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1. MasterCard publishes SEPA interchange fees for Maestro

On December 4th, MasterCard published its SEPA fee structure for Maestro. The proposed fee consists of a per transaction component of 5 cents and an ad valorem fee between 0.12% and 0.30% (see table). The rate for a standard chip and PIN transaction is 5 cents plus 0.20%.

Payment Product	Fee Tier	Fee Rate
Maestro	Chip & PIN	EUR 0.05 + 0.20%
	Secure e- & m-commerce	EUR 0.05 + 0.25%
	Base	EUR 0.05 + 0.30%
	Large Merchant	EUR 0.03 + 0.12%

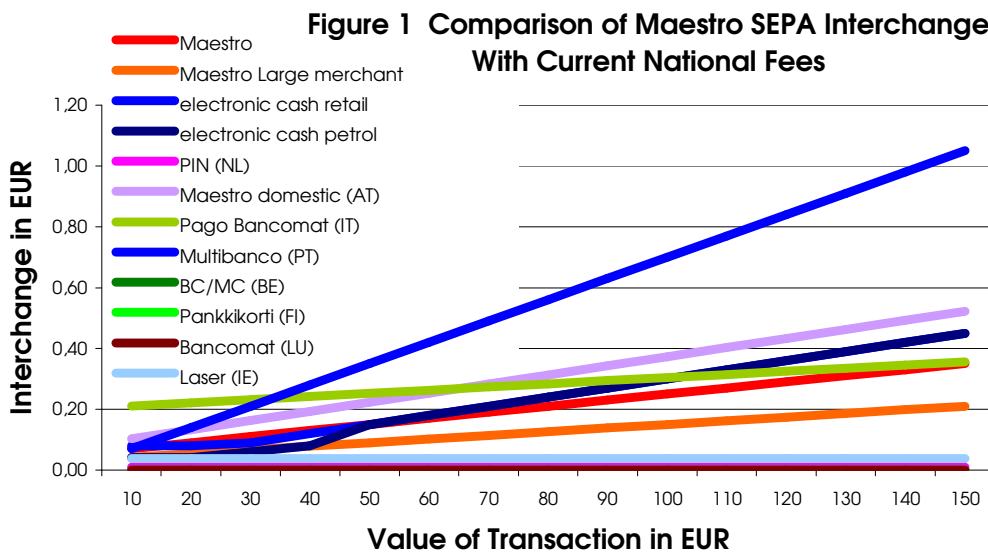
MasterCard is the first of the two schemes to publish its SEPA rates and it will be interesting to see how Visa is going to respond.

Our comment:

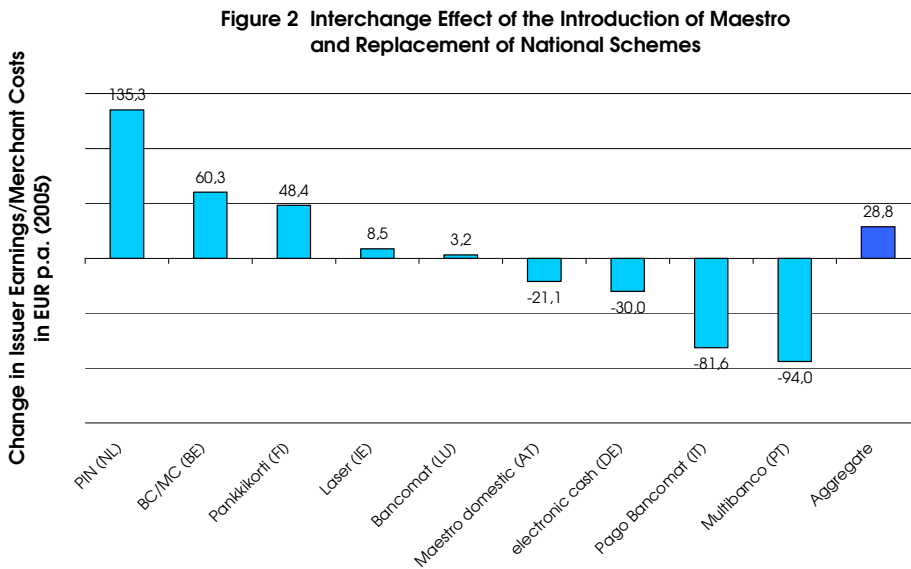
Considering the issuers', acquirers' and merchants' point of view the interesting question is whether the new Maestro fees are higher or lower than the fees currently charged by the

national debit schemes. This question can only be answered on a national basis.

For a group of 9 countries, PaySys estimated the effect on merchant charges if these countries would replace their



national systems with Maestro. As shown in Figure 1, merchants fees are increasing considerably in those countries that currently use a flat fee.



In some countries (including Germany), changes are moderate, whereas some high-fee countries would see a decline in fees.

Based on the current volume of transactions, the effects on issuer earnings (merchant costs) can be estimated (see Figure 2).¹

In the aggregate, for the group of countries as a whole, there would be a modest increase of fee income / merchant costs. So the MasterCard fee is fairly close to the weighted average of our group of nine countries. However, the problem how merchants will react in those countries that are currently cheaper, still remains. Another question is how regulators will react. It has become a common theme in official publications that SEPA should not lead to price increases.

2. German Sparda Banks will issue Maestro cards

On Dec. 7, 2006 the group of 12 Sparda Banks (Germany) announced that they would switch from the German debit brand 'ec cash' to Maestro in 2007.² Roll out of the first new Maestro cards will be in the second quarter of 2007. Sparda Banks are a part of the co-operative banking sector in Germany. The 12 banks have 2.65 million members (customers), 400 branches and a combined balance sheet of EUR 48 billion. The Sparda Banks are the first issuing banks to have made their SEPA debit strategy public. Another bank that is expected to make a decision soon is Commerzbank.

¹ Assumption: all transactions are chip & PIN, 50% of transactions by large merchants.

² See also the MasterCard announcement:

http://www.mastercard.com/us/company/en/newsroom/pr_SpardaBankMaestro.html

Our comment:

A few months ago, the Belgian banks announced that they would switch to Maestro. In comparison, the decision of a group of 12 German banks with 2.65 million customers may seem of little importance. But the move of the Sparda Banks highlights the current changes triggered by SEPA. In the "old days", in most continental European countries, decisions about debit were made jointly by the entire banking community. In a way, the joint decision of the Belgian banks still reflects this old model. However, as the Sparda decision shows, SEPA implies that choice of debit brand has moved into the hands of individual card issuers. It no longer is an affair of national banking clubs.

On the one hand, the decision must be seen as a blow for the banking associations which are organised in the ZKA (Zentraler Kreditausschuss). The ZKA has championed a model that involves the transformation of ec cash into a SEPA-compliant scheme that provides European reach via alliances with other schemes ('Euro Alliance of Payment Schemes'). On the other hand, the decision shows that SEPA actually works. From now on ZKA may point out that there actually is brand competition in the German debit market. In the future, it will be more difficult for critics to denounce the EAPS as a trick to preserve a national debit scheme. So far, it seemed that co-operative banks and savings banks are backing the EAPS initiative. However, the move of the Sparda Banks shows that it cannot be taken for granted that all of the member banks of the two sectors will follow the line taken by the associations.

Will Sparda customers like it? So far, Maestro acceptance is patchy in Germany. Unless acquiring is geared up considerably, card holders may find that they can use their cards only to a limited extent.

3. Dutch SEPA "Polder-Model" for Debit Cards

In our last EPSM Newsletter we already mentioned the Dutch special approach for making its proprietary debit card scheme "PIN" SEPA compliant. In its annual report 2005 the scheme owner Currence stated: "Currence will adapt PIN to European standards conditionally and as necessary...with the aim of ensuring that PIN can still function as a fully-fledged debit card product for national use. In that sense, PIN is future-proof and can continue to be used in the longer term (beyond 2010)." Someone could expect that the Netherlands want to export PIN, but this option is explicitly denied. Although the Dutch debit card processor Interpay joined the Berlin Group, the scheme owner of PIN, Currence, is **not** participating within the EAPS.

On the one hand, the Dutch debit card issuers do not believe that EAPS could be a short-term solution. On the other hand, the Belgian way of replacement of the domestic PIN scheme to an International Card Scheme (Maestro or V PAY) would increase merchant service charges and would restrict competition. So, Currence is opting for a fourth way: prolongation of status quo (PIN for domestic use; Maestro as co-brand for cross-border use) beyond 2010 and making PIN SCF compliant **without** participating in EAPS (or other alliances) and **without** actively expanding PIN to the Euro area. It will probably change its rules & regulations to offer foreign issuers and acquirers to join the PIN scheme and wait passively for players (banks) who want to expand the scheme outside the Netherlands.

Our comment:

With 1.3 billion PIN-based transactions the Dutch PIN-scheme seems to be one of the most successful domestic debit card schemes in Europe (approx. 75 transactions per inhabitant p.a.). With a flat fee of 6 to 8 cent the scheme is also a favourite from a merchant's perspective and a SEPA benchmark of cost efficiency from EU Commission's point of view. Now this best-of-class image could be scratched. Due to an agreement between merchants and banking community to protect the terminal investments, the Dutch do already have a kind of waiver position in the SCF³ because its terminal population does not have to be migrated to EMV by the end of 2010. Therefore, it is consequent to claim a longer transition period beyond 2010 for the transition of the domestic debit card scheme to SEPA compliance. Making PIN SCF compliant only by changing the rules of the scheme regardless of the chances of expansion outside the Netherlands and without an active expansion policy could be "de jure" sufficient. This passive mini-mini-SEPA-solution makes sense from the Dutch perspective. But if all the other domestic debit card schemes would follow this SEPA-Polder-Model, the SEPA debit world would look a lot like the current system. The regulators EPC, ECB and EU COMM still remain silent, but they probably will not be amused about the former best-of-class.

³ See SEPA Cards Framework Article 2.2.3. It is expected that the migration to EMV will not be completed before 2013.

Should you have any questions or comments please contact

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