

European payments market needs 'level playing field'

If Europe is to enjoy a truly single market it must first tackle the fragmentation in its payments markets. Desmond Hinton-Beales talks to **Diogo Feio** and **Pablo Zalba Bidegain**

The single market is considered one of the primary achievements of the European Union, yet half a century after it was conceived it still features significant gaps that are causing fragmentation and creating obstacles to cross-border activity. Nowhere are these barriers more crucial, but less visible to citizens, than in the EU's dynamic and shifting payments market. The dream is for cross-border payments to eventually become as simple as domestic payments within a member state. Looking at this issue are two key reports currently moving through parliament; one looking at card-based transaction fees and another looking at the EU-wide market for electronic payments.

For Portuguese MEP Diogo Feio, who is rapporteur on electronic payments, it is vital to understand the "differences between the various states of the EU" when looking at the market for transactions. "Some are developed and more modern than others," he explained, adding that "For a Portuguese citizen it is usual to do a payment at an ATM or in internet banking. In other countries this is not the same." In addition to the various methods employed in different member states, there are also "different levels of payments and we need to understand these", said Feio. To properly deal with these diverging methods, he urged policymakers to "think of consumers", adding that "first of all we need a more simple and understandable law". He underlined the need for regulations on ePayments to have "clear and easy rules" and for Europe to move in the "direction of a single payments market". "This is a very important step in line with the internal market," he added.

Fellow EPP deputy Pablo Zalba Bidegain, whose report looks at card-based payments, highlighted the need for a "level playing field for all transactions based on payment cards". For him, this could be achieved by setting the same multilateral interchange fees (MIFs) across the entire EU. MIFs, which are collectively agreed inter-bank fees, form part of the fees that payment service providers charge to merchants, who in turn pass the costs onto the consumer.

"One of the problems we face" said the Spanish MEP, "is that market entry for pan-European players remains difficult as interchange fees in EU member states vary a lot between one country and another. New entrants have to offer interchange fees at least comparable to those prevailing in each market they want to enter. Setting the same interchange fees



within the whole European Union will create a level playing field.”

The European commission's proposal suggests capping MIFs at 0.2 per cent for debit transactions and 0.3 per cent for credit card transactions. This would represent a significant drop in member states such as Poland, where the fees are around 1.6 per cent, but would be over the 0.1 per cent charged in Denmark. Zalba Bidegain said that parliament wants to be sure that these figures are charged at the correct amount and that they “do not negatively affect consumers”. However, when looking at the possibility of an outright ban for MIFs, he said, “I firmly believe in the case of credit cards that banks have the right to charge for that payment because there is a risk linked to that. In the case of debit card operations, although it is not so clear, I think it would make sense to charge something.” The capped figures of 0.2 per cent and 0.3 per cent have reportedly been accepted by key players in the payments market, Visa, MasterCard and the French domestic scheme Groupement Cartes Bancaires.

A key issue facing both pieces of legislation is the dynamic and changing nature of the payments market. For Zalba Bidegain it was crucial to ensure that the regulation of these fees was made “futureproof”. “We have to make sure that there are no gaps in the regulation that PSPs can take advantage of,” he added. Feio also underlined the importance of recognising “new ways of payment” and the need for any new regulations to be able to “understand and regulate” these novel methods. However, he also made it clear that he felt all different methods of payment “should have the same treatment as much as possible”. For the Portuguese rapporteur, new problems such as the protection of data have also arisen through the use of these new methods. “Safety and security of data will be a priority,” he said, adding that the “protection of systems of payment →

Will the EU's 'payments package' help or hinder Europe's economic growth? asks Gilbert Arira



The Parliament Magazine's

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Earlier this month, at the European Policy Centre's annual conference, internal market and services commissioner Michel Barnier argued that now is the time to move towards a new industrial policy for Europe, and paying attention to Europe's industrial strengths not only means supporting traditional sectors but also investing in key enabling-technologies. Barnier added that Europe must become the home of global standard-setting in new sectors and tomorrow's must-have technology.

I couldn't agree more with the commissioner. The importance to the European economy of the card payment industry and service sector is unquestionable: more than 10,000 jobs in France alone and approaching 100,000 in Europe; annual revenues of over €10bn with shipment in 2012 of 6.9bn smart secure devices worth €7bn. It is also a proven generator of export revenue, building on strengths in its internal market with forecasted growth of around 10 per cent for 2013.

As a European card scheme, Cartes Bancaires is at the centre of a complex ecosystem comprising consumers, retailers and other card acceptors, payment service providers and the card industry as a whole, setting rules for interoperability and security, thus enabling 9.6 billion CB card transactions for cash withdrawal and payment last year to a value of €507bn.

This is why I'm somewhat concerned about the 'payments package' that has been submitted to the European parliament and its likely collateral effects on consumers, retailers and this industry, since the package is based on definitions, practices and product segmentation of global card schemes.

For example the multilateral interchange fees (MIF) regulation proposes to cap interchange for debit and credit card transactions at 0.2 per cent and 0.3 per cent - values which have no economic justification

and simply reflect commitments made to competition authorities by the two prominent global card schemes Visa and MasterCard. MIF also uses definitions of debit and credit card transactions which are artificial and drawn directly, not from European card scheme rules, but from those of Visa and MasterCard.

This policy will result in the disappearance over time of domestic European card schemes, and if this happens the consequences for European industry are easy to imagine. European schemes likely to be affected include Bancontact/MisterCash, Cartes Bancaires, Dankort, EURO6000, Girocard, LINK, MultiBanco, ConsorzioBancomat, Served, and Sistema 4B.

“We should also support European champions for payment services and technologies”

While building a level playing field for card payments in Europe, we should also support European champions for payment services and technologies. This is a necessary condition for Europe to retain control of this key economic activity, and even more importantly, ensure the necessary level of data protection for

European citizens, retailers and industry in a modern economy. Ensuring confidentiality of payment transaction messages is even more important than for simple telephone calls.

European card schemes can together, step by step, build a European alternative to the current duopoly recognised by the commission. Cartes Bancaires is a strong advocate of this process, and is committed to sharing our knowledge, experience and expertise with likeminded partners to attain this goal. Naturally, global card schemes would not be excluded from this European construction, but they simply should not be given the monopoly.

To achieve this, support is needed from the European regulator who must provide a clear legal framework which neither neglects nor dilutes existing strengths or the inventiveness of the European card payments industry and schemes.

Gilbert Arira is chief executive officer of Cartes Bancaires



“Setting the same interchange fees within the whole European Union will create a level playing field”
Pablo Zalba Bidegain



“For a Portuguese citizen it is usual to do a payment at an ATM or in internet banking. In other countries this is not the same”
Diogo Feio

The first parliamentary discussion on the payments package took place on 5 November in parliament's ECON committee.

Payment services in the internal market

The rapporteur is Diogo Feio (EPP, PT)

The shadows are:

- Olle Ludvigsson (S&D, SE)
- Sophia In 'T Veld (ALDE, NL)
- Bas Eickhout (Greens/EFA, NL)
- Ashley Fox (ECR, UK)
- Sampo Terho (EFD, FI)

Interchange fees for card-based payment transactions

The rapporteur is Pablo Zalba Bidegain (EPP, ES)

The shadows are:

- Marino Baldini (S&D, HR)

- Sophia In 'T Veld (ALDE, NL)
- Bas Eickhout (Greens/EFA, NL)
- Ashley Fox (ECR, UK)
- Sampo Terho (EFD, FI)

In the parliament, both of these reports will be dealt with together, working to the following timetable:

- Consideration of draft reports – December 16/17 2013
- Deadline for amendments – January 9 2014
- Consideration of amendments – February 12/13 2014
- Vote – February 2014
- Plenary – April 2014

against fraud” will be a key aspect of his report.

Zalba Bidegain was keen to stress that innovation was a crucial issue for him. “We want companies to go on having incentives in investing in innovation,” he said, adding that MIFs have a negative effect on this. This understanding of the negative effect of transaction fees was in part inspired by the May 2012 general court decision against MasterCard, which found that MIFs restrict competition by inflating card acceptance costs, while providing no consumer benefits.

Both rapporteurs wanted to ensure that consideration for consumers was made a central pillar of their reports and ensuring an easy and transparent way of making payments across the EU is key to this aim. For Zalba Bidegain, both reports are inextricably linked in helping make the single market a reality. “We are working very closely on this report with Mr Feio. Same line, same direction, same timing,” he said. For Feio the aim was simple “We are building what we need to have a single payments market.” ★