



European Commission
DG Competition
Unit D1- Financial Services

Preliminary Results of the Commission's Sector Inquiry into Payment Cards



European Commission

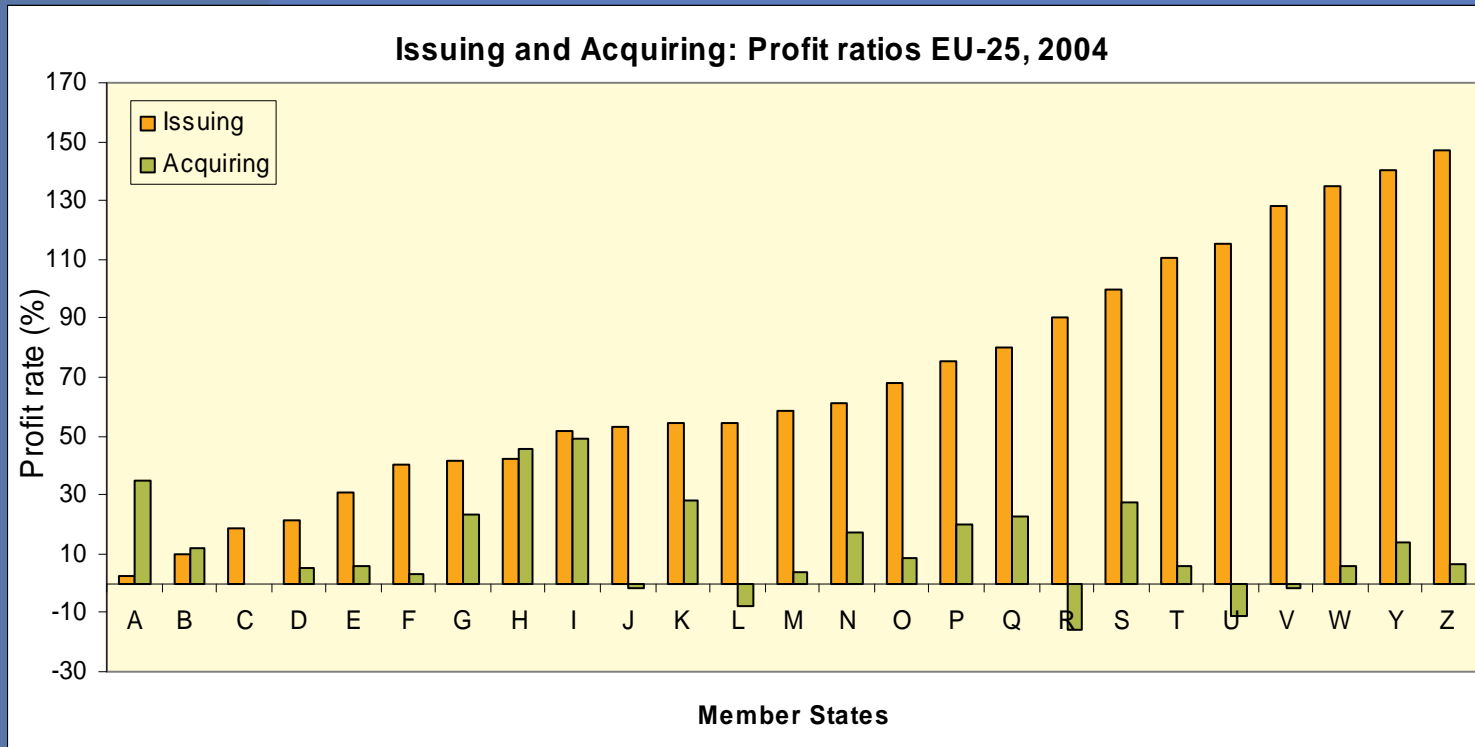
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Financial Findings



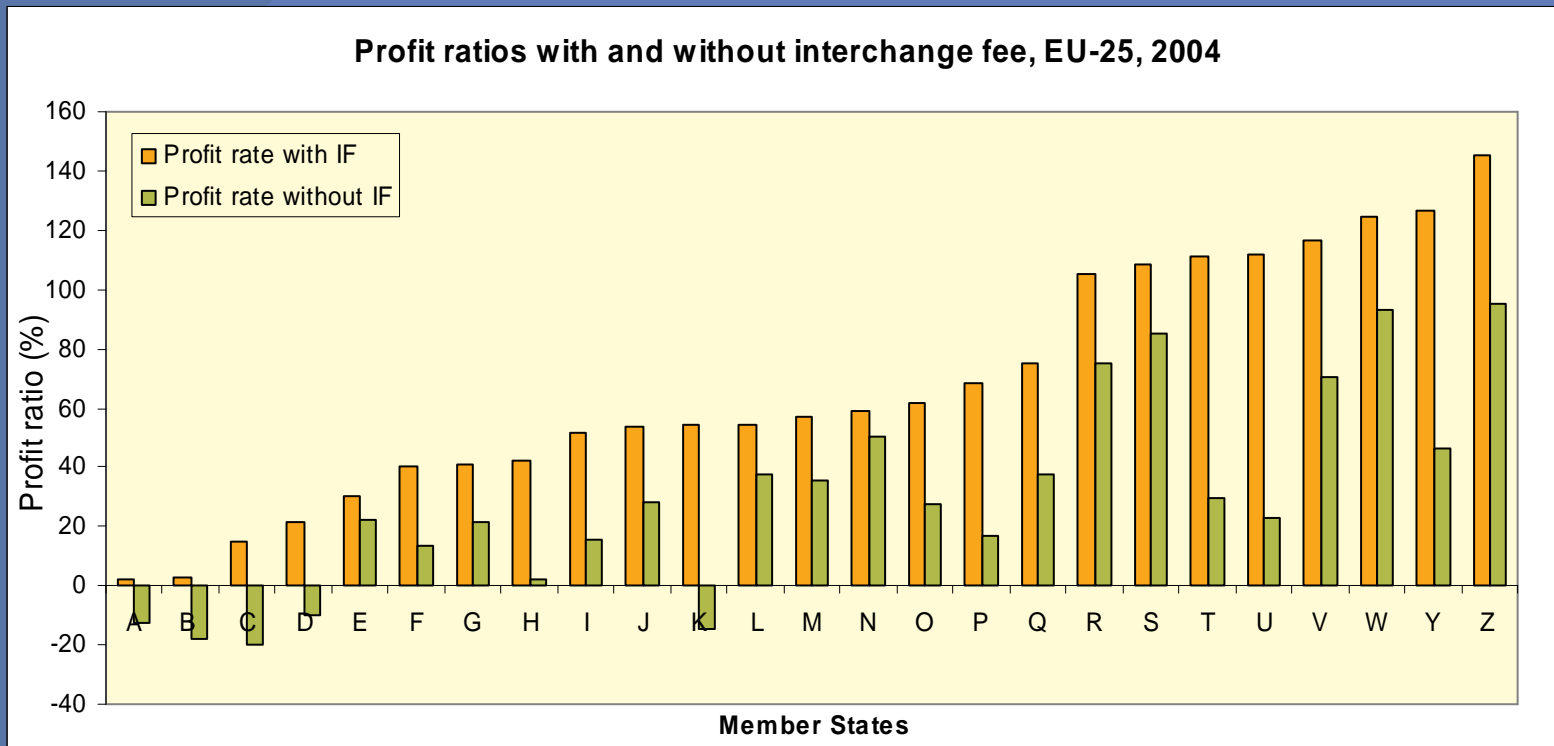
Profitability



- issuing: very profitable (on average 65%);
- acquiring: profitability vary but still high overall (on average 15%)



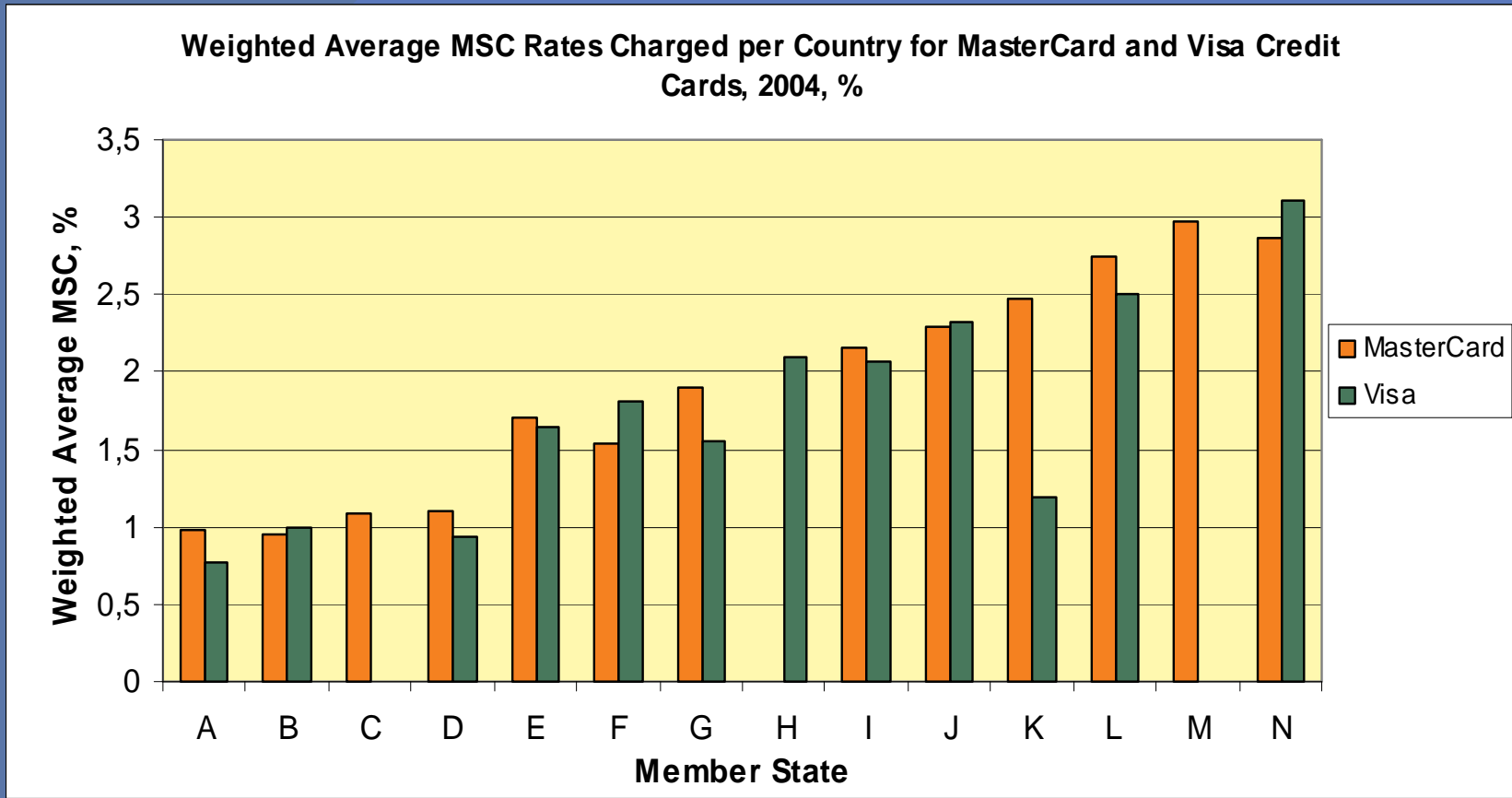
Profitability without Interchange Fees



Card issuing remains profitable even without interchange fees for most banks surveyed



Merchant Fees

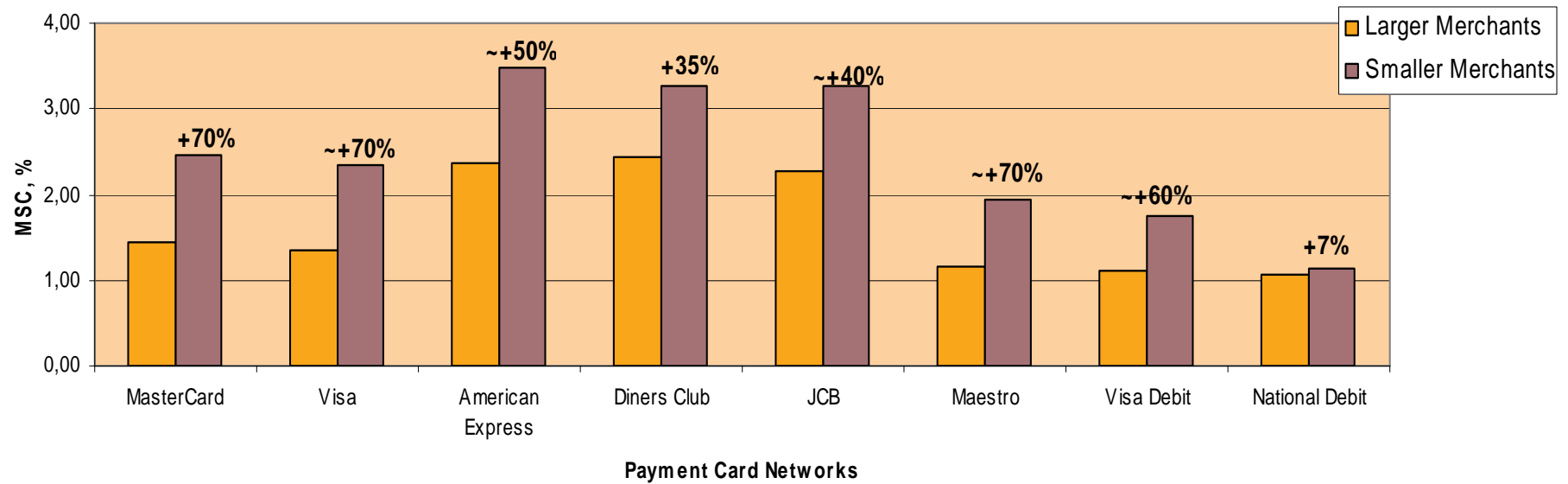


Businesses in some countries pay a far higher merchant fee on average than others



Merchant Fees

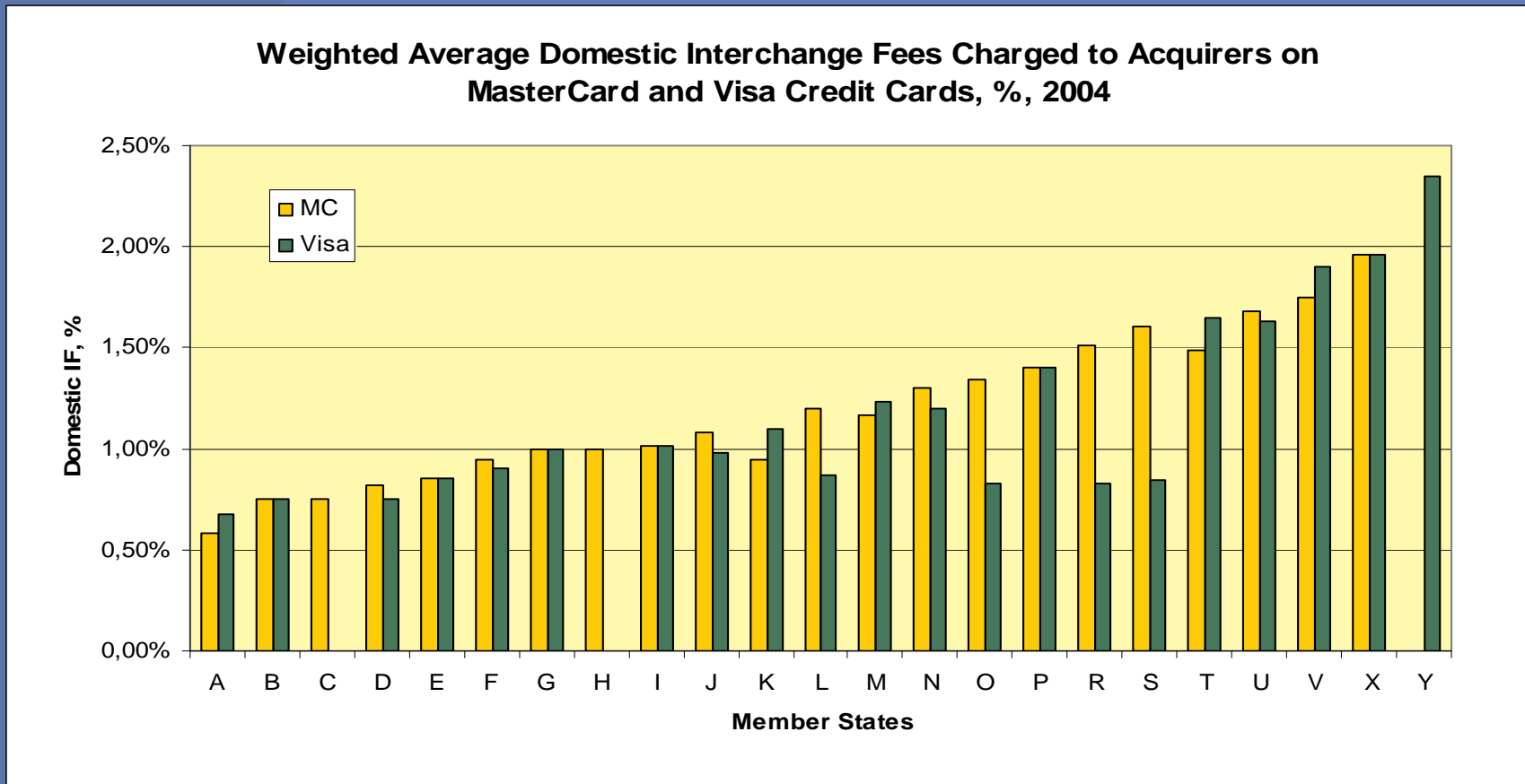
Comparison of Weighted Average MSC levels Charged on Credit and Debit Cards to Larger and Smaller Merchants across EU-25, 2004, %



International payment card networks make smaller business pay more than larger ones. This does not seem to be justified solely by transaction volumes (i.e. scale).



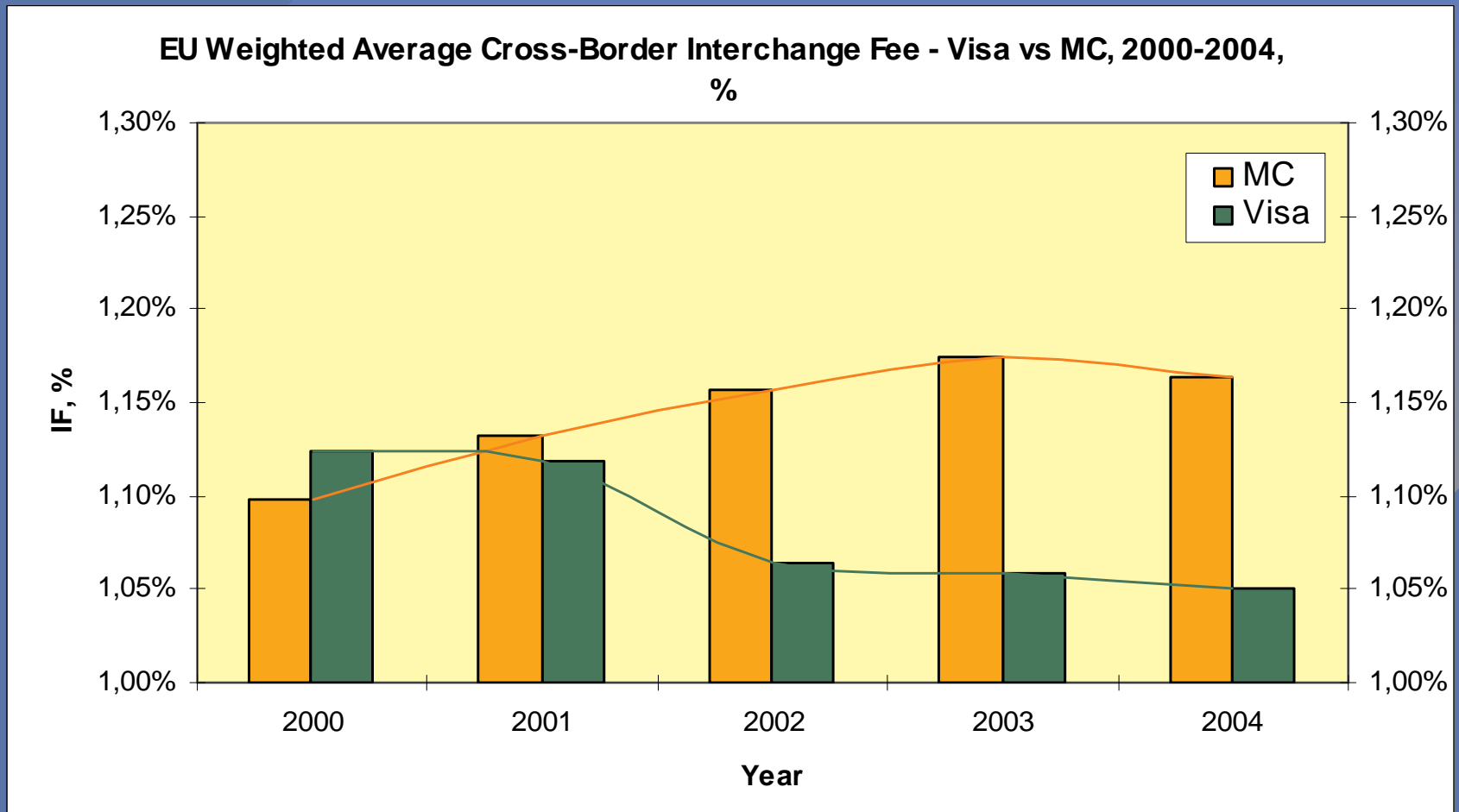
Interchange Fees



Acquirers in some MS pay much higher interchange fees on average than in others

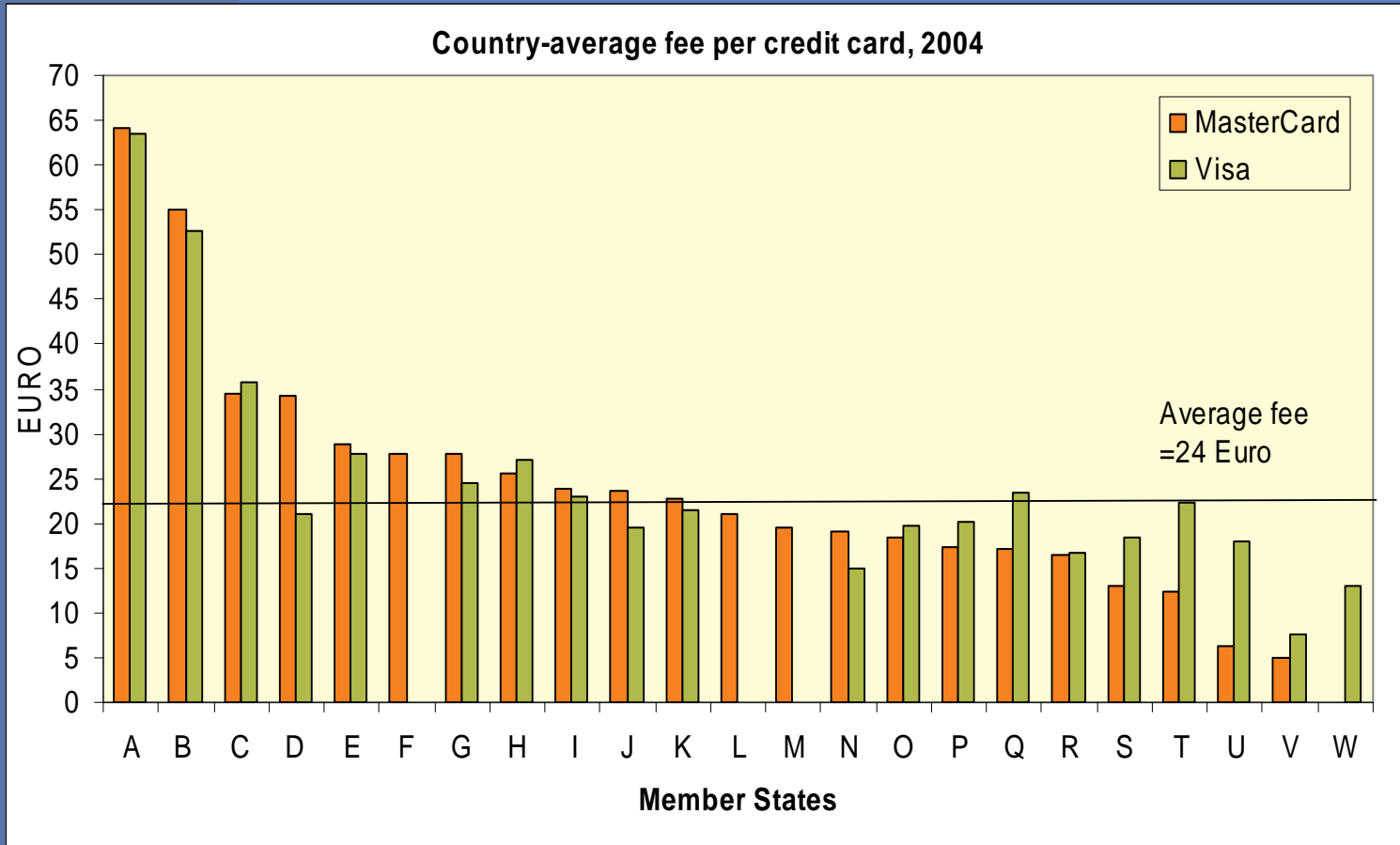


Impact of EU VISA Decision 2002





Cardholder Fees



Cardholders in some MS pay much higher fees on average than in others



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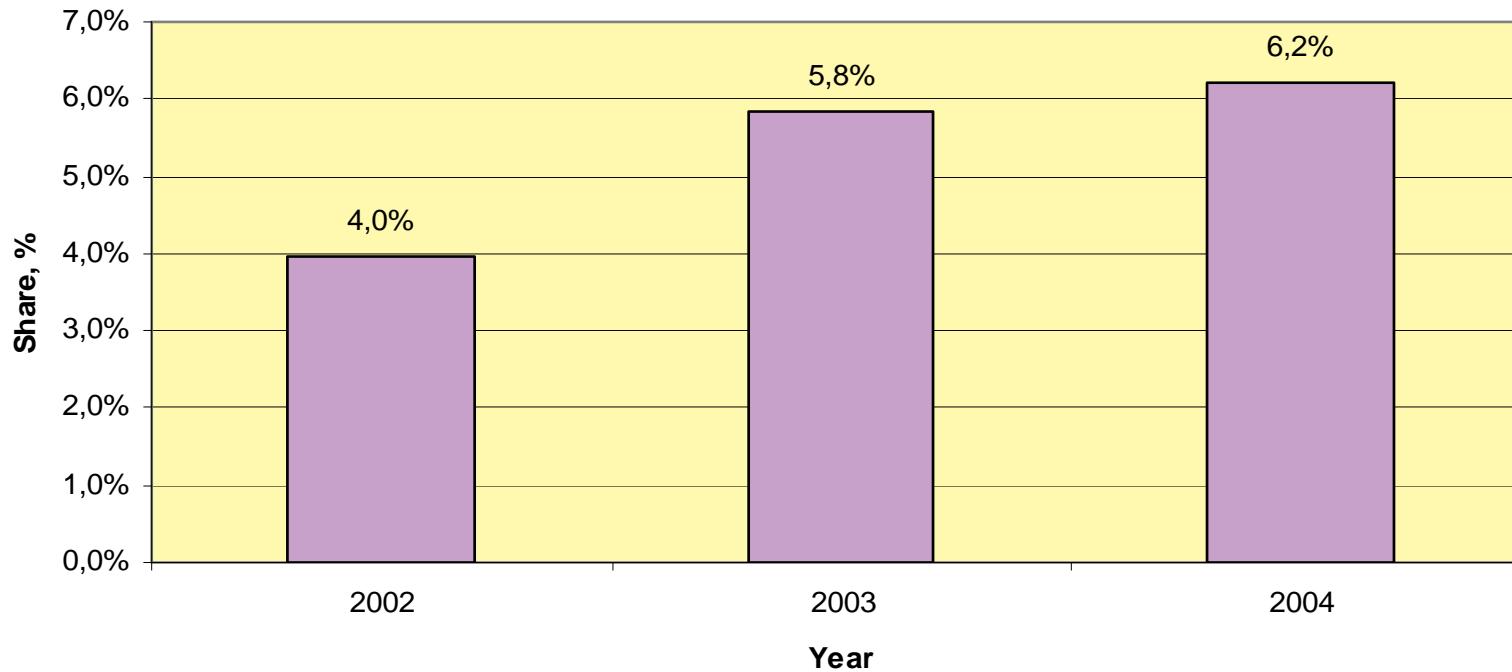
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Competition Problems



No cross-border competition in national systems and few cross-border competition in international systems

Growth in Turnover of Merchants Acquired Under Cross-Border Acquiring Licence
(Respondents Only), 2002-2004, %





Barriers to Competition

1. Barriers for acquirers

- a. Vertical integration of payment card systems
- b. Joint venture between acquirers
- c. Preferential interchange fees
- d. Bilateral clearing arrangements
- e. Some membership requirements
- f. Diverging technical standards

2. Barriers for issuers

3. Governance arrangements



Vertical Integration of Card Systems

Domestic Debit Networks

										6
										5
							4	4	4	4
						3	3	3	3	3
					2	2	2	2	2	2
1	1	1	1	1	1	1	1	1	1	1
IRL	NL	DK	FIN -	DE	FR	ESP	ESP	ESP	PT	BE

International Networks

		5	5	5
		4	4	4
3	3	3	3	3
2	2	2	2	2
1	1	1	1	1
MC	VISA	JCB	Amex	Diners

- 1 = Setting standards and rules for co-operation between banks; admission of new member banks; licensing of card logo;
- 2 = Transaction switching;
- 3 = Clearing & Settlement;
- 4 = Issuing and acquiring processing;
- 5 = Acquiring
- 6 = Production of POS terminals

VI of card payment systems may impede new entrants from competing with the incumbent in one segment of the market.



Conclusions & Follow Up

1. The Sector Inquiry has identified considerable structural, behavioural and technical barriers to competition in the industry
2. Public consultation until 21 June – so far no substantial comments received
3. Public Hearing on 17 July (together with preliminary findings on core retail banking)
4. December 2007 Final Report