Payment cards: trends and challenges

Frankfurt am Main, 29 August 2017
<table>
<thead>
<tr>
<th>Setting the scene</th>
<th>Basics of payment cards and card payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Status</td>
<td>Problems to be solved</td>
</tr>
<tr>
<td>Trends observed</td>
<td>What will the future bring?</td>
</tr>
</tbody>
</table>

Card payments in Europe

Overview

Payment cards: trends and challenges
Payment cards: trends and challenges

Payment cards accepted

Acceptance terminal

Card payment acceptor

Card acquirer
Three-party scheme

Governance authority

Card issuer

Card acquirer

Cardholder

Three-party scheme

Governance authority (card issuer and card acquirer)

Cardholder

Card payment acceptor

Four-party scheme

Governance authority

Card issuer

Card acquirer

Cardholder

Card payment acceptor

Payment cards: trends and challenges
## Overview

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>1</strong></td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Basics of payment cards and card payments</td>
<td></td>
</tr>
<tr>
<td><strong>2</strong></td>
<td>Card payments in Europe</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Status</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Problems to be solved</td>
<td></td>
</tr>
<tr>
<td><strong>3</strong></td>
<td>What will the future bring?</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Trends observed</td>
<td></td>
</tr>
</tbody>
</table>
Card payments are fastest growing …

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

Source: ECB Statistical Data Warehouse
… but large difference in use per country

**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.


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 …

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: 16:07 GMT, 29 November 2012 | UPDATED: 14:52 GMT, 30 November 2012

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.
• 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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<td></td>
</tr>
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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.

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- 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...