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1. SEPA: How many cooks?

In a recent conference, organised by Currence (NL), Wiebe Ruttenberg (Head of Market Infrastructure Division, European Central Bank) presented the actual view of the ECB on the future of debit cards in SEPA.¹ The highly interesting presentation sheds new light on the question which rules form the basis for SEPA. Ruttenberg lists the following key documents:

- SEPA Cards Framework (March 2006)
- "Eurosystem's view of a SEPA for Cards" report (November 2006)
- Payment Services Directive (April 2007)
- DG Competition's decision on interchange fees
- EPC's standardisation work (2008-2010).

Our Comment:

When the ECB published its "View of a SEPA for cards", this was generally interpreted as a comment on the EPC's SEPA Cards Framework. However, the conference presentation of the ECB's Wiebe Ruttenberg suggests otherwise. He describes the Eurosystem's November document as one of the basic pillars defining SEPA for cards. Thus, the Eurosystem is not content in leaving the issue to the European Commission and market players (organised in the EPC). Moreover, another document of the Eurosystem, currently published for consultation with market participants, will become relevant for SEPA: "Consultation announcement: oversight framework for card payment schemes".² In this document, the Eurosystem points to its clear legal mandate to "promote the smooth operation of the payment system". Thus the Eurosystem makes clear that it definitely can act on its own, independent of the EU Commission, when it comes to payments. For the EPC and the banks

¹ Wiebe Ruttenberg, The debit card in the SEPA world, Currence Conference, Amsterdam, May 2007. <http://www.currence.nl/site/site/website/data/00225/Presentatie%20Ruttenberg.pdf>

² <http://www.ecb.int/press/pr/date/2007/html/pr070503.en.html>

this may be good news because, in general, the Eurosystem seems to be less enthusiastic than the EU Commission to promote non-bank activities in the payment system. Never-the-less, having to cope with yet another document defining SEPA rules must have come as a blow for the EPC which has to manage a highly complex conversion process. In its response to the Eurosystem's comments on the SEPA Cards Framework, the EPC pleaded: "The EPC feels that there should be only one principal set of industry compliance provisions guiding the SEPA initiative, preferably through its self-regulatory role."³ At the moment, this is definitely not the case. A prominent example is interchange: The SEPA Cards Framework allows for different rates within SEPA, DG Internal Market and DG Competition do not provide clear guidance on this issue and the ECB says that it is opposed to differentiation of interchange along local/national lines.

2. Three-party systems in SEPA

Still an open issue is the question what SEPA implies for three-party systems. In its comment on "SEPA for cards", the Eurosystem states: "Three-party schemes such as American Express and Diners are also expected to abide by the SEPA compliance principles. The rules and conditions for the same card cannot differ for reasons of geographical location."⁴ The same point has been made in the presentation of W. Ruttenberg (ECB) quoted above.

Our comment:

It still does not seem clear what SEPA means for three-party systems. One of the requirements of SEPA is separation of scheme and processing. For a pure three-party system, such a step would be difficult to implement. In fact, the question is whether such a separation is practically possible for a three-party system. Moreover, if applied to card schemes why not also apply it to other payment schemes such as, for instance, PayPal? According to Ruttenberg, there is room for discussion on this point. But what seems clear at the moment is that other requirements, in particular standardisation, also apply to three-party

³ EPC, A response to the Eurosystem's view of a "SEPA for Cards", 11 April 2007 http://www.europeanpaymentscouncil.eu/knowledge_bank_detail.cfm?documents_id=84

⁴ ECB: The Eurosystem's view of a "SEPA for Cards", November 2006, page 8, www.ecb.int/pub/pdf/other/eurosystemsviewsepacardsen.pdf

systems. What this comes down to is that the whole industry is forced to agree on one standard. This may (“may” not “will”) increase price competition. But it will definitely reduce product development and innovation – other important parameters in competitive processes.

3. ePurses in SEPA

Some of the national European ePurse schemes report healthy growth. Chipknip in Holland has seen a rise in transactions by 12% (up to 164 million tx). The German GeldKarte equally increased transactions by 12% (up to 42 million tx) and the number of Quick transactions in Austria increased by almost 10%. The Belgian Proton system, in some respects the most successful European ePurse scheme, has seen a decline in recent years.

Chipknip, Geldkarte and Quick: Number of Transactions

	2003	2004	2005	2006
GeldKarte	37.370.418	38.308.279	37.781.373	42.300.000
Chipknip	109.000.000	127.000.000	147.000.000	164.000.000
Quick	17.659.508	19.186.867	21.803.692	23.870.590
Proton	124.042.000	124.010.000	118.830.000	111.700.200

Our comment:

The SEPA train has by-passed ePurse payments, so far. The EPC's Card Framework does not include ePurse payments and both, the EU Commission and the ECB seem to have accepted that, for the time being, national solutions will live on. Given healthy growth and the absence of political pressure, the outlook may seem bright for existing ePurse schemes. However, the lackluster performance of Proton in recent years seems to be a better indicator of the state of the industry. The truth is that none of the systems has been a success and all are likely to follow the example of Danish ePurse Danmønt which was discontinued in 2005. A closer look at recent figures makes this clear. Chipknip, the Dutch scheme, has doubled its transactions volume between 2002 and 2006. Still, in its 2006 Annual Report, Currence (the scheme provider) notes that Chipknip has not been a success in general retailing. Its main use is in catering/vending/parking. But this seems to be insufficient to provide a sound business case because Currence hints that it will not invest in further product development. In Germany, things are even more dire. The 12% increase in 2006 has to be seen in the context of a massive increase of GeldKarte terminals. The conversion to GeldKarte of almost

all cigarette machines (due to legal age check requirements) has increased the number of active terminals⁵ from 142,000 (2004) to almost 325,000 (2006)

GeldKarte Figures.

	2003	2004	2005	2006
Transactions	37 370 418	38 308 279	37 781 373	42 300 000
EUR	76 682 485	82 617 855	88 786 227	104 481 000
Terminals	120 905	142 339	172 107	324 647
Tx/Terminal	309	269	220	130
EUR/Terminal	634	580	516	322

Looking at the GeldKarte figures on a “per terminal” basis shows that the new terminals are little used. Overall, the average number of transactions per terminal has declined from 269 (2004) over 220 (2005) to 130 (2006).

Thus, even if regulators are willing to accept the continued existence of incompatible national ePurse systems, simple economics may soon work in the direction of a “SEPA for Stored Value”. Both MasterCard and Visa have discovered this subject for themselves and are lobbying banks to convert to stored value products based on EMV. The advantages are clear: such solutions would be European if not international and they would not require a parallel infrastructure for stored value payments.

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⁵ Average of monthly figures. “Active terminal within one month”: a terminal that has been used at least once in that month.