FEEDBACK FORM

Name of undertaking:

AerRiantaRetail

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):

Airport Retailer – operating as a Merchant dealing with the travelling public

Address:

Dublin Airport Authority cpt

Dublin Airport

Country:

Ireland

Name of contact person:

Mr. Frank O'Connell

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Participated in the questionnaire:

- Yes

Specific questions from Executive Summary:

A. Financial analysis of the industry

1. Are high merchant fees a competitiveness issue for the EU economy?

Yes – as they impact on the merchant's cost base and their ability to price competitively to customers high merchant fees result in higher costs and a lower value proposition for the end consumer. In retailing, which is a highly competitive environment, reduction in merchant fees would in most cases feed through into lower end prices to the customer.

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

From the perspective of the merchant it is not immediately obvious what the justification for the level of merchant fees are. In many cases Acquirers will quote the high level of interchange fees they must pay to other operators but there is no readily available point of comparison to allow any Merchant assess whether the figures quoted are realistic or not. It is interesting that the interim report finds that the high profitability derives from an abuse of power by the Banks. This is a widely held perception among Merchants due to the "closed shop" nature of the card acquiring business and the close interrelations between banks, card issuers and acquirers.

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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?

If such justifications exist no transparent information is generally provided to Merchants / Consumers for the basis on which such fees are set. We would refer to our comments in the point 2.

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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?

Given the high level of interconnection between the card companies and the larger banking groups the general sense would be that they have the dominant power in the card market. This effectively creates a near monopoly / duopoly position and is the key reason for the high profits as the same few operators control all aspects of the process from card issuing to eventual settlement.

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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?

The key issue is that for most card users the cost to the Merchant – and therefore eventually to them – is hidden. Most consumers would be aware of the interest they might pay on an overdue balance but almost none of them would have any idea of the level of merchant service charge attaching to the use of their card as this is borne by the retailer and not seen by them. The end user would therefore see no difference between say their Visa and their Mastercard eventhough the fee could be substantially to any individual retailer. This would also apply to the current practice of the card companies of having differential rates for different types of card (Consumer / Business / Procurement etc) and different types of trancations (Cardholder present / Cardholder not present etc.). Again this type of differential cost structure is invisible to the consumer but is a real cost borne by the Merchant.

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

Theoretically cost based pricing should lead to a more competitive market. A key difficulty would be validating the components of the cost base of the operators. A key first step in this might be the publication by Merchants of the rates they are charged by different cards for different transactions. This would lead to more informed consumer decision making which would in time drive down some of the disparities between providers.

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

As mentioned earlier many consumers are not aware of the basis on which card commission is charged back to Merchants and so are likely to be indifferent. The main visible concern to consumers would be more likely to relate to FX rates applied to cross currency transactions.

From the merchants perspective differing rates will make different cards more attractive / profitable but in many cases the overriding wish to make the sale means that the merchant simply bears any cost differential as part of the costs of operation. At the moment the Merchant has relatively little flexibility to do anything about this situation.

B. Market structures, governance and behaviour

8. What market structures work well in payment cards?

At present debit cards have fee structures based on a cost per transaction rather than a % fee related to the transaction value. Due to the highly automated nature of the card processing system it is not likely that from a pure processing point of view the transaction value has any impact on the processing cost. In that event having all cards processed on fee per transaction basis would make it much easier for both the consumer and merchant to understand what the real cost is.

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

The current structure whereby a relatively small number of highly inter-related parties control all aspects of the process and the related fee / profitability structure clear militates against the most competitive market conditions.

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

Even in existing situation if there was greater transparency as to charges from all players at each stage in the system this in itself might create additional pressure to reduce profit levels and pass this back to the consumer. Ideally if there were more players in the market and less barriers to entry the competition arising from such a development would be likely to lead to more competitive pricing. Any step the Commission could take in this direction would be welcome.

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

Greater availability of information to allow Merchants aggressively negotiate with service providers is a key requirement to incentivise card schemes to respond. Information is the key to negotiating with the various operators. At present the only people with this information are the Acquriers / Issuers while the Merchants are left to depend on information provided to them by the Acquirer / Scheme they are dealing with or other anecdotal information they can garner from other sources such as business contacts etc. In the current arrangements the advantage clearly lies with the Acquirers / Schemes

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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?

No comment

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13. What access conditions and fees are indispensable?

Clearly there are costs involved into entering into the market that new player will have to bear as they cannot expect to simply build on top of an infrastructure that other operators have invested heavily in to develop. As with operational costs however the key issue will be one of transparency. New entrants to the schemes should pay a fee that reflects the value of what they will get rather than some inflated cost that is designed as a disincentive to new entrants or a “superprofit” to the existing players. In either of the prior cases the ultimate cost is borne by the end user in terms of high transaction costs.

In terms of processing fees clearly the various institution involved are entitled to earn a fair return on their investment over time and to recoup their operational costs. If that is the basis on which merchant fees are set then neither the merchant of the end consumer will be prepared to pay a fair price for a fair service.

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

Our responses have referred on a number of occasions to the limited number of service providers in the market and the impact we believe that has on competitiveness. In light of that situation we would feel that should be greater competition in this market which is likely to require greater segregation between the various activities rather than them being consolidated in the hands of a few key players be they banks or acquirers.

C. Future market developments

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

If the market is to develop into a more open and competitive one that changes will occur. Whatever the changes the key goal is to ensure greater transparency and hopefully lower processing cost whatever the structural changes may be.

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

Given the ongoing level of technological change this should facilitate some of the structural changes that will be required. As more common technological processes develop and these become industry standards this should in theory assist in reducing processing costs, and facilitate easier access for new entrants.

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?

A common technological standard which is ideally non proprietary would be the most flexible and cost effective way of facilitating streamlined and economic processing. In relation to existing rules and regulations surrounding memberships of the various groupings these should be reviewed to identify those that actually bring a tangible benefit to the end consumer as opposed to those that have built up over time or which are designed to protect the interests of the existing operators. Those that do no benefit the end consumer should then be eliminated

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

Based on the information available there does not appear to be substantial justification for many of the barriers.

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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?

Not in a position to respond on this question.

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?

The key issues are transparency and open competition in any new arrangements, and that fees are based on the actual cost of an efficient system plus a commercial return for those involved in the process.

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

See point 20

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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?

No comments

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23. What governance requirements should SEPA schemes meet?

No comments

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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?

No comments

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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?

Regulation can at times lead to less flexibility in operation and increased costs. For the moment the best option would be for the Commission to continue to closely monitor the self – regulation that takes place in this market and evaluate it as it changes over time. Should the Commission feel that the right balance is not being achieved it can retain the right to intervene at a later point to address any poor practice.

General comments:

The review of this area has confirmed what most merchants had felt for a long time – that the current cards market is not operating in a way that ensures the most efficient and competitive service to the end consumer. In the end the costs of the cards systems is borne by the end consumer so any initiative that seeks to increase openness, transparency and competition in this market can only be of benefit to all consumers and businesses in the long run.

We would support the Commission in following through on the findings of this review by continuing to monitor the market. If the market itself does not respond to the identified problems and take action on them then the Commission should continue to take all necessary steps, up to and including regulation, to ensure that a more competitive and open market is created.

<u>General questions:</u>

1. Did you find the content of the report easily accessible and understandable?
    - yes, fully;

2. Did you find that the level of detail in the report was:
    - about right;

3. Did the information contained in the report was:
    - 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;

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!