

Commission of the  
European Communities  
DG Competition  
Antitrust Registry  
B-1049 Bruxelles  
Belgium

Rome, 21 June 2006

**Subject: Sector Inquiry on Retail Banking  
Feedback on the Interim Report on Payment Cards and  
Payment Systems**

Name of undertaking: CartaSi S.p.A.

Industry: current acquirer and issuer

Address: Via Otricoli 21, 00181 Rome

Country: Italy

Name of contact person: CLAUDIO VENTURI

Phone of contact person: +39.06.4749.2208/+39.335.8000526

Email of contact person: claudio\_venturi@cartasi.it

Participated in the questionnaire:

- Yes
- No

Dear Sirs,

As you well know, CartaSi took part to the Sector Inquiry on Retail Banking - Payment Cards.

Further to the subsequent publication of the *Interim Report on Payment Cards and Payment Systems*, in our role of an industry participant we wish to submit a few comments and views on some of the issues raised in the report, which we deem opportune to share with you.



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Having examined in depth the preliminary report, we noticed how it positively highlights CartaSi positioning both as an issuer and an acquirer.

On the basis of the data which was provided with our response to the Sector Inquiry, it is in our opinion evident that CartaSi conducts business in a way which enhances the possibility, for both member and non-member banks, to compete freely in the market.

It is moreover important to stress that, as of April 2006 the company has a new shareholding and governance structure. By reducing the number of shareholders and adopting a business model extremely focused on flexible and prompt satisfaction of the needs of each single bank, CartaSi now acts as a catalyst for increased competition and price reduction, for the benefit of the banks end customers, cardholders and merchants.

Namely, as an issuer, it stems from the report how the annual average fee of CartaSi cards is autonomously defined by our member banks, thus favouring competition among banks both internally and externally to CartaSi.

The downward trend for CartaSi consumer cards led to 23-25€ in 2004 (vs.26-30€ in 2000), comparable to the European average of 23€. For corporate/business cards the downward trend led to 50-65€ in 2004 (-31% vs. 2000).

As a further update of such figures, we wish to draw your attention on the following price evolution determined by the banks' pricing policy (including cards issued with no annual fee):

CONSUMER CARDS	2005	2004
Newly issued cards	13.16 €	17.06 €
Re-issued cards	29.15 €	27.58 €

CORPORATE/BUSINESS CARDS	2005	2004
Newly issued cards	22.71 €	22.89 €
Re-issued cards	37.14 €	40.12 €

In terms of grace period, the cardholder benefit is higher in case of a CartaSi card (31 days) versus the European average of 7.39 days.



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On the acquiring side, the Italian credit card market into which CartaSi operates has a low concentration HHI index, due to the growing number of active acquirers with their corresponding market shares.

In the case of CartaSi, where each member bank has the faculty of defining the Merchant Service Charge according to its own pricing policies, the price has significantly reduced from 1.82% in 2000 to 1.55% in 2005 (-15%) while the European average was respectively 2.00% in 2000 and 1.75% in 2005.

This is also due to the fact that we always adopt the payment schemes' default Interchange fees (which keep decreasing in line with the objectives set by the European Commission), with the only exception of domestic multilateral arrangements for the petrol sector, where the agreed Interchange fee level is significantly below the payment schemes default one.

Please consider ourselves of course available to provide you with any further information and comment on the matter in question.

Yours sincerely,

CartaSi S.p.A.

(Claudio Venturi)



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new questionnaires on payment card networks and we have come to the following answers,

Starting in particular with section "1. Legal and operational framework", the most correct reply is based on the following overall assumption which should clarify, also for the other sections of the questionnaire, the role played by CartaSi within the card industry at domestic and international level: CartaSi is an issuer and an acquirer in its own right being a Principal Member of both Visa and MasterCard payment card networks, as well as a JCB acquirer having been granted the corresponding Acquiring license.

This is the reason why, as you can remind, we fully responded to the previous questionnaire sent to CartaSi (ref. no. IT-MP-0130), in a proactive way, as confirmed by the set of clarifications we asked with the aim to provide the right answers of CartaSi as both an issuer and an acquirer.

For your greater convenience and easier reference and understanding of the above mentioned information, please find here attached a copy of the answers that CartaSi gave to the previous IT-MP-0130 questionnaire.

We do operate ("1.1 How your scheme is organised" ) with a number of Italian banks which act as a Visa Participant Member and/or a MasterCard Affiliate Member sponsored by the Principal Member CartaSi.

In conducting business, CartaSi and the banks above play distinct roles.

Namely, CartaSi provides the following services to banks:

- establishes the contractual relationship with cardholders and merchants
- production and issuance of cards
- authorisation, clearing and settlement
- production and mailing of monthly statements to cardholders and merchants
- customer service

The banks perform the following activities:

- merchant solicitation within their own bank customer base
- cardholder solicitation within their own bank customer base
- cardholder credit scoring
- setting of cardholder and merchant pricing
- assumption of credit risk



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- monthly posting of statement total amount to cardholder bank account
- daily posting of global transactions amount to merchant bank account

Within such framework the banks are remunerated by receiving the revenues deriving from Cardholder Annual Fees and Merchant Service Charges, net of CartaSi servicing costs which include standard interchange fees for not-on-us transactions and notional (imputed) interchange fees for on-us transactions

The process organization (questions from 1.3 to 1.11) is consequently based on a relationship between the company CartaSi and its service providers, as previously described in the IT - MP 1030 first questionnaire (tables 1.13, 1.14, 2.14 and 2.15).

The foregoing concept may be effectively clarified by the very significant aspect of Profit and Loss Statement. As far as section "2. Scope and volume of activity" is concerned, the corresponding CartaSi data has already been described with great detail in our feedback to the IT-MP-0130 questionnaire, where we filled out both P&L tables 1.6 and 2.6, in which we respectively indicated that our income derives mainly from Merchant Service Charges on the acquiring side, and on Cardholder annual fees together with interchange fees on the issuing side.

As a matter of fact we adopted a business model which, as described above, completely differs from those of international or domestic payment card networks (like Visa, Mastercard, or the Italian domestic debit network - CoGeBan).

Conversely the P&L tables of the current questionnaires refer to membership and operational fees which do not exist for CartaSi, while being typical of Visa, MasterCard and other payment network. In this respect we consider relevant to CartaSi the questions posed by you in the previous questionnaire as opposed to those listed in the additional ones.

For the same reason sections "3. Membership of the payment scheme", "4. Joining and membership fees" and "5. Fees paid to the network" are not applicable to CartaSi, due to our business model, while we would like to draw your attention on the fact that, on the contrary, it is CartaSi who pays membership and operational fees to the VISA and MasterCard networks, as any member does.

With regard to section "6. Cards" we underline again that we are both a VISA and MasterCard licensee and, within such framework, we issue cards as specified in tables 2.10, 2.11 and 2.12 of our IT-



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MP 0130 questionnaire (we do not issue JCB cards, being an acquiring only JCB licensee).

Nevertheless please be informed that, as per question 6.5, according to current anti-money-laundering Italian legislation, non residents may open a bank account in Italy as long as they are assigned an individual tax payer's code (codice fiscale) by the Public Administration, and subsequently we can issue them a card.

With specific reference to question 6.6 we wish to inform you that CartaSi is currently in the process of migrating magnetic stripe cards to so-called EMV chip cards: currently all the newly issued cards as well as all the reissued ones bear an EMV chip. The whole migration process will be completed within a three year period. As far as rules are concerned we will obviously continue to apply those stated by the international payment networks.

As far as section "7. Acceptance of other card brands" is concerned, being a Visa, MasterCard and JCB acquirer we do accept all cards carrying such brands, under the respective international operating regulations.

With regard to section "8. Surcharging and non-discrimination obligation", our contracted merchants are obliged to apply the same pricing and conditions to cardholders as those applied to customer paying by other means, including discounts, rebates and special sales, as explicitly specified in the acceptance terms and conditions (questions 8.1, 8.2, 8.4 and 8.6) subscribed by the merchant and CartaSi as the acquirer. Given the above, we clearly have no quantitative evidence to measure how much surcharging is used (questions 8.3 and 8.5). In the event of a merchant breaching this specific contractual clause, we apply no sanctions but rather put in place suitable commercial actions, i.e. merchant education, redefinition of the Merchant Service Charge, incentives.

About section "9. Issuing and acquiring" please refer to our answer given in table 2.8 of the previous IT-MP-0130 questionnaire, taking into account that we are both Visa/MasterCard licensed issuer and a Visa/MasterCard/JCB acquirer in Italy.

Concerning section "10. Interchange fees" we stress again the fact that we conduct business within the Visa, MasterCard and JCB framework and we are subject to their regulations, including the default interchange fees, and you may find all the relevant



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information in tables 1.3, 1.4, 2.3 and 2.4 of our response to IT-MP-0130 questionnaire.

For sections "11. Other interbank fees" and 12 "Access to ATM network" please take again into consideration our business model in which CartaSi is the Visa, MasterCard and JCB acquirer, as mentioned above.

With regard to section "13. ATM charges to cardholders" in tables 2.10 and 2.11 of IT-MP-0130 questionnaire, we provided data on cardholder fees with great detail for every different category, not only ATM transactions.

We take also the opportunity of sending you here enclosed the CartaSi acknowledgement of receipt of your second questionnaire on payment card networks, which contains questions regarding payment card transactions with MasterCard/Maestro branded payment cards in Italy.

Please consider ourselves of course available to provide you with any further evidence of the above, if you need additional and more detailed information.

Yours sincerely,

CartaSi S.p.A.

(Claudio Venturi)