FEEDBACK FORM

Name of undertaking: First Data International

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): First Data International is primarily a provider of processing services to card issuers (both bank and private label) and card acquirers & merchants. In some instances it is a party to joint ventures that are involved in the commercial activity of merchant acquiring.

Address: First Data House, Christopher Martin Road, Basildon, Essex SS14 9AA, United Kingdom

Country: First Data International seeks to offer services to clients in all of the EU25 markets. First Data currently has offices in 15 of the EU25 markets and operational facilities in 15 markets.

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Participated in the questionnaire:

- **X** 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?

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

To the degree that merchant fees reflect, in part, the level of interchange fees between banks, First Data as a processor plays no part in establishing these fees. This is the responsibility of banks through their card scheme involvement.

The differing levels of market maturity make some national differences in merchant fees inevitable. First Data's primary competence is in transaction processing, and it is our experience that the cost of processing, especially in relation to the operation of a merchant acquisition network, is highly sensitive to volume. If the merchant business is not profitable, the merchant base does not expand. Therefore card issuance and usage fails to break out of the up-scale T&E sector, and the opportunity to create the virtuous circle of increasing volume, lower costs and lower fees is missed.

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?

First Data's business is primarily as a processor and it is not an issuer of cards. Therefore, it does not benefit from any portion of interchange fees.

4. Are the high profits observed due to innovation or do they arise from some kind of market power in a two-sided industry?

In First Data's primary business area of processing, it cannot be considered that profits are excessive. In fact many competitors to First Data are collectively owned organisations that do not operate according to normal commercial sector disciplines.

5. What pricing practices, rules and legal provisions distort price signals to consumers and the choice of the most efficient payment instrument?

First Data's business model is that it provides services to banking clients at a commercial rate. It is the banking clients that price services to their consumer and retail clients.
The provision of free cash transactions in all markets, and free cheque transactions in many, is a significant distortion of the payments market. These distortions are more significant than the impact of whether surcharging is allowed for card transactions.

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

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

B. Market structures, governance and behaviour

8. What market structures work well in payment cards?

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

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

As a processor, First Data firmly believes that, for there to be genuine and effective competition between alternative card payment service providers, it is essential to separate the management of payment schemes from the provision of processing infrastructure. In future, these will be different markets driven by different factors. Competition in card payments will be significantly enhanced by breaking the vertical integration model.

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

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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?

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13. What access conditions and fees are indispensable?

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

First Data International believes that separation between scheme and processing is essential to ensure competition and efficiency in the card industry. Without clear separation, it is impossible for genuine competition to develop. Europe, especially in the context of SEPA, has now passed the point where the efficiency benefits of a totally shared infrastructure at a national level are outweighed by the downside of not having genuine competition. Therefore, clear and effective separation of scheme and infrastructure should be required for both national and international payment schemes.

C. Future market developments

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

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

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?

Barriers to competition in processing
The SEPA Cards Framework states that there must be separation of scheme and processor; therefore the principle has already been agreed. However, First Data believes strongly that 'separation' must be defined in some detail and then appropriately enforced. There are some cases already in Europe where the separation process has been largely on paper, with the result that potential market entrants find that barriers remain largely unchanged.

First Data suggests the following points are necessary to have meaningful separation of scheme and processor at both the national and international scheme level. Partial separation of a scheme from processing will enable a Scheme Management Entity to unduly favour the use of its own processing organisation.

At the national and international level, FDI's principal concerns are:

- Processing methodology
  A card scheme may impose certain processing methodologies that can only be implemented by a single processor. The effect of this would be that markets remain effectively insulated from processor competition.
- Governance
  For separation to be meaningful, any processors owned by schemes must have separate governance arrangements; this should not be just a paper separation as has frequently happened at a national level in the past. Experience to date in Europe has shown that nominally separate payments organisations often find many ways in practice to work towards a combined agenda.
- Investment and pricing
  There should be no merging of the finances of a scheme and its processor. History cannot be undone but this practice should be stopped forthwith as it is a source of major distortion in a competitive market.
  The requirement for financial separation between scheme and processor most critically relates to pricing. Examples of competition-distorting behaviour are:
  - When a scheme lowers its processing prices below its standard market price in order to encourage acceptance of a particular card product
  - When a scheme offers separate brand and processing services and, although there is no requirement to use the processing service, a substantial discount is offered for taking the entire 'package'
- Notice of changes in processing requirements
  Payment schemes typically give processors only 3-6 months' notice of required system changes, whereas their own captive processing organisations have significantly more time. This restricts other processors' ability to compete for business. In a SEPA environment, payment schemes must operate a process that gives the same degree of notice of

impending system changes to all processors in the market, including their in-house processing organisation.

- Processor certification and testing
  The certification and testing of processors (whether bank-owned or commercial companies such as First Data) is currently carried out by the processing organisations of the (international) schemes, which is a clear conflict of interest. In future, certification and testing of processors must be the responsibility of schemes and should be applied to their own processing organisations as well.
- Availability of processing-critical information
  There is certain information that it is critical for processors to have on an equal basis (equality defined as equal access and equal price). Information, such as card blacklists, BIN routing tables and default interchange rates, is effectively owned by the scheme and should be distributed by them and not by the scheme-owned processor as happens today.
- Timing of separation
  The restrictive requirement to use international payment scheme networks for cross-border transactions, and domestic processors for national transactions (in some markets) should be lifted as soon as possible. This is necessary to prevent incumbent processors winning business on long-term contracts before SEPA becomes a reality.
- Geographical extent of separation
  First Data believes that processor separation cannot be restricted to the initial SEPA zone. At a practical level it is difficult to envisage a governance and operational model that has separation for euro markets but not for the wider EU. Therefore, First Data believes strongly that the scheme and processor separation aspect of SEPA has to apply to the wider EU with immediate effect.

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

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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?

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 lesson from existing payment schemes is that choice is a major catalyst for industry efficiency. A choice of processing providers, where each player has a genuinely level playing field, does lead to lower costs for issuers and acquirers and therefore improves efficiency. Likewise, competition between acquirers leads to a reduction in overall merchant charges and so feeds the virtuous circle of transaction growth and further reduced costs.

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

The fundamental requirement is that payment scheme management should be separated from the operation of infrastructure/processing. This should eliminate the practice of cross-subsidisation between scheme branding and processing; as such, schemes should then compete for bank business on the basis of product design, acceptance and support.

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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?

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23. What governance requirements should SEPA schemes meet?

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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?

There is a strong case for major processors such as First Data to be involved in the standards setting process as we play such a major role in the creation of technical infrastructures.

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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?

General comments:

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!