

## FEEDBACK FORM

Name of undertaking: NOVA LJUBLJANSKA BANKA, D.D., LJUBLJANA

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): CURRENT ACQUIRER AND ISSUER

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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?

Merchant fees should be competitive within acquirers sector and also towards other payment means like cash and cheques. According to Interim Report's findings existing merchant fees are not optimal for free trade environment. To completely assess the competitiveness issue of the fees, some detailed comparative research on cash (and alternative payment means like cheques and electronic funds transfer) should be made. However, it should also be considered that interchange fees affect merchant fees. That is why firstly interchange, which is declared by card schemes, should be set in a transparent and effective manner.

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

The investment in merchant POS infrastructure and management is significant, acquirers have to implement technological progress constantly and provide sound service to merchants. Through these fees also interchange fees are generated, which generate issuing business evolution. In this way the whole infrastructure could represent a competitive, sustainable, technologically advanced field of daily operations in the EU economy. Furthermore, level of merchant fees should be set in comparison to other payment means

(like cash, cheques, electronic funds transfer) and dependant on merchant industry specialties.

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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?

Interchange fees are the basic revenue platform generating four party card business and should therefore operate as motivating way of constant rationalizing card operations and quality client servicing. Besides the ability to sustain the business, it should also cover deviations and negative effects, like various types of risk. Justification should therefore consider these issues and in the process of standardization effectiveness and competitiveness could be achieved (which currently is fragmented in its amounts).

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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?

Card business profitability should be considered by taking into account the following aspects:

- Card business is extremely technology driven, including generation rationalization and innovation.
- Special emphasis should be put also on customer convenience of card usage as an intangible soft profitability element.
- Card business is incorporated into retail business through which whole customer service is provided. It also affects current account and electronic banking services.

By considering these aspects the win-win situation of card business will be achieved, for all its participants.

The economy as a whole could be driven by efficient financial systems, to which development has to be provided. Otherwise the cardholders and merchants won't be served properly, according to their needs and expectations.

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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?

Mostly lack of pricing transparency and lack of information on alternative payment means comparisons.

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

It could be promoted in a cost comparative way, whether the comparison of alternative payment means was put in an objective and transparent way. With this the consumer could choose the payment means, which suit his needs the most.

Only cost-based way gives the opportunity to reach economies of scale for bigger card business providers, so value-for-money pricing would be more appropriate. In this way also the quality of card servicing would increase.

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

Below is one example of substantial negative effect on cross-border card usage by consumers:

By following SEPA vision, MasterCard International has imposed Currency Conversion Assessment Fees to all SEPA countries which are not yet in the euro zone. That means every transaction in euros of cardholder from non-euro (but EU) country is automatically surcharged with 0,16% (that goes for Maestro cards as well). Hereby it is worth noting that with settlement currency in euros, card scheme member converts the transaction amount to domestic currency, not the card scheme itself. So MasterCard imposes no extra conversion work, but charges extra.

That is certainly one of measures that cardholders (and card scheme members) don't understand as SEPA approaching measures enabling better terms of card usage.

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## **B. Market structures, governance and behaviour**

8. What market structures work well in payment cards?

Free, open and transparent market structures, after the operations standards and business policies are well defined, structured and transparent.

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

Trusts and other monopolistic market structures, which enable cost-price manoeuvring and do not operate by value-for-money principles.

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

By supervision of its realization and imposing penalties for trust behaviour based upon self-regulation. In that way payment systems could freely choose the way of operating but with optimization and quality servicing as key objectives.

To reach an open card market all card providers, including non-financial card schemes (like Diners and American Express) and merchant cards used as general purpose cards should be regulated under the same conditions as banks.

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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)?

There shouldn't be any such arrangements. In a free market environment card payments providers should know best how to serve the customers, otherwise they are not competitive. Sustained competitive advantage could be achieved only by card business providers itself.

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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?

Equal participation in governance bodies with equal responsibilities and relative cost bearing. From experiences minority members usually don't have the resources to properly estimate information received and evaluate decisions upon them.

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13. What access conditions and fees are indispensable?

Access conditions: Relative cost sharing according to card volumes without limitations.  
Fees: interchange fee and merchant fee

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

In that way every participant will participate in a free trade manner trying to offer optimal conditions and freely choosing its partners.

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### **C. Future market developments**

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

Yes, especially with realization of overall European access to markets (without barriers).

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

Whether the card business was able to generate sufficient funds, resources could be allocated in development, that means innovation as well as technological progress.

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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?

By monitoring the market and by supervising possible existence of barriers.

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

Only to those possible barriers which will enable quality performance and optimal offer to card business customers.

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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?

Without some level of harmonisation and standards setting all outcomes (cost, pricing policies etc) could hardly be transparent.

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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?

Successful low cost domestic card schemes, working under no global card scheme management.

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

By limiting power of existing global card scheme management and exercising policies consistent with SEPA vision and by setting standards and rules of card business participants.

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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?

- Multifunctional card service providers, which prevent participating of others in card schemes. Different functions could be performed but by not limiting other participants in the market.
  - No trust, joint venture agreements or monopolistic market structures.
  - No prohibition on co-branding programmes between card schemes, including those of merchants.
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23. What governance requirements should SEPA schemes meet?

Standardisation of card business operations and upon this cost and price transparency and competitiveness.

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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?

By setting appropriate standards.

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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?

Probably consequential measures to those not following barriers removal principle.

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General comments:

To fully assess the card business impact on economy and prior to define concrete SEPA standards, it is of big importance to make similar analyses for alternative payment means like cash and cheques, in a comparative way.

Also to enable free market oriented card business non-financial card providers should be under the same treatment (Diners, American Express, merchants with their own general purpose cards).

Interchange and merchant fees sustaining the card business as a whole, however pricing should be set in a transparent manner.

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!**