

Division Bank and Insurance
Austrian Federal Economic Chamber
Wiedner Hauptstraße 63 | P.O. Box 320
1045 Vienna
T +43 (0)5 90 900-ext | F +43 (0)5 90 900-
272
E bsbv@wko.at
W <http://wko.at/bsbv>

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|---------------------------------|---------------------------------|-----------|-----------|
| Your reference, your message of | Our reference, person in charge | Extension | Date |
| | BSBV 145/Dr. Priester/St | 3132 | 11/9/2013 |

Regulation on Multilateral Interchange Fees (MIFs)

Please find below our comments regarding the proposal of the European Commission for a payment service package of 24 July 2013:

We support a further integration of the European card market, but the present Regulation fails to offer the Member States the flexibility needed to take into account the respective market conditions (e.g. infrastructure, costs, yields, etc.).

In general:

First we would like to mention that the above mentioned proposals intend to regulate issues that are already regulated in the card schemes' own rules and regulations.

The system of interchange fees does not restrict innovation and does not prevent the market entry of new players.

On the contrary, interchange fees foster innovation and the implementation of common standards especially with regard to safety standards (e.g. EMV, 3DS).

Price specifications without impact assessment

Determining a price that is inconsistent with the expenses and the cost structure of the card issuer constitutes a one-sided interference in a balanced price/return system for the benefit of one party (retailers). Such price impositions, which ultimately are relatively arbitrary, can cause significant disruption. There has apparently been no assessment to determine whether the prescribed fee levels are able to cover the costs and services that banks need to provide (payment guarantee, del credere risk, technical costs, investment costs, customer service, etc.). Limiting these across the board (with the propensity to go so far as to prohibit them) will only cause the consumer, as holder of the card, to have to pay for services while another party derives the benefit (i.e. the acquirer and thus the retailer).

The proposed recommendation fails to create a coherent framework for the application of "multilateral interchange fees" (MIFs). Rather, the redefinition of "cross border" creates a

situation for a period of at least two years (national acquirers will be obliged to continue paying the applicable "domestic interchange fees" [DIFs] in this time) where national acquirers will be at a competitive disadvantage to foreign acquirers already required to apply the stipulated MIFs. More specifically, this means that foreign competitors in Austria, for instance, will be able to undercut national providers by 0.7% in credit card transactions. The difference will be smaller for debit cards (0.02% and 5.3¢), but the negative impact will be just as profound on account of the considerably higher transaction volumes.

Realistic deadlines for implementation

Furthermore, we are very critical of the tight timeframe resulting from the envisaged implementation of stage 1 (decreasing MIFs), incl. the required disclosure of individual price components, within the proposed 2-month period after entry into force of the Regulation - particularly in view of the changes needed in terms of contracts and processing. At the very least, the transition period would need to be extended.

The Regulation provides only one maximum MIF value for both credit and debit and, in contrast to what schemes generally do, fails to distinguish between the different technical types of processing, e.g. chip, NFC, e-commerce, etc. Without flexible incentives, issuers will hardly be motivated any more to introduce new technologies and processes.

Impossibility of small payments

If MIFs are stipulated solely on a percentage basis, cost-effective small and micro-payments will become unfeasible. The Regulation would therefore have to provide not only the percentage but also a minimum fee.

Consumer benefits doubtful

The proposal refers to "a positive impact on competition" and "benefits for consumers". The cited saving in the amount of a few euros per year for each EU citizen allegedly justifies price regulations in nearly all industries. In practice, this will inevitably lead to a reduction in supply. Moreover, to date, there has been nothing to suggest that reductions in the interchange fee and thus decreases in the merchant fee have led to a cut in end consumer prices. Proof has yet to be produced that consumers will actually come to enjoy the expected benefit.

Market entry warranted

The idea of facilitating and simplifying access to the payment services for new market participants will give rise to a further discrimination of credit and payment institutions. These are obliged to abide by the strict legal and regulatory specifications.

Additional regulatory requirements relating to notification and reporting procedures will require additional investments and thus represent a new cost factor.

Co-badging

"Co-badging" is when a card carries several applications for payments. Since the Regulation also covers "card-based" technical solutions, the question is whether "co-badging" will likewise be eligible as a solution that uses mobile end devices (smart phones). A variety of what are termed "wallet" solutions are already available today. These are virtual wallets and various virtual cards can be saved to these. They can be used like a physical wallet that contains various credit cards (and/or) debit cards. The currently unregulated "start-ups", in particular, are continuously developing procedures that allow for the automated selection of the

customer's preferable type of payment. The proposal is unclear as to which "technical" solutions have been regulated and which can be freely designed.

Distinction between consumer/corporate products

The proposal calling for a decision on whether a specific product from the portfolio of a brand is acceptable will give rise to a situation that is inconsistent with the other activities of the EU. If higher MIFs continue to apply for "corporate" products and many retailers decide not to accept these products or only in return for an additional fee, customers will be prompted to pay in cash. However, some Member States (Italy, Spain) prohibit payments in cash as of a certain amount. It is likewise unclear whether the rule applicable under the Consumer Protection Directive that allow additional fees only within the scope of the actual costs will also apply for company cards. It is feared that customers, when they use MIF-regulated cards, will likewise be charged the additional fee permitted only for non-MIF-regulated cards.

To be able to maintain the quality and security standards of card payments, we estimate that the loss of particular revenue elements will have to be compensated for by other sources of revenue.

Quality level continues to be sustainable

In order to sustain the quality level for card payments that has been achieved in most market, the loss of individual income components would have to be offset by new price elements or an increase in the existing ones.

This may lead to a decline in card use and thus to a decrease in the (sought) transparency of credit transfers (many countries are currently attempting to promote card-based payments in order to gain more control of the shadow economy, for instance).

Our comments on the individual articles

- **Art 3-5**

These articles regulate the maximum interchange fees for cross-border/domestic consumer debit and credit card transactions.

As in many other sectors, the differences in basic local parameters need to be taken into account (tax rates, wage levels, cost of living, etc.).

Therefore, cross-border interchange fees (MIF) and domestic interchange fees (DIF) should be viewed separately.

That the EU wishes to regulate cross border issues is comprehensible, but in this regulation national issues are regulated as well.

- **Art 9 (Unblending) and Art 10 (HACR)**

Acquirers should offer and charge payees separate MSCs for different categories and different brands of payment cards.

The MSC should be itemized in acquirer margin, interchange fee and scheme fees.

It should be for the payees to decide, which category or brand they are willing to accept.

There is no longer only the distinction between debit and credit cards, but also a distinction between consumer and commercial. The distinction between credit and debit is comprehensible. The distinction between consumer and commercial presents a big

challenge for all participants, especially when having to display, implement and communicate the changes.

Therefore, the distinction between commercial and consumer products should be excluded.

It will also be extremely difficult, costly and complex to itemize the MSC, especially to list all applicable interchange fees and scheme fees for each category and brand, as these fees often change (e.g. commercial cards; intraregional). Therefore, only the request to itemize the MSC by category (debit/credit) and brand should remain.

- **Art 17 (Entry into force)**

This regulation is to become effective on the twentieth day of publication. Transition rules only exist for interchange fees (Chapter II).

Because of all the above-mentioned obstacles (Articles 9/10 in conjunction with Article 12), an adequate transition period is absolutely necessary.

Kindly give our remarks due consideration.

Sincerely,

Dr. Franz Rudorfer
Managing Directors
Division Bank and Insurance