NON-CONFIDENTIAL VERSION

Reaction of IKEA to Sector Inquiry on Payment Cards

IKEA as a multinational retailer with establishments in 18 of the EU member states is a large user of payment services. It is for this reason that we are welcoming the thorough inquiry into card payments in the EU. We have a particular interest in card payments as an increasing number of our customers is paying with cards in our shops and prices for accepting these cards are still very high, untransparent and hardly negotiable with the offering banks. We hope that the alarming findings of the inquiry will lead to strong measures creating competition and cost-based pricing for payment cards.

IKEA is a member of both EuroCommerce and the European Retail Roundtable, who have submitted their position papers, which we fully support. However in this paper we would like to raise three issues that are of specific concern to us in our capacity as multinational retailer:

- Cost based pan-European debit cards
- No surcharge or No discount rule
- ‘Real’ cross-border acquiring

Cost based pan European debit cards needs no interchange

IKEA is accepting a large number of debit cards in its stores today. As appears from the sector inquiry a large number of the national debit card payment systems function without an interchange fee. Moreover certain debit card schemes have a flat and fixed fee. IKEA would plead that the European Commission would ensure that future pan-European debit systems are based on the best of breed of existing national debit schemes, rather than the current development in which the efficient debit brands are being taken over or re-branded with the international debit brands like Maestro and V-pay that are solely based on interchange and carry an ad valorem fee structure. In the past these kind of rebrandings have lead to a swift increase of the fee in countries like UK, Switzerland and Austria, often combined with a change of the structure of the fee from fixed to ad valorem. The recent announcement that one of the most cost efficient systems in Europe, the Belgian Bancontact, will be rebranded into Maestro confirms our concerns.

We call upon the European Commission to ensure that future pan European payment cards and especially, debit cards will not be based on the four party model carrying interchange and are only allowed to carry a cost-based and fixed fee.

No surcharge or No discount rule

Retailers throughout Europe are very concerned with the means of payment used by consumers, as their cost can be substantial and influence the price of the goods they sell. This is a problem in particular for credit cards, as they are amongst the most expensive means of payment.

IKEA would like to be able to make their customers aware in case there is a high cost for certain (card) payment means, as well as incentivise them to use the most efficient means of payment. Today this is not possible as the so-called 'Non Discrimination Rule' (NDR) prohibits retailers to treat people paying with cards differently from people with cash or debit cards. In particular, IKEA would like to be able to discount or surcharge certain means of payment.

The NDR is a clause that appears in acquiring agreements that merchants have with their acquiring bank when accepting Visa and MasterCard cards[1]. This rule, also known as the 'No Surcharge Rule' (NSR), stems from the general scheme rules that both Visa and MasterCard prescribe to their member banks for issuing and acquiring cards[2]. This leads to a situation where merchants cannot negotiate to lift the rule on a bilateral basis with their acquiring bank.

The Non Discrimination Rule (NDR) is not fair to both retailers and cardholders. It increases the cost for all, whereas the extra services rendered are only for the 'happy few', the users of expensive credit cards. Moreover abolition of the NDR would lead to an improved negotiation position of retailers vis à vis their acquiring banks, whereas today the retailer only has the choice to accept cards(at a high price) or not to accept them. Finally it is rather puzzling to see how card schemes have been able to forbid retailers to differentiate between different means of payment in their shops, whereas a large part of the marketing and promotion of card products is based on the principle of positive discrimination. See the example hereunder to illustrate this.

Discrimination of card payments by Visa and MasterCard

Many credit cards award customers who use their credit card (in stead of a debit card or cash) with air miles or bonus points or other rewards. By giving these extra rewards the schemes differentiate between different means of payment, or put differently, they discriminate the use of a debit card or cash.

[1] This paper focuses on Visa and MasterCard as they represent 97% of the consumer credit card European market.

[2] MasterCard abolished the NDR from its internal rules in Europe as from 1-1-2005. However many acquiring banks still keep the rule in the contracts with merchants.

By asking to lift the NDR, retailers are not aiming at surcharging all card payments: they rather would like to have this as a last resort solution in case fees for card payments are set at an excessively high level or if credit card usage is pushed in an artificial way. Moreover the abolition of the NDR in countries like the Netherlands and Australia has made clear that it does not lead to massive surcharging by retailers. A typical situation in which surcharging would be used is when there is an artificial high usage of credit card payments. For instant in the case where a customer has sufficient money on his account, however he tends to use his credit card in order to attain loyalty points or air miles. This was the case for IKEA in the UK in 2004, which made us decide to start levying a fee of 70 pence for every credit card payment, however clearly communicating that the use of a debit card was still for free. The result of this surcharge is that a substantial amount of payments by credit card (approximately 100.000 on a monthly basis) have shifted to the more efficient debit card since.

We call upon the Commission to ban the NDR rule for all card schemes!

No Internal market for card acquiring

Within Europe, card fees vary widely. Therefore merchants would like to be able to process all their transactions in the country where fees are lowest. This should be possible in an Internal Market where the principle of free competition rules.

However, credit card companies allow cross-border acquiring only when the fee of the country where the transaction takes place is levied[3]. In effect this makes real cross-border acquiring impossible. Merchants cannot make the most of lower fees despite the EU's Internal Market.

No reasons for different costs

The card acquiring service is hardly dependent on local circumstances, but a service that consists of the same components and automated processes within the EU where it is rendered. It is therefore not defendable to have today's enormous differences in prices as found in the inquiry. This can only be upheld by the possibility to separate markets and banks avoiding to actually compete on fees. If a real Internal Market for card acquiring would exist, a more uniform and cost-based fee level would be developed by free competition. This would remove what is currently a barrier to the development of retail operations across borders which would allow retailers to operate more efficiently to the benefit of consumers. IKEA would for instance be highly interested to have its card

[3] Central acquiring was officially allowed in a ruling of 24 July 2002 in which the Commission exempted Visa's payment system from the European Competition rules for five years. However Visa has allowed central acquiring only when applying national 'rules'.(read: national interchange fee level of the point of sale)

acquiring business centralised in the country where this can be done most efficiently. It has been frustrating to see that our company that centralises its business in many areas like purchasing, supply etcetera cannot do the same for acquiring card payments, The example below show the enormous differences in costs faced by large retailers currently.

Example

A retail company operates in both Germany and Austria. On a turnover of €3 billion on credit cards in UK, it pays fees of 1% or €30 million. In Spain, where the fee for the same service is in average 2%, it pays €60 million. If the retailer were allowed to have all its transactions processed in UK at UK prices, this would represent a saving of €30 million!!

We call upon the Commission to make 'real' cross border acquiring possible!