

Explanatory Notes: Analysis of EU Domestic Debit Card Scheme Blockages



1. Content

The analysis has been divided into five sections, focused on debit schemes:

- Business rules and practices
- Operational practices/policies
- Technical standards/approaches
- Macro structural issues

For each blockage practice, we have listed the impact on the marketplace, banks, merchants and regulators and the frequency with which the practice occurs. We have provided a limited list of examples of technical blockages.

Finally, although last, the **Macro Structural Issues** are the most important and are the greatest obstacles the SEPA has to overcome.

2. Debit Card Scheme Practices and Standards Survey

The analysis is based on a PSEL overview of some of the practices adopted in several EU countries and is by no means comprehensive. We would recommend that a Debit Card Scheme Practices and Standards Survey is conducted to establish in more detail how each country operates. This will enable all to better understand the "debit card blockages landscape" across the EU. It should then be possible to decide "**Best Practice**" and common standards.

3. Specific Points to Note

- The list of Blockage Practices is not exhaustive, more could certainly be added. They reflect a sample of countries. To our knowledge, no one country applies all these practices, but most countries have some.
- The analysis relates primarily to acquiring. A similar (but less lengthy) document could be produced for card issuing and ATM acquiring.
- An issue to be considered is the boundaries of the EPC's mandate for change. Some banks may consider EPC best practice rules on topics such as MIF and MSCs as possibly outside of scope.
- We would not support the view that all domestic debit schemes have to do is convert to either Visa or MasterCard debit schemes and the problem is resolved. Obviously if all domestic schemes disappeared, some of the blockages would be removed, but a good proportion would remain.
- We are uncertain at this stage of the benefits of developing a Unified Debit Card Scheme (UDCS) for all of Europe's debit cards. A common scheme umbrella would meet several of the Macro Structural Issues (such as domestic debit card brand acceptance in all countries), but the benefits of such a scheme are not yet clear. For example, do French citizens (say) want to use a Portuguese (say) current account product with an unfamiliar Portuguese card brand in France? It would be much easier to add a local French brand to the product.
- Also, UDCS would require a supra-national network equal to VisaNet/MCINet which would be costly to replicate. Clearly the ICS could be the providers of such a network assuming they accept that their debit card products can co-exist with national schemes. We suggest more analysis is needed to look at the advantages and disadvantages of UDCS.
- Also, time needs to be spent debating and agreeing the next level objectives of the SEPA in the cards business. For example, if the SEPA focus had been solely on

consumer convenience and intra EU/eurozone inter-operability, then solutions based on Visa/MasterCard "back of card branding" (as Maestro) may have sufficed.

However, SEPA is founded on a very ambitious macro vision that requires the wholesale cards market to radically change and (we think) enable banks to offer domestic current account products with domestic cards attached, in any country.

The big picture vision could be very complex to implement, and has the potential to miss the target, particularly if many domestic schemes migrate to Visa/MasterCard debit brands. An alternative plan could be to focus on simpler "**EPC Best Practice Mandates**" designed to open up the wholesale market, achieve a good level of commonality and improve competition. We suggest that the advantages and disadvantages of each approach needs to be analysed in detail.

4. Background to Blockages

It should be emphasized that most practices have not been implemented to deliberately create wholesale blockages – many have been adopted to recover start-up costs, enable speedy implementation, ensure service quality or lower operational costs. Also by their very nature, co-operative interbank developments create single central infrastructures simply because multiple developments by individual banks would have duplicated costs.

Further background on the key reasons why these blockages have developed is as follows:

- Most old EU debit EftPos schemes developed in the late 1980s/early 1990s at a time when there was no pan-European cards vision. Banks did the best they could, sometimes copying concepts from other countries, but often developing rules as they progressed. Lack of a "**Best Practice Model**" inevitably resulted in very different concepts being developed.
- Many schemes evolved from ATM to EftPos with the resulting confusion over tariffing interchange and commercial frameworks.
- The initial debit schemes were not really schemes but technology implementation projects. Typically they were led by technicians who had little or no appreciation of the long term business impacts of some of the systems features and operational rules they were implementing.
- The debit scheme founding banks took risks, invested time, effort and cash in the interbank structure. Many of the rules relating to membership reflect the founders' desire to recover costs from late entrants and to deter free riders.
- Many of the prescriptive operational mandates reflect the concept of collective purchasing (eg. together banks can win a lower price deal from a telco than individually).
- Some blockages reflect the interbank company's desire to control events to ensure national conformity and high service levels.
- The "**Security Blockage**" often reflects a domestic market security culture. Some countries have had a laissez-faire attitude, which has cost them dearly in fraud. A high security culture has often delivered benefits to those countries who have adopted this approach.

So it is vital to understand the background to each problem area. It would be inappropriate to conclude that banks have deliberately colluded to exclude competitor foreign banks and processors. Interbank structures have been built to suit the domestic needs of the founder banks. Only with hindsight are some features now perceived as blockages.

Finally, it is most important to ensure that domestic schemes and interbank processors buy into the need and rationale for change, for in many countries they will be responsible for co-ordinating domestic banks as well as applying major changes to their systems.

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