

Topics of this issue:

- 1. EU internet payments: eps/giropay/iDeal cooperation stalls**
- 2. ePurses in Europe: another scheme in decline**
- 3. SEPA-boost for x-border card payments?**

1. EU internet payments: eps/giropay/iDeal cooperation stalls

In order to foster European payments, the EPC has developed two entirely new schemes, SEPA Credit Transfer (SCT) and SEPA Direct Debit (SDD). In the field of internet payments, however, a different approach has been pursued. Three existing schemes, eps (Austria), giropay (Germany) and iDeal (Netherlands) have tried to come up with a cooperative solution, suitable for the SEPA. This cooperation has come to a standstill. Currence, owner and scheme manager of iDeal has announced that the cooperation has been discontinued for the moment.¹ Currence notes that interoperability is technically possible. However, there were unresolved legal and commercial issues. Currence adds that the EPC has not followed up on suggestions made by the three cooperating partners and that there has been a lack of interest of banks in other countries.

Therefore, for the moment, iDeal follows its own European strategy. iDeal has already expanded across borders gaining many merchant customers who want to offer iDeal to Dutch consumers. For instance, in Belgium, 46% of all web merchants are accepting iDeal. This success has been achieved with the help of "Collecting Payment Service Providers" (CPSPs) that are licensed and certified by Currence. The list of CPSPs includes foreign players such as Moneybookers and Wirecard Bank. Currence will also implement a SEPA version of iDeal that will also make it possible for foreign banks to offer iDeal. Thus, in the future, iDeal may become a strong force in European e-payments. Nevertheless, Currence keeps the door open for a renewal of the cooperation with giropay and eps and it is also watching closely MyBank, the new e-payment scheme of EBA Clearing.

Meanwhile, iDeal is continuing to operate successfully in the Dutch market. The number of transactions is still growing rapidly, from 69m in 2010 to 94m in 2011 (+36%). iDeal is used in about 58% of all Dutch e-commerce transactions. Currence has also developed a solution for the mobile use of iDeal which has been implemented by one license holder, so far.

¹ Currence, Jaarverslag, 2011.

Our Comment

“Open standards” and “interoperability” are the mantra of European policy. With the success of the GSM standard for mobile phones in mind, the European Commission and the ECB also demand open standards and interoperability in the world of SEPA. However, as the faltering of the cooperation between three European e-payment schemes shows, such an approach has its drawbacks.² First, there is the almost trivial problem that getting together and negotiating takes a lot of time. Second, when the parties involved do not start from scratch, each party wants its own existing solution to be used as common solution. Third, business models may be based on traditions (national ways of doing things) that are hard to reconcile. Fourth, when market participants get together to coordinate what they are doing, competition authorities may intervene.³ To sum up, whatever the advantages of such an approach, speed is not one of them. This may not matter much when banks design products like SDD and SCT which are forming the backbone of the European payment system. However, when it comes to the fast moving world of e-/m-payments, where the technology is still evolving and international players with deep pockets and large customer basis are probing the market, speed is essential. The idea to coordinate everything ex ante and to start the game afterwards will leave the market to others.

Now, it may be argued that iDeal itself is the result of such a cooperative approach. However, an experiment that works at the national level may not necessarily work at the European level. This seems to be the conclusion that can be drawn from the faltering cooperation between the three schemes.

2. ePurses in Europe: another scheme in decline

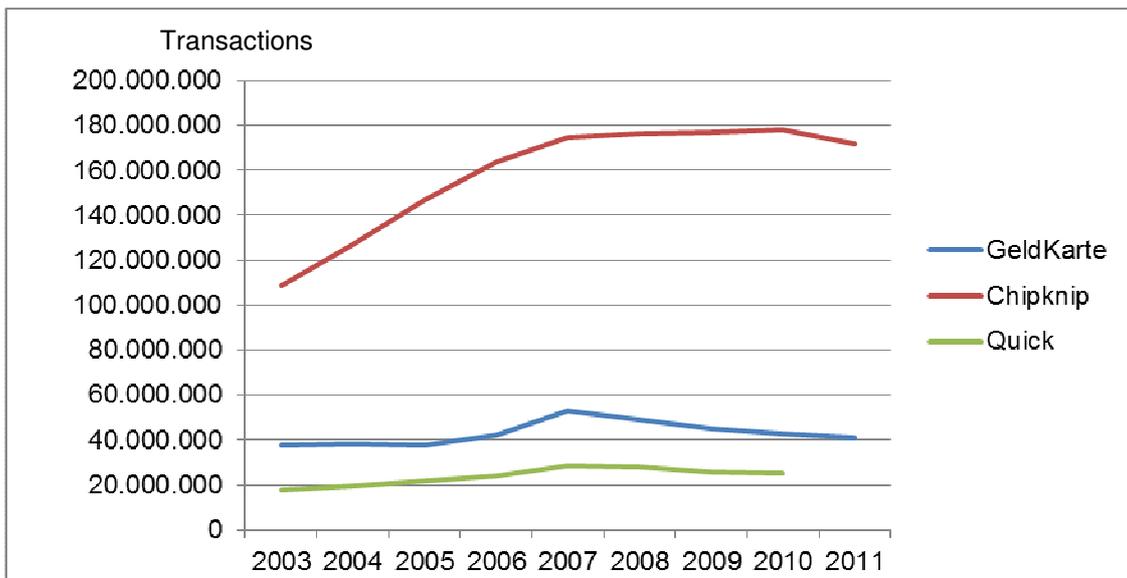
ePurse schemes have not been a great success – to put it mildly. Some have already gone out of business. Others are struggling. One scheme seemed to be doing well, however, the Dutch scheme “Chipknip”. However, during the last 4 years even Chipknip has been

² Another example that comes to mind is the eternal struggle for European (or even worldwide) m-payment standards.

³ For instance, the plan to create a EPC epayment standard based on eps, giro pay and iDeal led to an investigation of DG competition. See European Commission: Antitrust: Commission opens investigation in epayment market, IP/11/1076, Brussels, 26 September 2011.

stagnating and the figures for 2011 are showing a decline in the number of transactions.⁴ Thus, Chipknip follows the example of GeldKarte (Germany), Quick (Austria) and others.

Figure 1: Number of ePurse transactions in 3 European countries



Our Comment

The poor performance of ePurse schemes is nothing new. However, it is interesting to look at the factors which are now slowing down even the more successful schemes such as Chipknip and Quick.

According to Currence, the owner of the Chipknip scheme, merchants are giving up Chipknip acceptance because the spread of contactless cards has made ePurse acceptance redundant.⁵ Thus, Chipknip use is increasingly confined to parking meters and closed environments such as canteens.

Similarly, a look at the website of Paylife the owner of the Austrian Quick ePurse suggests that account-based prepaid cards with or without a Visa or MasterCard brand are capturing the market. In a press release, Paylife is commenting the rising numbers of prepaid card as

⁴ Data can be found on www.currence.nl.

⁵ Currence, Jaarverslag, 2011.

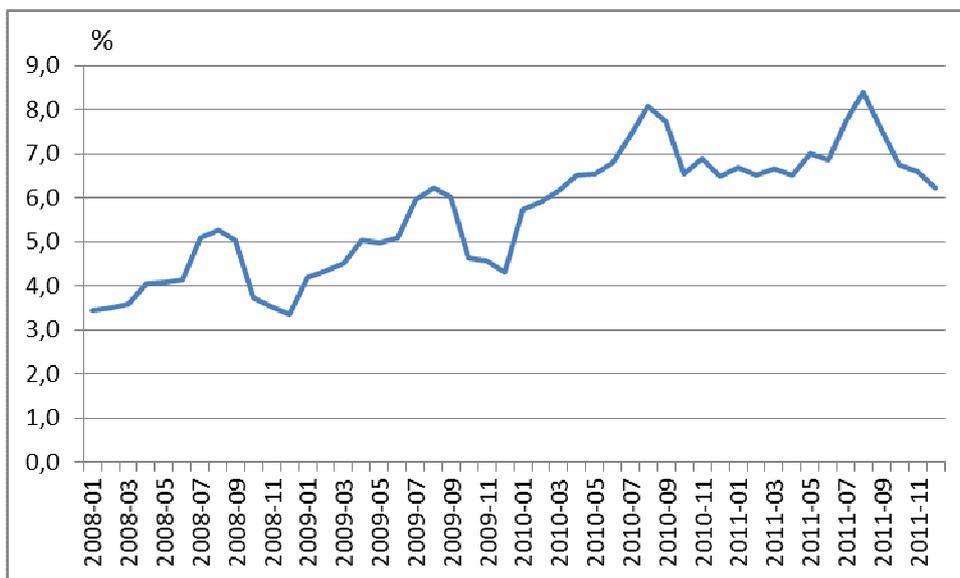
“cometlike”.⁶ Little is said, however, about Quick. The numbers of the ECB show, that Quick has been declining since 2007.

So, in the end, the server-based model, with each card tied to an account on a central server seems to be the winning model. The idea of a cash-like electronic payment medium with card-based value seems to have lost the battle.⁷

3. SEPA-boost for x-border card payments?

The European Central Bank (ECB) has started publishing SEPA indicators, including SEPA card indicators.⁸ These indicators cover EMV migration and the x-border use of cards. Not surprisingly, they show that EMV migration has been almost completed. What comes as a surprise, however, is the strong growth of x-border use of payment cards in the years 2008 to 2010, from 4.06% to 6.74% (in 2011 the x-border share rose only a little).

Figure 2: The “SEPA indicator”: X-border transactions in the euro area (as a percentage of total sales’ transactions)



Source: ECB: SEPA indicators⁹

⁶ PayLife Press release: Plastikgeld: Die Zahlen klettern weiter - PayLife knackt Millionengrenzen, http://www.paylife.at/web/content/de/Home/Presse_Center/Pressemitteilungen/094_Plastikgeld_Die_Zahlen_klettern_weiter.html?uri=/de/Home/Presse_Center/index.html, 2.1.2012

⁷ Many years ago, the same happened in the field of internet payments. See Boehle, Knud: The Potential of Server-based Internet Payment Systems – An attempt to assess the future of Internet payments – Background Paper No. 3, Electronic Payment Systems Observatory (ePSO), July 2001.

⁸ See <http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html>

⁹ <http://www.ecb.europa.eu/paym/sepa/about/indicators/html/index.en.html>

The x-border card indicator “is calculated as the number of POS transactions conducted using cards issued outside the country divided by the total number of POS transactions.” (ECB website quoted above). It includes e-Commerce and also x-border use outside the European Union. According to the ECB “A move to a significantly higher level would indicate that SEPA had been successful in changing the card industry, the card acceptance practices of merchants and/or the payment behaviour of cardholders” (ECB website quoted above). So, on the face of it, SEPA for cards has given x-border use of cards a strong boost and can be deemed a success.

Our Comment

The typical European pre-SEPA payment card was either issued under one of the international brands or co-branded. Thus, it was perfectly usable across borders. Therefore, the strong upward rise of the indicator is difficult to explain. Indeed, this result strikes us as highly implausible. That raises the questions how the underlying data were collected.

The ECB has received data from a large number of processors: “Atos Worldline, Bankart, CECA, CETREL, B+S Card Service, BCB Processing, ConCardis, TeleCash, NETS Estonia, Deutsche BP, Deutsche Postbank, Equens, First Data, Intercard, Intesa Sanpaolo Card, JCC Payment Systems, Montrada, WorldPay, Redes y Procesos, SERMEPA, SIBS, UNICRE, CGD and BCP. In the case of France, the absence of a French processor has been corrected for on the basis of figures provided by the Banque de France.” (ECB website quoted above).

**Table 1: Blue Book data: X-border transactions in the euro area
(as a percentage of total sales’ transactions)**

	2006	2007	2008	2009	2010	average increase
Total domestic	13.361.015.197	14.741.030.156	15.734.622.208	16.681.990.452	17.821.315.545	7,467%
Total x-border	507.059.437	601.582.888	547.965.615	590.077.590	769.245.638	10,982%
Share of xb	3,7%	3,9%	3,4%	3,4%	4,1%	

Based on Blue Book data for Belgium, Cyprus, Spain, Finland, France, Greece, Luxembourg, Malta, Netherlands, Portugal, Slovenia and PaSys data for Germany.

The ECB also collects payment data on an annual basis which are published on its website (so-called “Blue Book data”). In this data base, for many countries there are data under the heading “Transactions at terminals located in the country with cards issued in the country” as well as “Transactions at terminals located in the country with cards issued outside the

country". Thus, Blue Book data can be used to perform a cross-check. The result contradicts the SEPA indicator. Based on Blue Book data, the share of x-border transactions rises only mildly from 3.7% (2006) to 4.1% (2010). On average, x-border transactions are rising little faster than domestic transactions but the share of x-border transactions remains close to 4% - much lower than in the SEPA indicator.

We have occasionally doubted the accuracy of Blue Book data. However, in this particular case the Blue Book data seem to be much more plausible than the data contained in the SEPA indicator. The data show that x-border use – including ecommerce and use outside the EU – is still limited.

So why does the SEPA indicator (if the data are reliable) show such a strong rise? One possible explanation is the "de jure" migration of large e-tailers to small countries such as Luxembourg (e.g. Amazon). Such migration of the legal place of purchase is often motivated to avoid domestic interchange. Under current EU-regulation, domestic interchange fees are often higher than x-border fees (MIF of 0.3% for credit cards; 0.2% for debit cards. Therefore, it pays to have many x-border and few domestic transactions. The resulting increase in x-border ecommerce paid by cards is a legal fiction.

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