



EUROPEAN CENTRAL BANK

EUROSYSTEM

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Market Integration
European Central Bank

Payment cards: trends and challenges

Frankfurt am Main, 29 August 2017

Overview

1 Setting the scene

Basics of payment cards and card payments

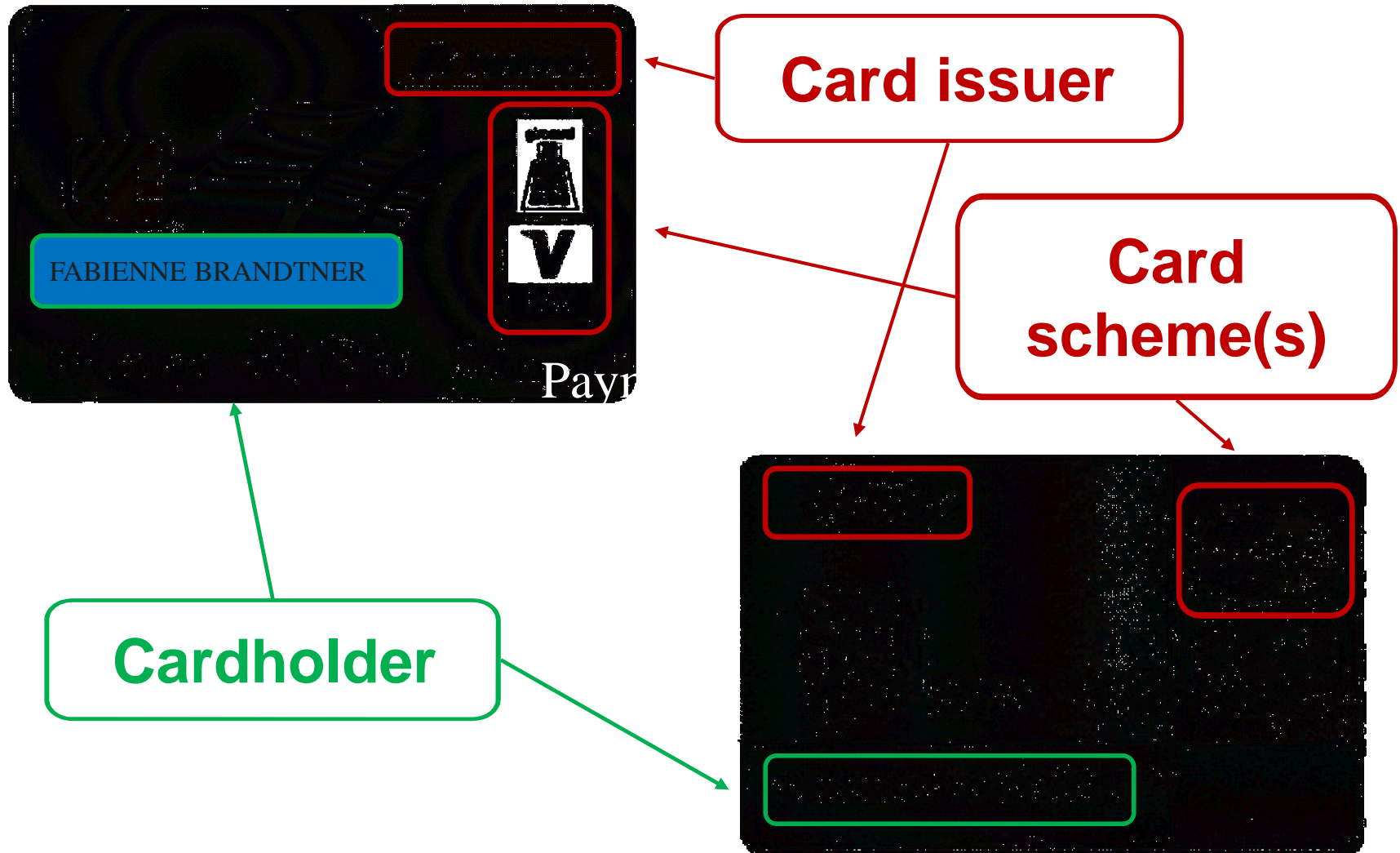
2 Card payments in Europe

Status

Problems to be solved

3 What will the future bring?

Trends observed



**Payment cards
accepted**

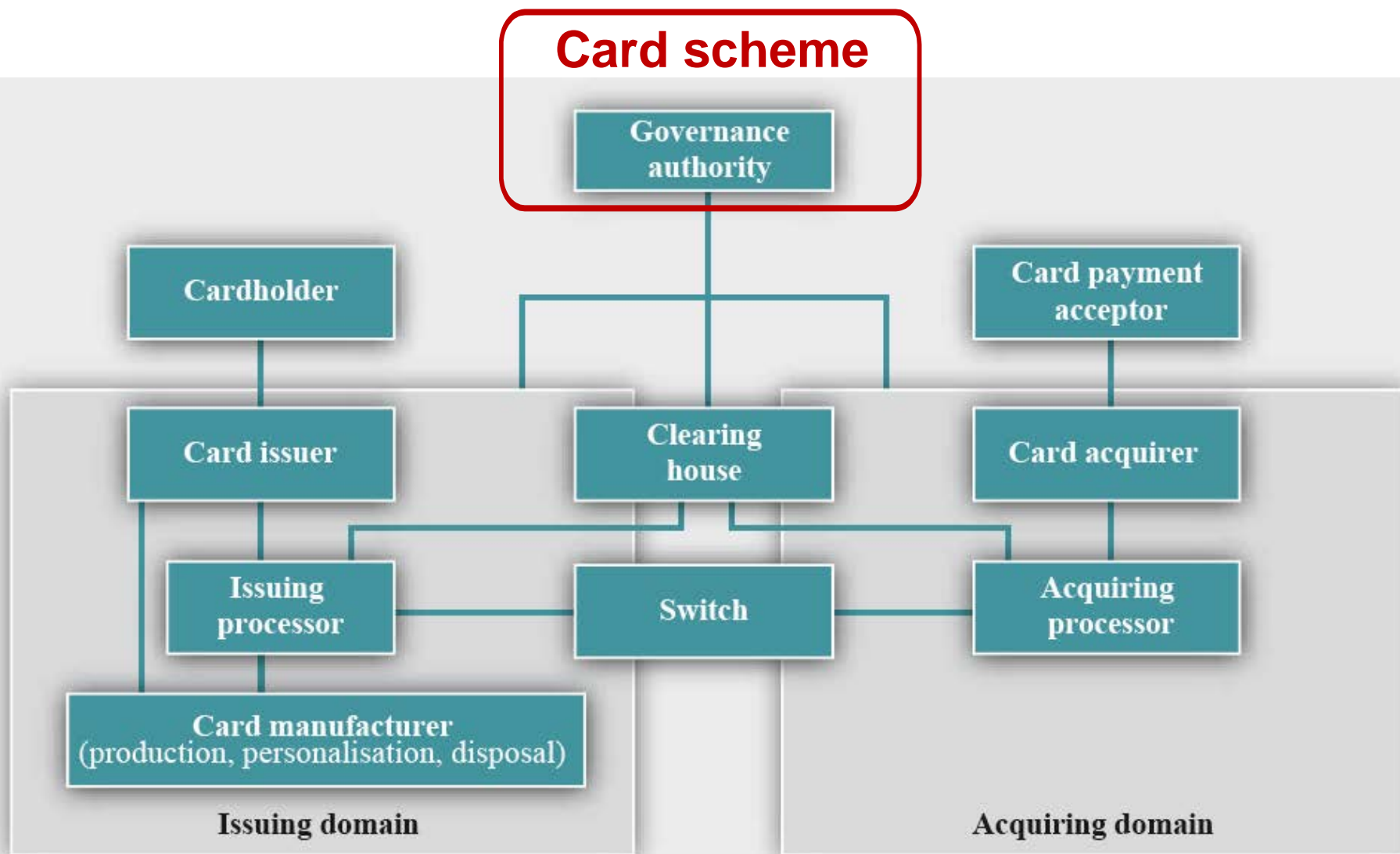


**Acceptance
terminal**

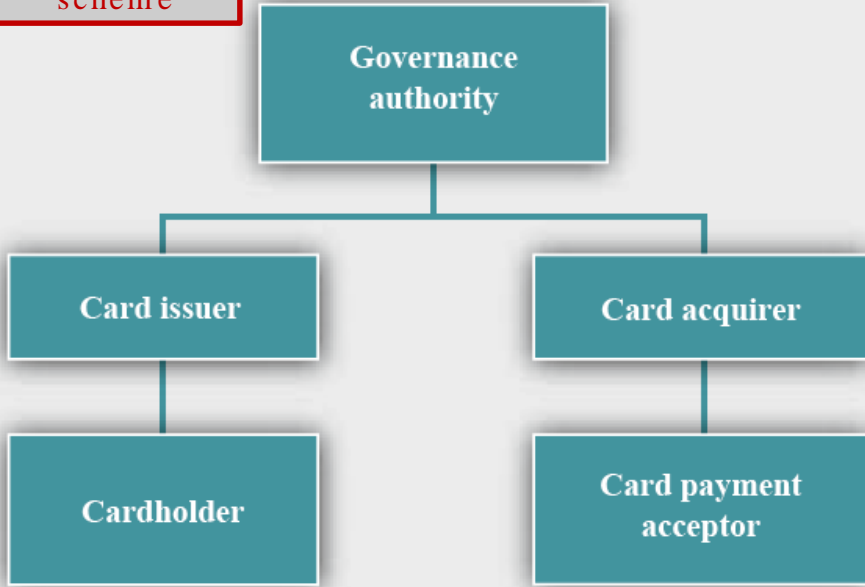


**Card payment
acceptor**

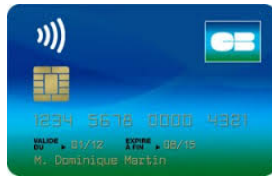
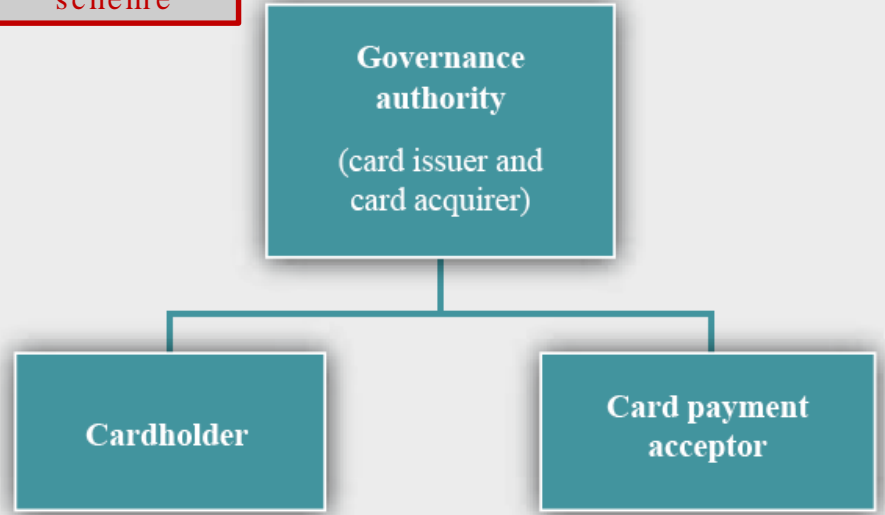
Card acquirer



Four-party scheme



Three-party scheme



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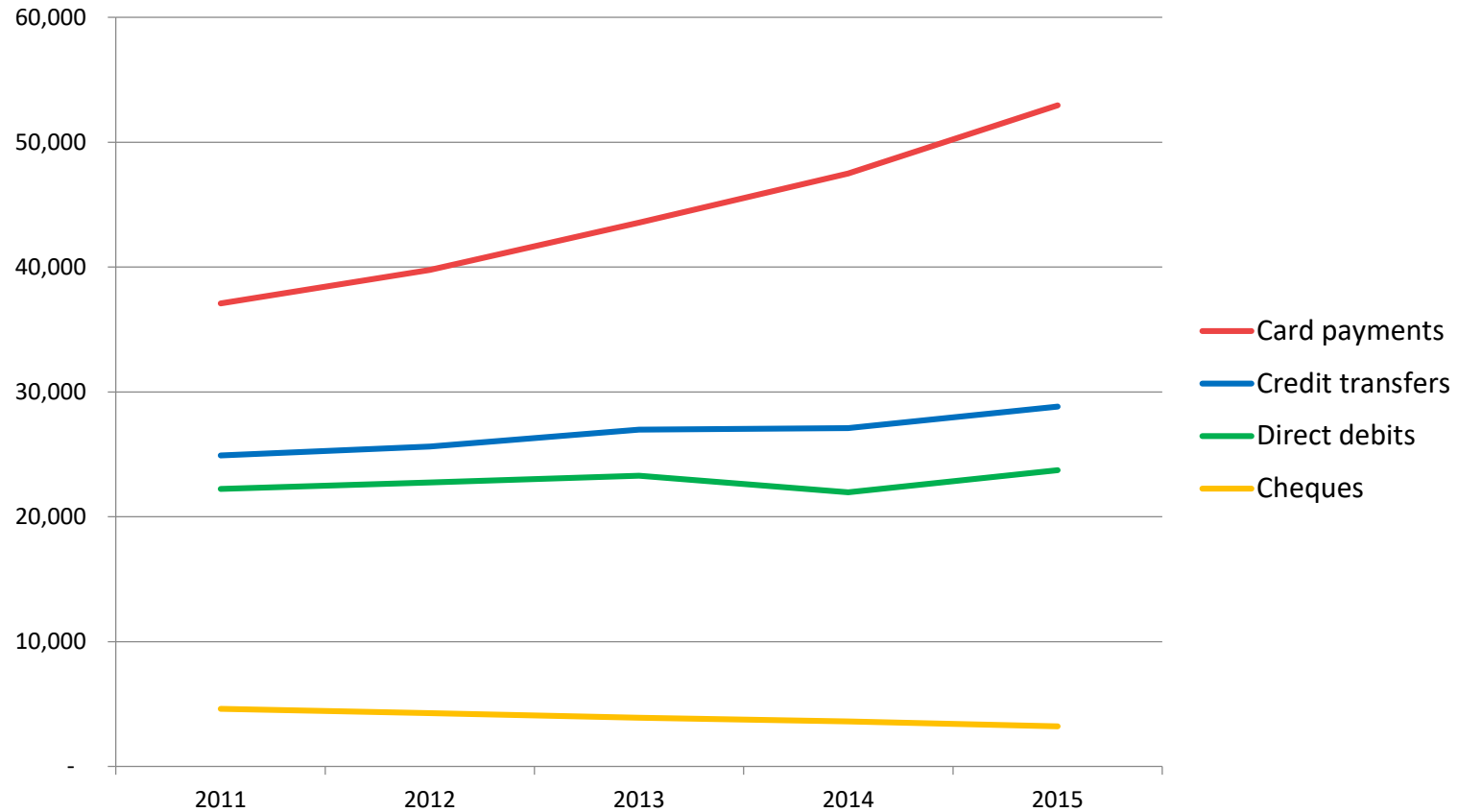
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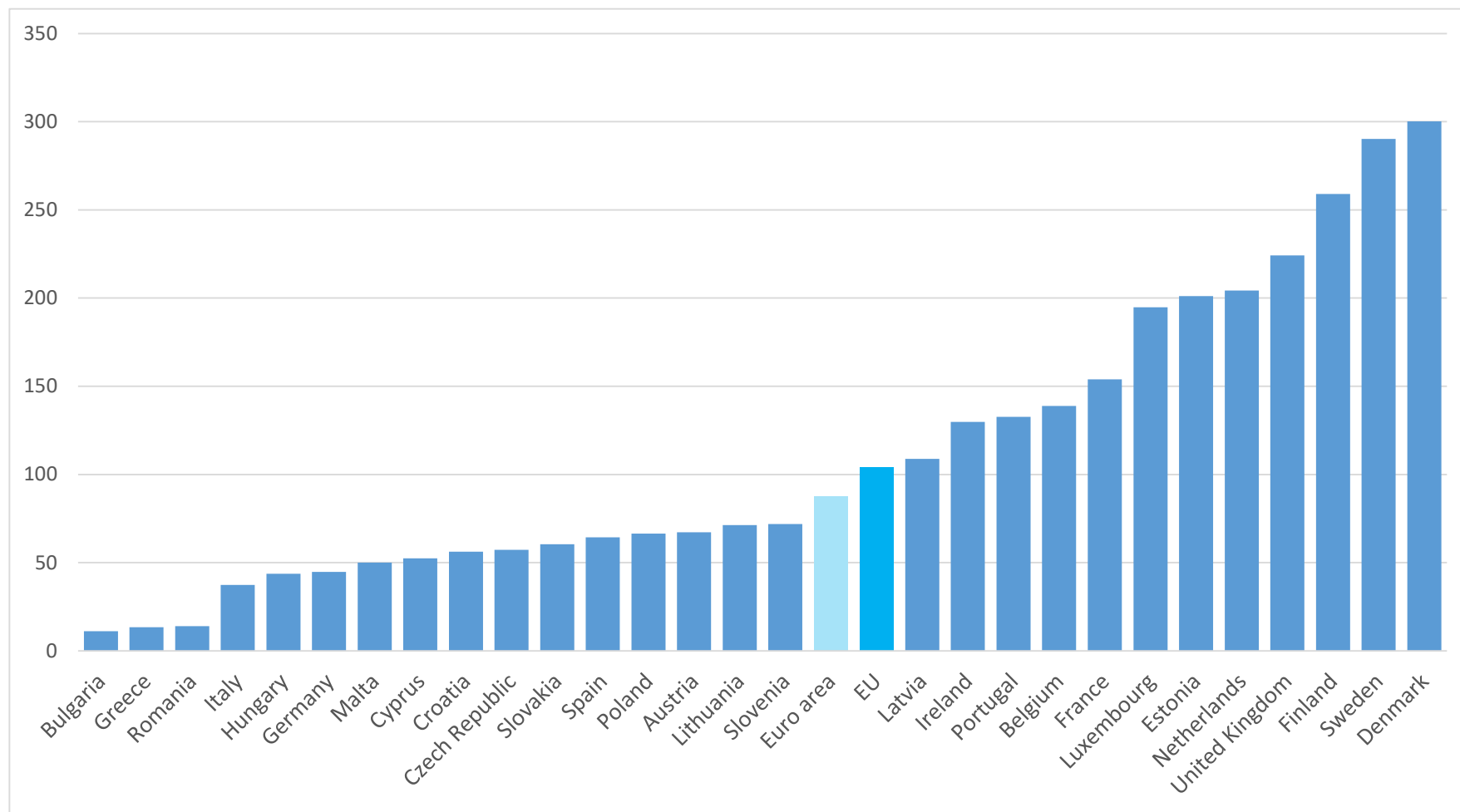
Trends observed

Number of payments (millions) per type of payment service per year in the EU (2011-2015)



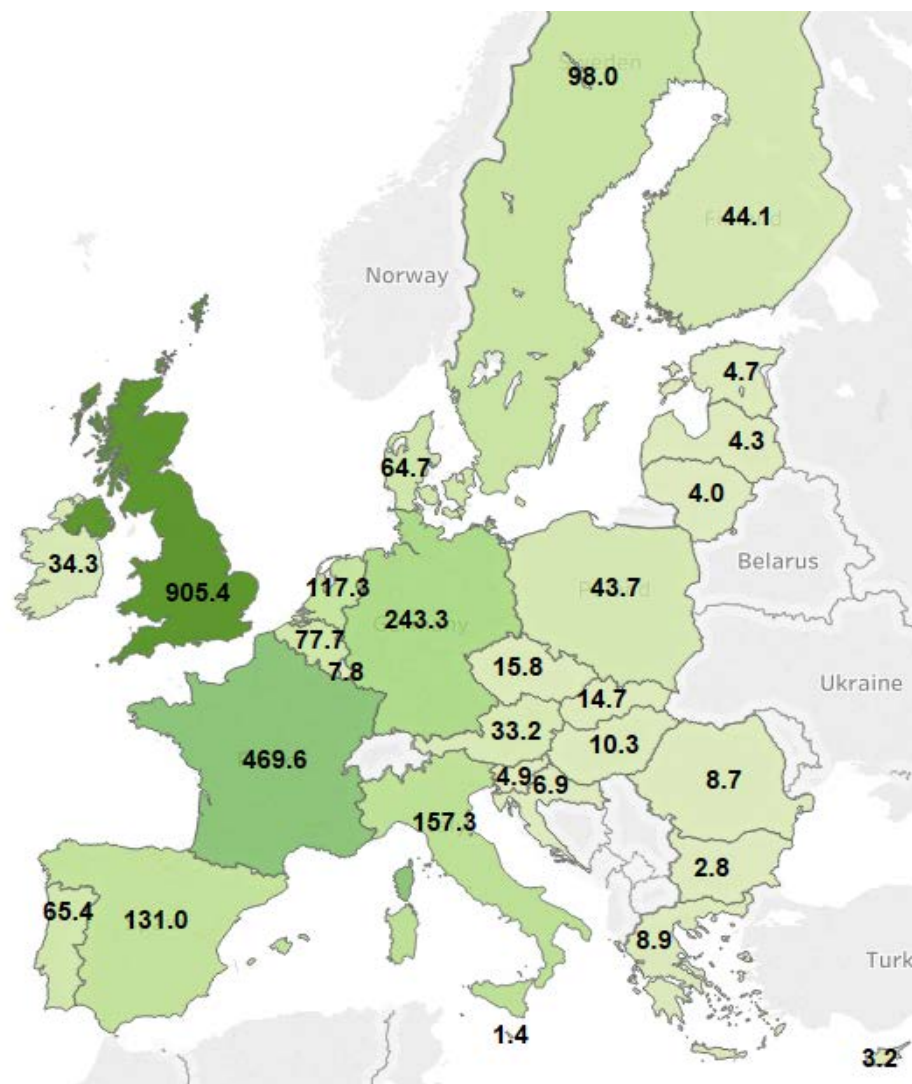
Source: ECB Statistical Data Warehouse

Number of card payments per inhabitant per country in the EU (2015)



Source: ECB Statistical Data Warehouse

***EU total card payments (2015):
2,583.42 EUR
billions***

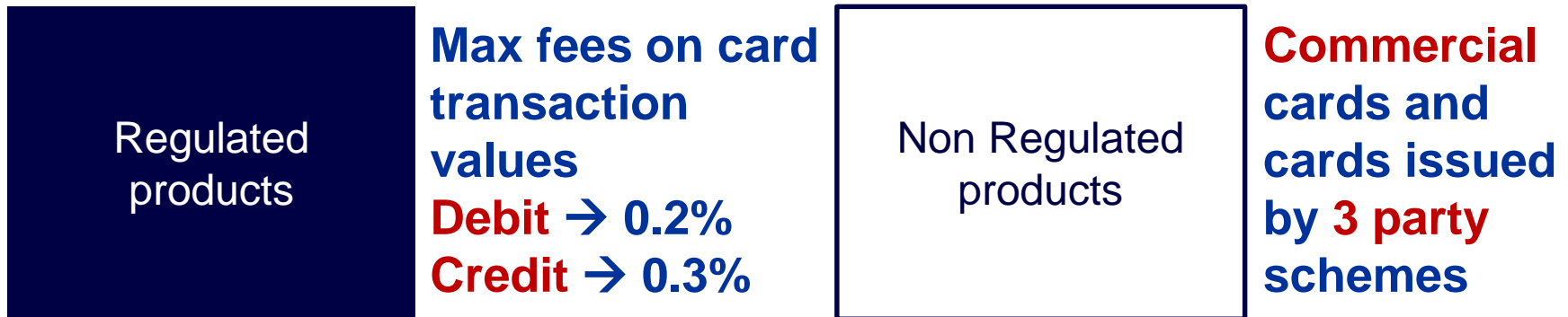


Source: ECB Statistical Data Warehouse

- High interchange fees
- Business rules limiting competition
- Competition rulings only applicable on a case-by-case basis → limited guidance



Issuers get their revenues from direct fees to consumers and interbank fees (IF). The latter decreased in 2015 since the regulation posed a cap to their max value.



**Regulation (EU) 2015/751 of the European Parliament and of the Council of 29 April 2015 on interchange fees for card-based payment transactions*

Issuers are acting to sustain revenues by: investing on innovation (new payment products) and, repricing their products.

The ECB remained **neutral on the level of the interbank fees**, but welcomed the regulation since it brought **clarity and harmonised the level** of the interbank fees across Europe.

The ECB is in the meanwhile acting as a catalyst to:

- support market's discussions on having a shared and agreed understanding on how to implement some provisions of the regulation (e.g. brand/application selection);
- sustain the development of innovative payment solutions (e.g. P2P, instant payments) that can complement the offer of payment services to EU citizens, thereby creating a more efficient and secure payment market.

Payment card schemes and processing entities should:

- Be independent in relation to accounting, organisation and decision making
- No bundled prices or cross-subsidisation
- No discriminatory treatment

The aim is to further support a competitive market allowing card issuers and acquirers to freely choose their processors and clearing and settlement providers

Business rules - Geographic restrictions

- Card schemes sometimes work with geographical restrictions
 - to segment the market (international schemes)
 - due to decisions taken several decades ago (domestic schemes)
 - if the technical requirements do not match (domestic schemes)
- The third aspect is being addressed by standardisation
- The first and second aspects **limits competition**
- Such restrictions are contrary to the idea of SEPA for cards
- PSD2 forbids the inclusion in licensing agreements or in card scheme rules for issuing and acquiring:
 - any territorial restrictions or rules with equivalent effect
 - any requirement or obligation to obtain a country-specific license
 - authorisations to operate cross-border

Business rules – Honour-all-cards



Business rules – Honour-all-cards

- Card scheme rules or practices which require merchants to accept all cards of a specific card scheme, e.g.
 - also *credit* cards, if a merchant accepts *debit* cards;
 - also *commercial* cards, if a merchant accepts *consumer* cards
 - It limits confusion for cardholders and broadens acceptance, but is abused to force **expensive cards** upon merchants
 - Merchant should be free to choose cards that meet its needs
- PSD2 forbids that payees are obliged to accept other card-based payment instruments

Low-cost airlines – high-cost payments ...

English [Change] Welcome Sign in or Register

easyJet



Flights
Check-in online
Arrivals & Departures
▼ Manage bookings



Accommodation
Hotels

Payment Options

Payment for bookings can be made using a wide selection of debit or credit cards (please see the payment stage of the booking process for cards accepted). We do not accept payment by cash or cheques.

New bookings

All bookings will incur a £10.00 administration fee. Bookings made by Visa Credit Card, MasterCard, Diners Club, American Express, Carte Bleue (domestic transactions only) and UATP/Airplus will incur an additional fee of 2.5% of the total transaction value.

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Anger as Ryanair finally scrap unlawful £6 debit card fee... and introduce a blanket £6 'website admin fee' PLUS 2% credit card charge on the same day

- Ryanair will bring in a new 2 per cent credit card processing fee tomorrow
- No-frills airline will also introduce an across the board £6 admin fee to cover 'website costs'
- In July company was told by Office of Fair Trading it could not charge a fee to debit card customers
- Flight bosses blame the new charges on the OFT - a claim the watchdog denies

By RAY MASSEY, TRANSPORT EDITOR

PUBLISHED: 15:07 GMT, 29 November 2012 | UPDATED: 14:52 GMT, 30 November 2012

Picture sources:
www.easyjet.com
www.dailymail.co.uk

- Practice whereby the card payment acceptor (e.g. merchant) requests a fee from the cardholder for using a specific payment method
- Sometimes abused, but useable **to steer cardholders** away from certain payment methods, e.g.
 - the more expensive of credit cards (three-party, ‘platinum’, etc.)
 - payment methods that imply more handling for the merchant
 - less secure payment methods
- EU legislation (PSD2) allows surcharging, in principle,
 - if the fee does not exceed the direct costs borne by the payee for the use of the payment instrument
 - but not for card transactions that are covered by the IFR caps

Standardisation ...



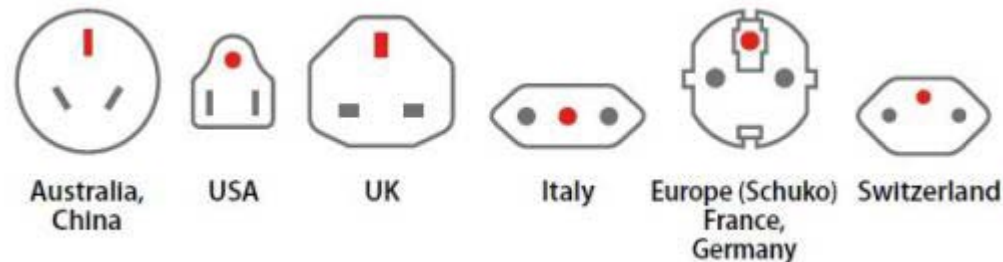
... in a major shopping street in a European capital

Standardisation

Multiple technical and business standards exist in the card business on:

- how and when to send a transaction
- content
- managing exceptions
- etc..

and unfortunately they are not interoperable



Several market players maintain proprietary standards to protect their legacy systems.

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- Most bricks-and-mortar (physical) shops wish to speed-up the checkout
- E-commerce is growing and setting requirements for payments
 - more user-friendly, as web shop customers more easily ‘click-away’
 - broader reach, as e-commerce is often organised borderless
 - lower costs, as e-commerce is more price sensitive
- Commerce via mobile devices, commerce within ‘apps’
- Convergence of e-commerce and physical commerce:
 - shop around, compare online, test in-store, order online, pick-up in-store, deliver to home, return in-store, return by post ...
- Payments also need to become multi-channel / omni-channel:
 - pay: online, in-store, on delivery – refund: on delivery, in-store, online

➤ **Can payment cards meet all these requirements?**

- ✓ At shops, contactless cards are helping speed-up the checkout process
- ✓ More mobile devices are ready for contactless payments 
- ✓ In e-commerce, wallets are taking-up, and are often based on / funded by card payments
- However, some successful wallets are based on e-money and/or are funded by credit transfers or direct debits
- ❑ Moreover, **mobile person-to-person payment solutions** are mostly based on mobile banking and credit transfers
- ❑ A new infrastructure for **'Instant Payments'** is being developed, which will process credit transfers within seconds
- ❑ And **payment initiation services** become a payment service

- **Can payment cards face all these challenges?**

- The ECB works to increase the efficiency, reliability and security of retail payments
- Payment cards are the most relevant payment instrument in Europe ... and in many other parts of the globe!

Work done so far:

- The ECB aims at a harmonised, competitive and innovative European card payments area - **SEPA for cards**
- Sound, fair and **harmonised** principles and business rules are key ... as are technical **standardisation** and security
- EU legislation created the **harmonised legal basis** and addressed long-standing issues in business rules
- The ECB had called for many of these changes and has been guiding the standardisation efforts at multiple levels

Challenges ahead:

- EU legislation challenges the business models of providers by setting 'caps' on **IF** and by introducing **payment initiation services**
- ECB pushes for pan-European **mobile P2P payment solutions**, which might expand to C2B, traditionally dominated by cards
- ECB pushes for **Instant Payments**, which enables credit transfers in payment situations previously only covered by cards

- In the coming years, we expect a significant increase in the number of card payments due to lower fees, higher acceptance, and the convenience of contactless and also card-based wallets
- However, payment cards will need to meet new requirements and face many challenges...



CARD
PAYMENTS:

EUROPE
IS ONLY
ONE PIECE
OF THE
PUZZLE...