



# FIN-USE

EXPERT FORUM OF  
FINANCIAL SERVICES USERS

*Providing expertise for policymakers*

**RESPONSE TO THE COMMISSION'S  
INTERIM REPORT I ON  
PAYMENT CARDS  
(SECTOR INQUIRY UNDER  
ARTICLE 17 REGULATION 1/2003  
ON RETAIL BANKING)**

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## **INTRODUCTION**

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FIN-USE welcomes the extensive market survey on competition in payment cards conducted by the European Commission. FIN-USE believes that the result presented in the interim report provides valuable information and conclusions that will serve as good basis for the future development of SEPA and the New Legal Framework.

FIN-USE sees effective competition as providing real benefits to users in terms of the range of products, quality and value for money.

FIN-USE believes that an effective market for payment systems will only exist if competition is present at all levels of the value chain as well as between different means of payment (i.e. usage of particular means of payment should not be artificially encouraged).

FIN-USE welcomes the opportunity to comment on the interim report. This response addresses issues that FIN-USE believes will have important consequences for the end-users (consumers as well as merchants), by having the potential of improving service/functionality, increase choice and ultimately lower end-user prices.

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## **FINANCIAL ANALYSIS OF THE INDUSTRY**

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1. *Are high merchant fees a competitiveness issue for the EU economy?*
2. *Are there compelling justifications for the comparatively high level of merchants observed in some parts of the EU25?*
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 systems?*
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 key feature of two-sided markets is that the price structure affects the total volume of transactions. The schemes, therefore, tend to set interchange fees at a level that attracts issuers at the expense of merchants (who are less sensitive to price) and acquirers.

Furthermore, from a competition perspective, a multilaterally set interchange fee has some important drawbacks.

- The multilaterally agreed interchange fee sets the floor for what a merchant can expect to be offered as a Merchant Service Charge (MSC). In this respect, it should be noted that currently about 80% of the MSC is not negotiable.
- In conjunction with no-surcharge rules, there is no room for merchants to recover the MSC from cardholders. This means that the merchant is forced to either not accept cards or raise the overall price level. The result is that the high card fees are passed on to all consumers since the only way for the

merchant to recover these costs is by raising the overall price level of his products and services.

- A multilaterally agreed interchange fee constitutes a barrier to entry for a potential acquirer and may therefore risk discouraging entry.

These issues, together with the conclusion in the interim report that *"Even without interchange fees, card issuing remains profitable"* clearly justifies looking closer into the use of interchange fees.

FIN-USE wishes to see further investigation on whether interchange fees for card payments are needed, for example, what are the pros and cons? FIN-USE also believes that close consideration should be given to the potential of developing a more balanced system where both sides to the payment directly charge the payment service provider according to the principle of shared costs

5. *What pricing practices, rules and legal provisions distort price signals to consumers and the choice of the most efficient payment instruments?*
6. *Would cost-based pricing promote the use of efficient payment instruments and how could such pricing be implemented?*

FIN-USE believes that if users are to benefit from competition it is critical that good, understandable and reliable information is available about the product and services, which will allow users to make informed decisions.

The pricing should therefore be transparent and reflect costs so that users have an incentive to use the more efficient payment instruments. Users should be made aware of the real cost of the service. If not, the result will be that - in some cases - expensive means of payment will be subsidised by cheaper means of payment.

FIN-USE concludes that users receive insufficient price signals in their choice of payment instruments. The costs for producing payments are poorly reflected in transaction fees towards both consumers and corporate customers and there exist large cross subsidies between payment services, for example, the interim report shows that least efficient products like credit cards are artificially subsidised by more efficient products.

A problem here according to FIN-USE is the no-surcharge rules, which prevent price discrimination between payment instruments at the point of sale. A result of this rule is that a merchant is not allowed to correctly inform and charge the cardholder the costs associated to each payment mean.

FIN-USE is of the opinion that the no-surcharge rules should be abolished. The removal of no-surcharge rules has in FIN-USE's view the potential to increase economic efficiency because cardholders will be provided with better pricing signals on the costs of different payment instruments. Such a solution may also increase

merchant acceptance, as some merchants that do not now accept payment cards because of the costs involved may begin to do so.

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## MARKET STRUCTURES, GOVERNANCE AND BEHAVIOUR

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10. *What governance arrangements can facilitate competition within and between card payment systems?*
11. *What governance arrangements can incentivise card payments schemes to respond to the needs and demands of consumers?*
12. *What governance arrangements can allow minority participants or minority members to receive appropriate information and participate appropriately in decision-making?*
13. *What access conditions and fees are indispensable?*
14. *To what extent is separation between scheme, infrastructures and financial activities desirable to facilitate competition and efficiency?*
19. *How much need and scope is there for harmonising technical standards in the payment cards industry?*

Access conditions to the payment systems crucially determine how competition develops. Lack of or discriminatory terms for access to payment card systems might deter small actors and new entrants in the market and thereby hamper the development towards increased customer choice and lower prices. Access to payment card systems for new entrants and small actors under conditions which enable successful entry is thus not least from an end-user point of view an issue of great interest.

FIN-USE believes that the setting of standards for access to systems plays an important role for the development of the market. Even though standards generally confer benefits on the members of a network it is generally understood that standards also can be too far-reaching and have a detrimental effect on competition. It is therefore important that standards be set in an independent manner. If not, there are great risks that standards will be developed that meet the interests of its strongest members. Incumbents may, for instance, design the terms of access in such way that they place new market actors at a disadvantage or cause product development to focus on the needs of the large participants rather than those of the end-users.

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## LESSONS FOR SEPA

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### *Recommendations of FIN-USE*

- FIN-USE strongly encourages further investigation on whether interchange fees for card payments are needed. FIN-USE believes that close consideration should be given to the potential of developing a more balanced system where both sides



to the payment directly charge the payment service provider according to the principle of shared costs.

- FIN-USE is of the opinion that the no-surcharge rules should be abolished. This would enable merchants to recover its costs for card fees as well as increase economic efficiency because cardholders will be provided with better pricing signals on the costs of different payment instruments. Such a solution may also increase merchant acceptance, as some merchants that do not now accept payment cards because of the costs involved may begin to do so.
- FIN-USE concludes that in order to secure a level playing field it is important that access conditions to card schemes are objective and non-discriminatory.

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