees to the market than the Three-Party-Systems American Express and Diners do [Pls. cf. to attached annual study by EuroHandelInstitute/EHI ([www.ehi.org](http://www.ehi.org)), esp. slides 5 through 7]. This is in spite of the existence of Interchange Fees. Using a Four-Party-System with set Interchange rules provides a very efficient and competitive way of using card payment services for all parties involved esp. including merchants, consumers and corporates.



Microsoft PowerPoint  
Slide

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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?

A merchant is free to choose between at least four brands for its acceptance of credit cards (VISA, MasterCard, AmEx, Diners; plus: debit cards). Re. VISA and MasterCard a merchants’ choice is multiplied since several acquirers compete. A kind of market power of e.g. the Four-Party-Systems is therefore not detectable. There is, though, an ongoing innovation process re. the improvement of system efficiency, increased security standards and requirements, electronic development, the use of the Internet, better fraud prevention and innovative payment guarantee instruments going on that makes the usage of payment cards attractive to stakeholders and profitable to providers.

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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?

The lack of a harmonised practice in applying a merchants’ freedom to charge a consumer in accordance with the consumers’ use of a certain payment scheme (‘surcharging’) in EU25 may do so.

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

The term “cost-based pricing” having the meaning that only Four-Party-Systems have to demonstrate the cost that is behind what they call an Interchange Fee would grant the

Three-Party-Systems an unjustified competitive advantage in Europe. It ought to be left up to the markets' self-regulation by competing with different systems and products, thus.

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

No, only 1 of 4 EU25 customers has a credit card, while almost every adult customer has a debit card. Cross-border, debit cards are used by 98% at ATM. It is the debit card which is expected to displace a major stake of the cross-border transaction volume. Credit card-interchange fees, e.g., are therefore not likely to have a substantial negative effect on cross-border card usage.

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## B. Market structures, governance and behaviour

8. What market structures work well in payment cards?

Three-Party-Systems profit from their high degree of vertical integration protecting them from both "internal competition" and having to face authoritative regulation of their pricing structures and business models.

Four-Party-Systems provide with their global network and global acceptance a global payment system to consumers and corporates. They attract multiple stakeholders competing as Issuers, Acquirers, Network & Service Providers etc., whilst providing trust, system-integrity and secure payment environments to consumers, corporates and merchants. They enable Acquirers to provide complete solutions at the POS (for all, credit-, charge- and debit cards).

Both structures work well as long as they are allowed to follow their business models and pricing structures without being regulated in an uneven manner and hence being enabled to gain biased advantages in competition.

What ought to be considered in a more differentiated way: Interchange fee is of crucial importance for the issuers of *corporate* cards in Four-Party-Systems because there is no income through other sources like e.g. annual card fee in this market segment. Corporate cards have a lot of advantages for merchants: replacement of invoicing processes, immediate payment, guaranteed payment, strengthening customer loyalty, ... It is therefore fair and to the advantage of merchants to offer corporate cards and to therefore levy corporate interchange fee. A more differentiated view on consumer versus corporate end-customers (and thus consumer vs. corporate interchange fees) is key.

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

Only local structure with limited acceptance. At present, nearly all of the debit systems work within local structures with limited acceptance. SEPA could help to cover the EU.

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

Competition by products and global offering should be supported. The same regulatory treatment and environment for both Four-Party-Systems and Three-Party-Systems is crucial. The Corporate Card segment is driven by high demand of Corporations for complete solutions around payments and analysis including global acceptance of credit cards. This requires permanent investments by card issuers to meet that increasing demand. A regulation on Interchange fees for the Four Party System only in that segment would again be advantageous for the three party system. This could eliminate competition in the Corporate Card segment and increase merchant fees for the participants.

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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)?

Consequent implementation of the SEPA-New Legal Framework. No deviation from original time schedule should be accepted, even if the solution is not 100%.

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

Cf. answer 10.

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13. What access conditions and fees are indispensable?

Interchange Fees, Brand/System Fees are indispensable for financing global payment networks. For decades they have globally proven themselves. *Corporate* Card Interchange fee is of crucial importance for the issuers of *corporate* cards in Four-Party-Systems because there is no income through other sources like e.g. annual card fee in this market segment. Corporate cards have a lot of advantages for merchants: replacement of invoicing processes, immediate payment, guaranteed payment, strengthening customer loyalty, ... It is therefore fair and to the advantage of merchants to offer corporate cards and to therefore levy corporate interchange fee. Payment providers have to be enabled to continue to provide and improve their services.

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

The existing separation and competition within the Four-Party-Systems work well, whereas the extensive lack of separation between scheme, infrastructure and financial activities that can be observed with Three-Party-Systems weakens competition.

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### C. Future market developments

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

Yes, SEPA and “cross border debit” will help to harmonize the approach to significantly reduce the use of cash.

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

There will be and there are already significant requirements for the card industry through increased security standards, chip technology, e-commerce, etc. This leads to high investment cost for the industry.

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#### **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?

National governance requirements need to be harmonized and simplified. The New Legal Framework is a considerable step forward, although it is tailored to the business of giro transfer and not to the payment card business and therefore unreasonably favours merchants by granting them on the acquiring part of the payment card business the same protection that is granted to consumers.

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

Probably historical reasons. There is more need for marketing and consumer information about the card payment systems and their convenience and security in cashless payment processes. This is necessary to achieve the overall target of reducing the use of cash.

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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?

There are various areas: Card technology, chip technology, terminal specification, processes. Harmonizing those across Europe, especially in the field of debit cards, would lead to benefits for all stakeholders.

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#### **E. Lessons for SEPA**

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

- Non-European (!) Three-Party-Systems must not be treated more favourably than Four-Party-Systems. This will turn credit card payments in average more expensive for consumers as the Australian case shows, where interchange fees had been regulated.
  - Corporate customers must not be overprotected by treating them in the same manner as consumer customers. This would strangle specialised corporate-suppliers like e.g. AirPlus.
  - Reasonable interchange fees are crucial for the survival esp. of specialised corporate-suppliers like e.g. AirPlus. A more differentiated view on consumer versus corporate end-customers (and thus consumer vs. corporate interchange fees) is key. Interchange fee is of crucial importance for the issuers of *corporate* cards in Four-Party-Systems because there is no income through other sources like e.g. annual card fee in this market segment. Corporate cards have a lot of advantages for merchants: replacement of invoicing processes, immediate payment, guaranteed payment, strengthening customer loyalty, ... It is therefore fair and to the advantage of merchants to offer corporate cards and to therefore levy corporate interchange fee.
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21. How could competition between schemes in SEPA be strengthened?

By treating Three-Party-Systems and Four-Party-Systems in the same manner and by supporting bi- and multilateral alliances besides the established schemes. This will set equal conditions and a levelled playing field for any European payment services provider.

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

Cf. answer 21.

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23. What governance requirements should SEPA schemes meet?

Management of the conversion to SEPA-compliance at the European level needs to be supported during the conversion period at a national level, e.g. by national governance boards.

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

Efficient management of EMV standards, challenge the usefulness of certain requirements, harmonization of the many local certification processes to one single European standard.

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

No. The New Legal Framework describes – apart from the fact that it overprotects merchants - the conditions sufficiently. The remainder ought to be left up to the implementation of SEPA through competition. i.e. the realisation of SEPA should be aligned along free market lines and not by regulation.

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General comments:

In general we are in favour of a better integration of the payment card market in EU25 with respect to the aspects of card fees, merchant fees and their differences, interchange fees, different technical standards, requirements set by the card schemes, etc. We are concerned, yet, that the Interim Report does not seem to take into consideration that Four-Party-Systems need interchange fees to re-finance their issuance-cost and that (non-European (!)) Three-Party-Systems with their in average significantly higher merchant fees would be granted an unreasonable competitive advantage by regulating interchange fees. In finding that card issuance would be profitable even without levy of interchange fees the Interim Report may confuse the Three-Party-Systems' high merchant fee level with the Four-Party-Systems' interchange fee model to the disadvantage of the latter. Furthermore we think that the situation of small & medium specialised corporate-suppliers like e.g. AirPlus ought to be considered in a more differentiated way: Interchange fee is of crucial importance for the issuers of corporate cards in Four-Party-Systems because there is no income through other sources like e.g. annual card fee in this market segment. Corporate cards have a lot of advantages for merchants: replacement of invoicing processes, immediate payment, guaranteed payment, strengthening customer loyalty, ... It is therefore fair and to the advantage of merchants to offer corporate cards and to therefore levy corporate interchange fee. A more differentiated view on consumer versus corporate end-customers (and thus consumer vs. corporate interchange fees) is key.

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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.

**Thank you for your contribution!**

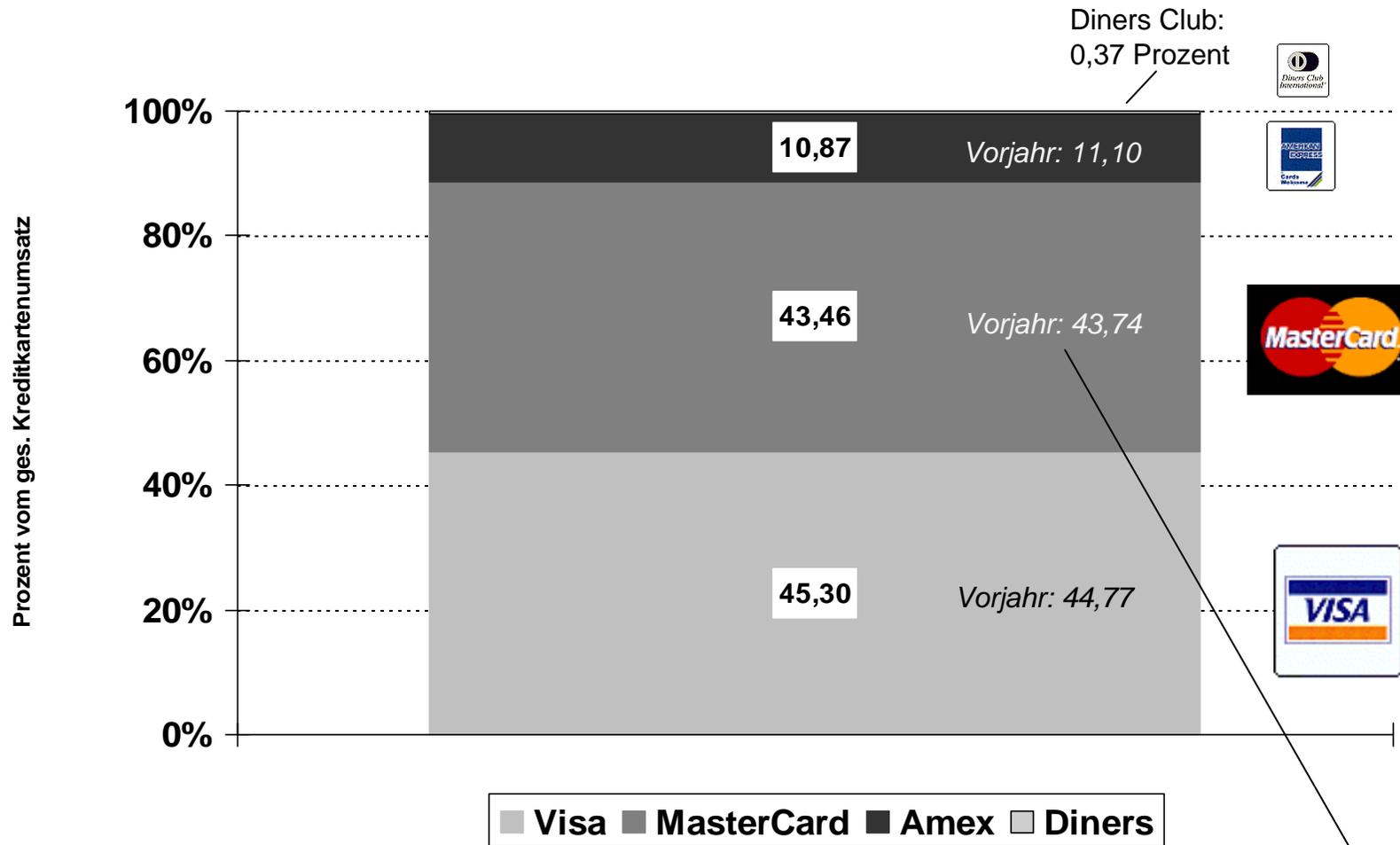
	Karteninhaber		Akzeptanzstellen	
	1/2005	1/2006	1/2005	1/2006
	10.400.000	10.800.000	450.000	460.000 (*)
	9.300.000	9.800.000	471.240	465.500 (*)
	1.500.000	1.600.000	240.000	245.000
	150.000	120.000	150.000	120.000
<b>Gesamt</b>	<b>21.350.000</b>	<b>22.320.000</b>		

Inkl. Geldausgabeautomaten und Bankfilialen; Einzelhandel: ca. 185.000 Akzeptanzunternehmen

**Quelle:** Source, Visa: veröffentlichte Zahlen, Rest: eigene Berechnungen

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

# Kreditkarten-Umsatzanteile im dt. Einzelhandel



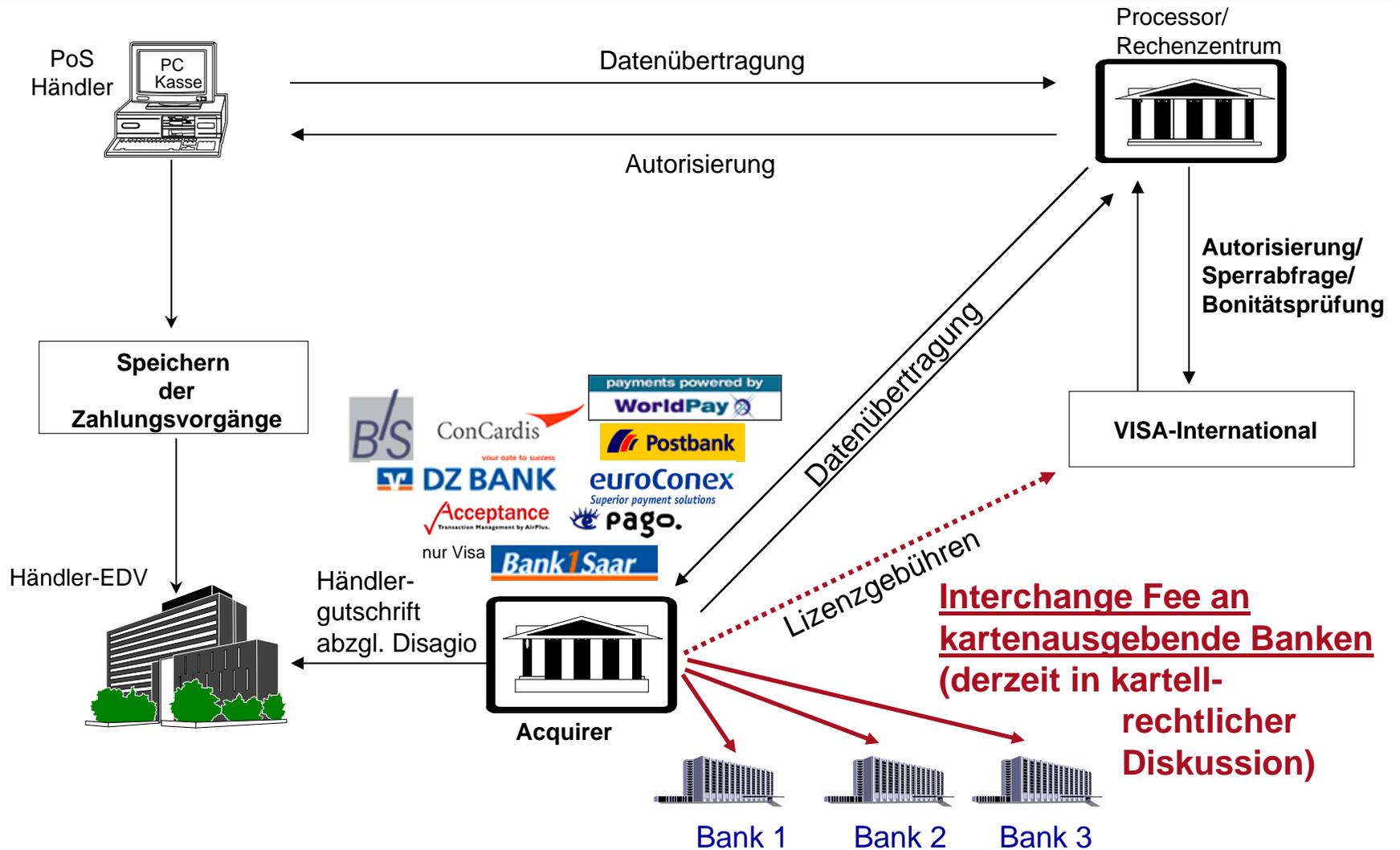
Quelle: EHI-Jahreserhebung 2006

Basis: 2,701 Mrd. € Kreditkartenumsatz

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

**Visa baut Vorsprung weiter leicht aus**

# Kartenprocessing am Beispiel einer VISA oder MasterCard-Transaktion



Quelle: HDE/EHI, Acquirer: Visa- und MasterCard-Homepages

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

# Aufhebung der „Barzahlungsklausel“ durch MasterCard und die Konsequenzen

- ▶ Nach Kenntnisstand des EHI hat kein MasterCard-Acquirer die Aufhebung der Barzahlungsklausel in seinen Kundenverträgen umgesetzt.
- ▶ Etwa 10 Prozent der Unternehmen des EHI-Panels waren aber der Meinung, dass diese Klausel in den Verträgen geändert worden sei. Von den betreffenden Unternehmen wollte allerdings keines von seinen Kunden unterschiedliche Preise verlangen
- ▶ Insgesamt brachte die Befragung „Würden Sie unterschiedliche Preise verlangen?“ folgendes Ergebnis

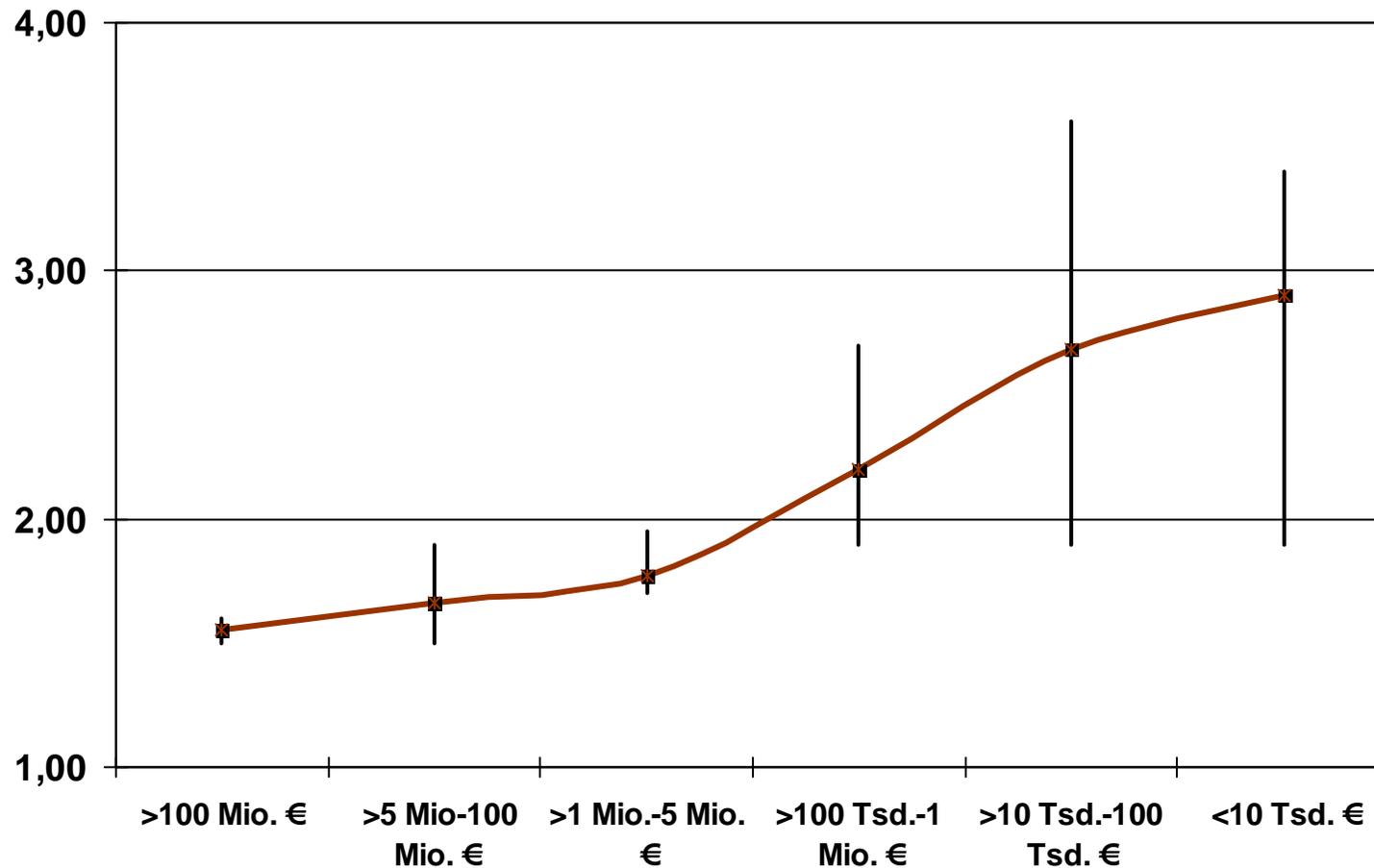
(in Klammern: Wert der Vorjahreserhebung)

- Ja: 4,3% ( 0,0%)
- evtl. 12,0% (14,5%)
- Nein: 83,7% (85,5%)

**Quelle:** EHI-Jahreserhebung 2006 **Basis:** 92 Akzeptanzstellen verschiedener Branchen des Einzelhandels

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

# Visa-Provisionssätze in Prozent vom Umsatz (ohne LEH) 2005/2006

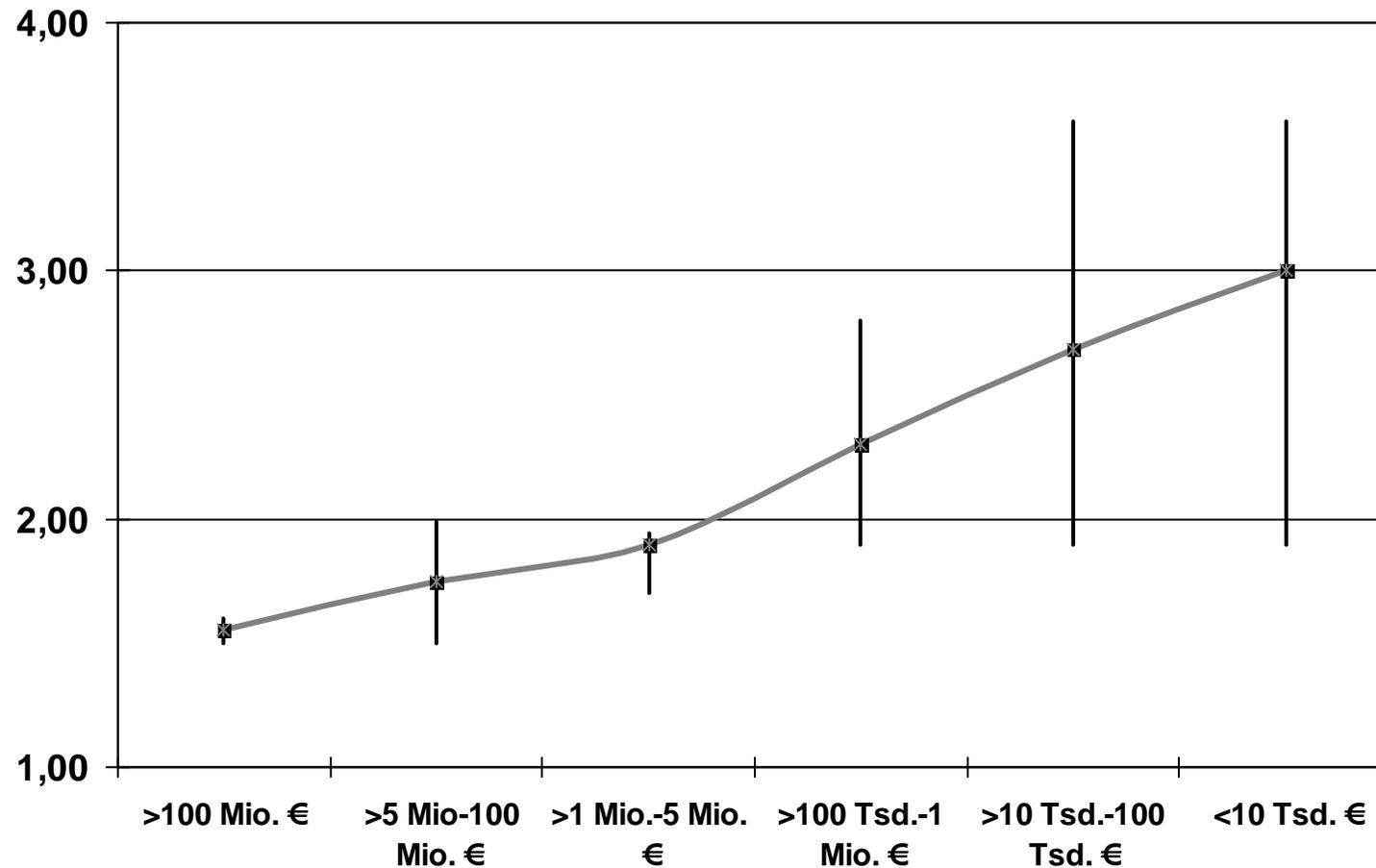


Quelle: EHI-Jahreserhebung 2006

(\* ) LEH-Sonderdisagien von tlw. < 1%

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

# MasterCard-Provisionssätze in Prozent vom Umsatz (ohne LEH) 2005/2006

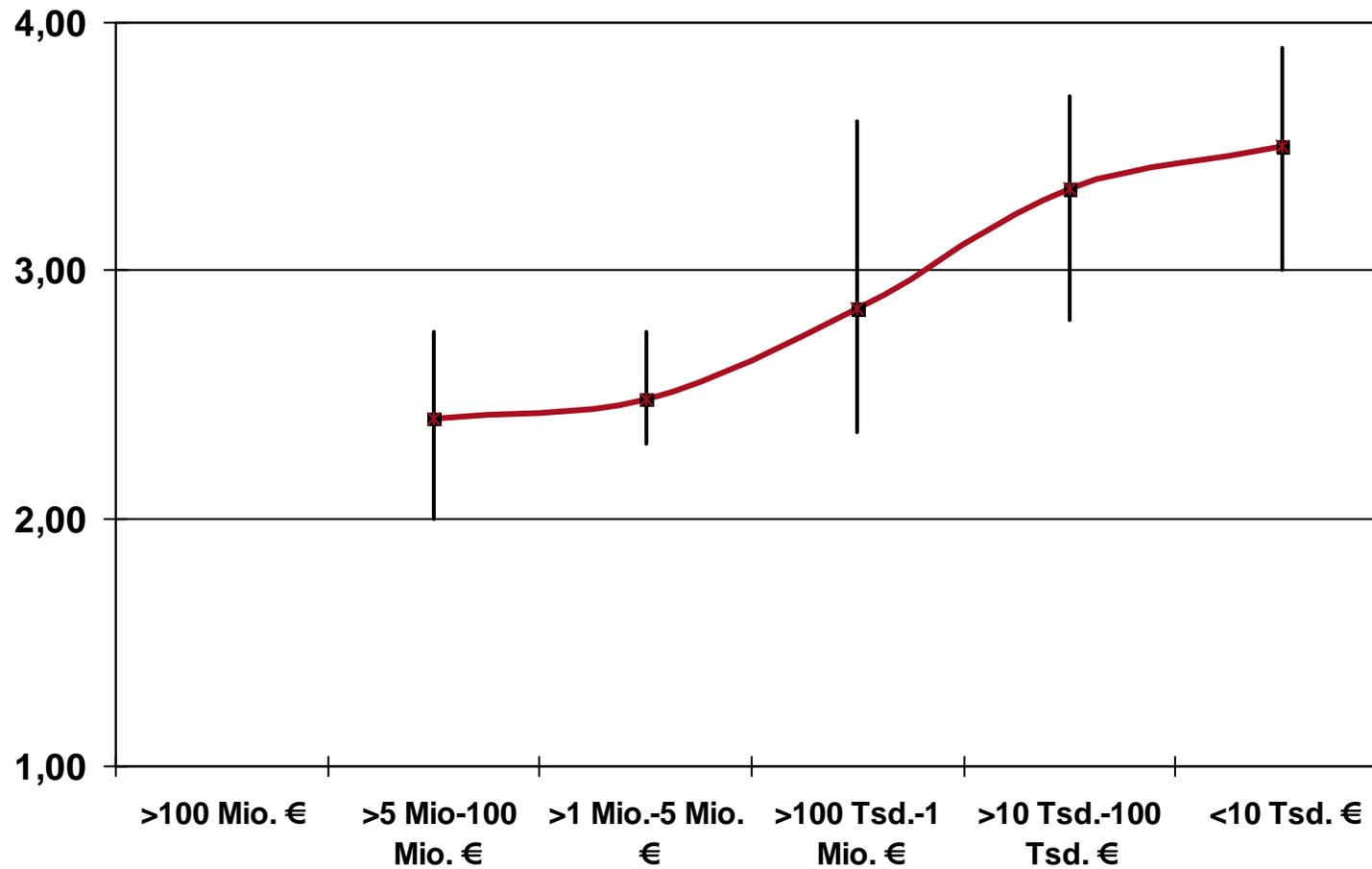


Quelle: EHI-Jahreserhebung

(\*) LEH-Sonderdisagien von tlw. < 1% seit Mitte 2004

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

# Amex-Provisionssätze in Prozent vom Umsatz (ohne LEH) 2005/2006

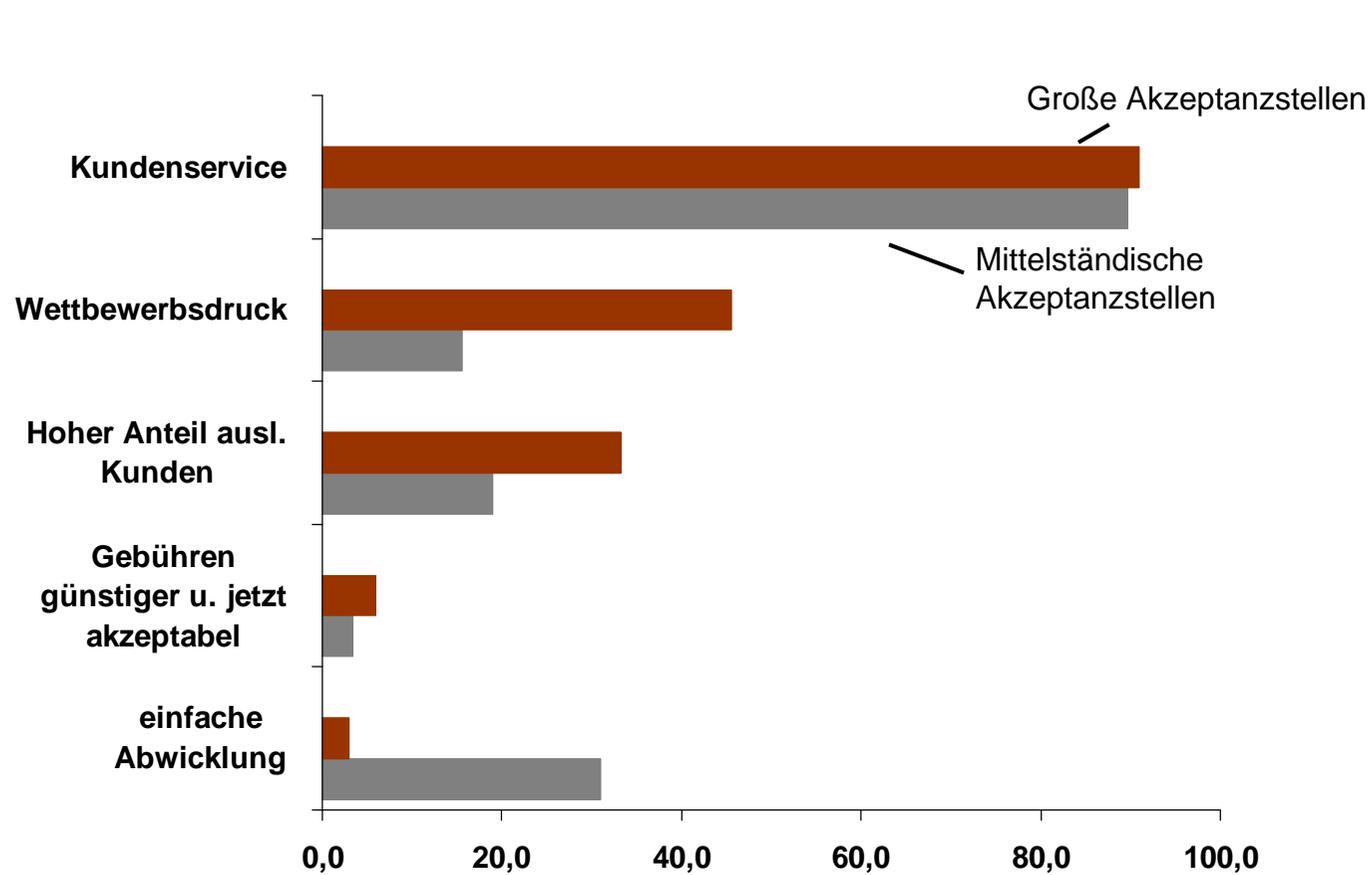


Quelle: EHI-Jahreserhebung 2005

(\*) LEH-Sonderdisagien von tlw. < 1,5%

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006

# Warum Kreditkarten?



**Mehrfachnennungen möglich**

**Quelle:** EHI-Jahreserhebung 2006

**Basis:** 33 große und 58 mittelständische Unternehmen des Einzelhandels

EHI-Research: Zahlung und Kundenbindung per Karte · Horst Rüter · 16. Mai 2006