

FEEDBACK FORM

Name of undertaking: SUPERMERCATI POLI S.P.A

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): MERCHANT - RETAILER

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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?

Yes, because merchant fees could strongly influence the final prices.

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

No, there are not. There are no reasons that can justify the high level of the commissions. The case of the debit cards PAGOBANCOMAT in Italy is meaningful. An exclusive payment system was authorized, against the law about competition, in order to reduce banks' costs related to system management. As a result, this has become more and more a compelling and unjustified revenue source for financial operators only.

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?

No, there is not. Interchange fees are far higher than the amount needed to cover the costs of the system. In addition to this, they represent the minimum threshold to calculate merchant fees.

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

In Italy, there has not been any innovation, improvement or technological change for the last 10 years, neither on the security side. Extra-profits come out from the market structure.

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

Multilateral interchange fees do. Not by pure chance were they authorized against normal competition rules.

When acquiring payments made with the domestic debit card "Pagobancomat" the banks in Italy ask the merchants, and hence indirectly the consumers, for high fees even if the transactions are "ON US", i.e. the acquirer is the same as the issuer. Moreover, the same banks have issued rules that make "merchant-owned" and/or "multi-acquirer" payment systems almost non viable. The result is that the merchants once locked in with one acquirer *de facto* have no capability to change acquirer or to work with multiple acquirers, in order to minimize their fees.

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

Yes. For debit cards a very low fixed price should be asked to balance acquiring costs. As a paradox, the banks usually do not charge any price for acquiring cash from the merchants, which is very costly, but apply high fees on electronic money.

Moreover banks do not provide convenient fees for merchants who use and promote developed Card Payment Systems. On the contrary, the use of such enhanced systems (e.g. "Multi-Acquirer System") is obstructed by Banks despite better conditions and characteristics. In comparison to traditional Systems, they offer far higher safety, reliability, continuity and speed in the service. An independent Authority ought to establish the maximum level of industrial costs in charge of merchants, who use advanced payment systems.

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

It is hard to tell.

B. Market structures, governance and behaviour

8. What market structures work well in payment cards?

It is hard to tell, all card payment systems depending on bank and finance network, which heavily influence fees level.

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

The current ones: closed systems, i.e. those systems where technical and commercial rules are not "standard based", but rather ruled issued by the owner of the system in order to perpetuate low competition and hence high prices.

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

International independent standard authorities and effective antitrust actions.

Merchants should have the possibility to get in direct contact with the issuer, addressing the transaction directly to it, without any intermediation. This would allow to spare a large amount of money.

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

Fee maximum levels should be strictly bound to the industrial cost related to transactions management. At present, managing the electronic money is more expensive than dealing with cash, including all activities related to accepting, counting and moving it. This makes no sense.

Electronic money management cost is made of two parts: industrial cost, as to say the amount needed by banks in order to provide the service and the mark up for the bank which is due by the merchant for each transaction.

In our opinion not only should banks not impose these additional fees, but they ought to reduce industrial cost revolving part of benefits and advantages raising from the development in card payment system in which they take part.

Otherwise we run the risk of electronic money becoming too expensive for the merchant which in the end could recover the charges from end user.

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

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13. What access conditions and fees are indispensable?

Any qualified party should be granted access to the system and only costs/fees related to system security should be considered indispensable.

We think it is necessary to link merchant fees level to real efficiency of the card payment system used by the merchant.

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

Highly desirable, as it could clear many of the conflicts of interest that now do not allow real competition.

In a card payment system, intermediation in financial activities is not necessary. Therefore disintermediation should be allowed, letting merchants get in direct contact with issuing bank.

C. Future market developments

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

Telco costs are constantly going down and chip technology is finally about to enter the mass market. Both changes could make electronic payments ubiquitous and much easier, provided that rules change accordingly.

In Italy, MICROCIRCUITO project will raise a higher safety standard, but it would not be able to change the actual situation of non-competition in the market or it will make matters even worse.

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

Ubiquity, more security and lower costs. Innovation and technological change may lead to certain improvement as far as safety is concerned. In addition to this they will allow operators to manage all the transactions without a previous on-line authorization.

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?

By making supra-national standards mandatory in the entire European Community, and ensuring that those standard permit at least basic interoperability both on the technical and the commercial side. Since different acquiring institutions may have different pricing policies, structural barriers to competition can also be tackled allowing the merchant to address every single transaction to the more convenient acquirer, or whenever possible, promoting "ON-US" transactions, where the issuing bank and the acquiring bank are identical.

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

No, behavioural barriers to competition in the market come from actual defensive systems. These are fostered both by Central Banks and by the healthy finances of banks, with great harm to other industries and to consumers.

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?

Very much need. On the long term harmonisation in the EC is simply a matter of survival of european payment system. Doubtless great advantages for all players will arise from the introduction of harmonised systems. On the economic side, until now all benefits coming from technological improvements have been primarily enjoyed by financial industry. In the meanwhile merchants' and consumers' growing dependence on advanced payment systems such as electronic money significantly enlarged the market. Despite this, neither merchants nor consumers did not take advantage of scale economies produced in the payment card industry, on the contrary affording growing costs.

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?

Little or no lessons (best practice) for the design of SEPA schemes can be learnt from existing national and international payment systems?

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

Allowing more power of choice on the side of the customer (cardholder and merchant)

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

All technical ones, which very often are only artificial barriers
Provided a basic security level is ensured, any compliant solution should be allowed

23. What governance requirements should SEPA schemes meet?

Promote electronic money and give the governments more information about its use.

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

Applying common sense: certifying processes rather than only products and searching the best trade-off between usability cost and security in each market segment.

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

First of all, existing european regulation about competition must be severely applied in each country. Once this happens, regulation has to be tuned and kept up to date.

General comments:

On the subject in 2004 we lodged a petition to the Italian Antitrust Authority, *Autorità Garante della Concorrenza e del Mercato*. In spite of its positive judgement, nothing has changed until now.

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!