EUROPEAN PAYMENTS COUNCIL
Towards our Single Payment Area

Letter_EPC063/06 Brussels, 20 June 2006

Ms Neelie Kroes
Commissioner for Competition
European Commission
B-1049 Brussels

Re: Interim Report I – Payment Cards

Dear Ms. Kroes,

We are writing to you regarding the Interim Report on Payment Cards released by your Services in April 2006. The European Payments Council (EPC) was established by the European banking industry to develop the business rules and standards required to launch the Single Euro Payments area from 2008 onwards, and to voice common positions of the industry on European payment issues. EPC will not express an opinion on judgements made in the Interim Report on the performance of individual schemes, nor on pricing considerations (including interchange fees).

But EPC does wish to point out that its Members have unanimously approved last 8 March. the "SEPA Cards Framework" (SCF) which operates as a firm declaration of EPC policy and spells out "high level principles and rules which when implemented by banks, schemes, and other stakeholders, will enable European customers to use general purpose cards to make payments and cash withdrawals in euro throughout the SEPA area with the same ease and convenience than they do in their home country. There should be no differences whether they use their card(s) in their home country or somewhere else within SEPA. No general purpose card scheme designed exclusively for use in a single country, as well as no card scheme designed exclusively for cross-border use within SEPA, should exist any longer".

The SCF was formulated during 2005 (actually it was first adopted by EPC in September 2005), probably at the very moment where your Services were conducting their country and bank surveys. Obviously the dispositions of the SCF could not be taken into consideration at the level of the Interim Report, and this is why we would like to make the following remarks:

- The Interim Report presents a judgement on the European card market "as is". This market reflects the situation where in every country banks have over the past 30 years developed and implemented, in plain view of supervisors and regulators, efficient card solutions that meet the requirements of their customers.

- The general message of the SCF is that card usage cannot be separated between card payments and ATM withdrawals with cards. These functions are combined within almost each card scheme, and this meets the expectations and habits of cardholders.

- The SCF proposes 3 options for the phasing out of strictly national schemes by end 2010. This will impact the volumes handled under the rules of existing national and international schemes. Furthermore the SCF requires a separation at scheme governance between processing and other functions, as well as strict security measures ("Chip and PIN" only within SEPA). This will require adjustments from existing infrastructures, thus paving the way for further standardization.

- The Interim Report contains some observations on "blending". This practice is probably a regrettable yet expected collateral consequence of Regulation 2560/2001. By creating overnight the legislative fiction that cross border transactions are "the same" as national transactions, the regulator did not leave any other option to market participants. This risk had been highlighted by the banking industry in advance to the promulgation of this Regulation.

We need to stress our deep concern about the potential consequences of assertions presented in the Executive Summary, in particular the statement that "legislation ….proposed to create a SEPA….could save the EU economy between 50 to 100 billion per year". This figure has probably been taken over from the Explanatory Memorandum to the draft Payments Services Directive. However, a) this figure has never been substantiated and the assumptions that are said to support it are untested, b) this figure has been quoted in the context of a legislative proposal concerning non-cash payment transactions, not just payments or withdrawals with cards, c) this figure de facto assumes that the scope of the SEPA project includes the re-engineering of order-to-cash processes in society at large – which is wholly inaccurate. In our view it is counterproductive, and dangerous for the future of the SEPA project, to create grounds for the perception by the public – in addition to the many negative statements made about the European card industry – that the latter could stand in the way of society reaping savings of such a magnitude (actually the press has already stated that the above amount could be saved in the cards industry alone).

We believe that these remarks from EPC will be complemented by numerous responses to the consultation from countries, banks, schemes, or processors, and some of them may express concerns about perceived inconsistencies between the dispositions of the SCF, and the Interim Report - as the latter was published after adoption of the SCF, yet bases itself on a "pre-SCF market situation".

We remain convinced that payment cards represent a major benefit for merchants and cardholders and therefore society at large. They are very secure, easy to use and convenient. They are powering e-commerce, which is growing very fast. We now have fully automated petrol stations, toll gates, parking & other vending machines. There are countless new opportunities opening up. Already cards account for more than one third of all payments, not to mention the convenience of cash withdrawals throughout the world. Our industry is proud of these accomplishments which involve the careful balancing of innovation and attention to the safety of all users.

We look forward to an open dialogue with your Services on this matter.

Yours faithfully,

Gerard Hartsink
EPC Chair

Alfred Schmauss
Chair of the EPC Cards Working Group

Cc: Members of the European Payments Council
DG Competition -Services