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1. ECB: EFMA-speech on a SEPA for Cards and interchange fees

On the 20th of September 2006 **Gertrude Tumpel-Gugerell** (member of the Executive Board of the European Central Bank) was addressing the topic "SEPA for Cards" at the EFMA conference in Paris.¹

As her speech shows, Ms. Tumpel-Gugerell – as the European Commission – entertains the firm belief that there still are considerable economies of scale to be gained in a pan-European market. „**By creating a competitive environment and by exploiting economies of scale, the goals of the Lisbon agenda of promoting productivity, growth and employment within Europe will be supported.**“ Yet, at the same time she is aware that current national systems are not necessarily inefficient. „**National card schemes are, in general, efficient for both card holders and merchants.**“

With respect to SEPA for cards she re-affirms that „**The final aim of card schemes is to be able to attract business from the whole SEPA.**“ At the same time, however, Ms. Tumpel-Gugerell wants to „**give the opportunity to national schemes to evolve**“ and firmly supports initiatives such as the Euro Alliance of Payment Schemes (EAPS). „**There will be a lack of choice if SEPA ends up with only two schemes which are SEPA-compliant. (...) the ECB would see as necessary the creation of at least another European scheme, so that the expertise and efficiency of national schemes is not wasted.**“

Ms. Tumpel-Gugerell also addressed the topic of interchange fees, suggesting that these may have to be lowered. At the same time, she warned that this should not be

¹ Full text: <http://www.ecb.int/press/key/date/2006/html/sp060920.en.html>

used as an excuse to increase card prices. „**Cardholders in particular should not be adversely affected by regulation.**“

Our comment:

Going through recent documents on SEPA for cards, one cannot help feeling a little lost. If the expectation was that the „grand vision“ would boil down, over time, to a concrete blueprint – then this has not happened, yet. A case in point is the speech by Ms. Tumpel-Gugerell. Her speech reflects the strong determination to proceed with SEPA mixed with implicit doubts about the SEPA benefits. Not surprisingly, this mixture leads to conflicting statements. If she is right about the efficiency of current systems – and we think she is – one really wonders where the costs savings are expected to accrue that are meant to support „**growth and employment within Europe**“. In fact, given the EU-Commission’s propensity to demand „best of breed“ solutions, SEPA products are likely to be more complex than current national products. Thus, they may well be more expensive.

It is also difficult to reconcile the insistence that each SEPA scheme should cover the entire SEPA area with the support for schemes such as EAPS. To be sure, an EAPS-like scheme could „evolve“ into a scheme covering the entire SEPA-area. But how much time is such an evolution allowed to take? Will there be a deadline? What if it never really covers the entire SEPA-area – will regulators stop it? The possibility of schemes with limited coverage does not seem „out of this world“. After all, more than one observer sees the EAPS more or less as a tool to preserve current national schemes ad infinitum. Thus, at the moment, it is still open whether service providers will only have to deal with pure SEPA products or whether there will be a number of national products in „SEPA disguise“ – even well beyond 2010.

Admittedly, setting of interchange fees is a hotly debated topic. But on what ground do regulators want to prescribe cardholder fees – lack of competition in issuing?

2. Dutch SEPA “Polder-Model” for Debit Cards

From the point of view of market participants, the 2010 deadline seems extremely tight. Thus, **Currence**, the owner of the **Dutch „PIN“ debit card brand** expects to continue its national scheme as domestic scheme (!) well beyond 2010. The Dutch argue in their annual report² that a rapid transition may well lead to a monopoly within the Dutch market. Therefore, keeping the PIN system beyond 2010 would be important in order to provide merchants with a choice. Currence plans to adapt its debit system to European standards to make it „future-proof“. European-wide usage could be achieved by co-branding and the phasing-out, over time, of the PIN-system would be up to market forces.

Our comment:

One may well wonder whether this constitutes a 4th SEPA model for cards besides the 3 models defined by the EPC. We will come back to this Dutch “SEPA-Polder-Model” with more details in our next newsletter.

3. Visa goes public

On October 11th, 2006 Visa announced that it intends to become a public global corporation called Visa Inc. Thus, only a few months after MasterCard’s successful IPO, Visa follows suit. Unlike MasterCard, however, Visa plans to retain the co-operative structure for its European business. As is stated in the press release: **“Visa Europe will retain its member-owned association structure, with continued ownership by its 4,500 European member banks, and will operate as a licensee of Visa Inc.”**³

Our comment:

As the similar move by MasterCard, Visa’s plan to go public has to be mainly seen as measure of banks to insulate against the potential fall-out of litigation in the US. But

² <http://www.currence.nl/site/site/website/data/00150/AR%20Currence%202005.pdf>

³ <http://www.corporate.visa.com/md/nr/press302.jsp?src=visainc>

one may well wonder what the consequences are for Europe. Visa's decentralised governance structure has been one of its key arguments in the promotion of V-Pay as a European debit scheme. The announcement that Visa Europe will remain a membership organisation shows that Visa is trying to preserve this advantage vis-à-vis MasterCard. However, with the incorporation of Visa, the status of Visa Europe seems much less clear than before. As part of a payment system run by Visa Inc. - how much will European banks still have to decide?

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