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**MINISTER FOR BUSINESS AND
GROWTH**

Green Paper – Towards an integrated European market for card, internet and mobile payments

**MINISTRY OF BUSINESS AND
GROWTH**

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General comments

The Danish government welcomes the initiative by the European Commission to launch a broad consultation about the European market for card, internet and mobile payments.

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The Single Market is the largest home market in the world. However, the digital single market still needs to be unleashed. Removing the existing barriers, and modernising the legislative ground rules, can give consumers and businesses in Europe access to the Single Market from their home computer, from the office and from their smart phone. The economic potential in completing the digital single market amounts to up to 4 % of GDP or five hundred billion EURO¹.

The Danish Government attaches great importance to the removal of the barriers that stand in the way of realising the potential of the Digital Single Market as this can serve to boost jobs and growth in Europe. E-commerce is to a large extent based on distance electronic payments and furthering trade via the internet therefore necessitates efficient and safe payment systems in Europe.

The Danish government therefore considers it appropriate that the European Commission undertakes a broad consultation with stakeholders in order to validate or contribute to the analysis of the market for card, internet and mobile payments. This will contribute to the identification of the right method to improve market integration.

The Danish government agrees there is a need to increase the market integration in the area of payment instruments and generally welcomes initiatives that promote the four factors (competition, transparency, innovation and payment security) that can create a more efficient market for payments within the European Union. The Danish government attaches great importance to ensuring infrastructure that can facilitate cheap and effective payment.

Specific comments

¹ Copenhagen Economics: "The Economic Impact of a European Digital Single Market", marts 2010.

*Separation of card schemes and processing of card payments
(Green Paper section 4.1.4)*

Card schemes may have subsidiaries that process or handle the transactions. Other actors (acquirers or processors) may therefore be required to use these subsidiaries in the processing of transactions. This can constitute an entry barrier. Such vertical integration between a card scheme and its subsidiary may make it less attractive for other actors to establish themselves in the market and compete against the subsidiary since these actors cannot achieve economies of scale in the cost of transaction processing as opposed to the subsidiary which is affiliated with or owned by the card scheme. This can constitute a challenge to an integrated European market.

However, there might be economic benefits as a whole of vertically integrated companies in light of economies of scale in a payment system. Furthermore, the competition can instead be characterized by a system of competition, meaning that the competition takes place between different payment systems rather than competition within the same payment system where the vertical integration takes place. This can still enable an appropriate competitive pressure in the payment market.

The Danish government has no knowledge of the extent of the problem of these types of entry barriers within EU. With regard to Denmark the payment service provider Nets is in practice the only collector of transactions in Denmark and all other processors (Swedbank, Valitor etc.) are obliged to use Nets for the processing of the transactions.

The Danish government finds that initiatives such as open standards for infrastructure and transaction processing may be appropriate in order to promote competition among payment service providers and thereby give alternative providers an easier access to the processing of transactions. Such initiatives may reduce entry barriers caused by card schemes having a subsidiary that process the transactions.

However taking into account that such measures will have a significant impact on market operators there should be made a thorough and objective analysis of the affected areas before any action is considered further.

*Access to settlement systems
(Green Paper section 4.1.5.)*

The Danish government attaches great importance to the security in designated settlement systems. It is therefore considered essential that the consequences of providing direct access to designated settlement systems are mapped and analyzed very carefully. In connection with any consideration of whether there should be access to designated settlement systems for other than credit institutions and investment firms in accordance with Article 2(b) of the settlement finality directive it is considered most appropriate that if a thorough analysis should prove that these potential

new participants are most likely to present a risk to the safety of the systems this should be given greater weight than an expansion of the potential participants of a settlement system to also include payment services and electronic money institutions.

*Compliance with the SCF (SEPA Cards Framework)
(Green Paper section 4.1.6.)*

The European Payments council (EPC) has developed SCF in order to create common standards for payment cards. The SCF defines obligations for cards to be SEPA compliant. Card arrangements that do not meet the SCF common standards are at risk of disappearing.

However, there should be focus on this area in order to avoid that the obligations of SCF will create an unequal relationship between domestic payment cards and international payment cards, and prevent that domestic debit cards which are often efficient payment instruments will suddenly disappear.

*Information on the availability of funds
(Green Paper section 4.1.7)*

As regards the sharing of personal information such as the availability of funds on consumers bank accounts it is vital that the express consent is given by the consumer. It should be clear and transparent to the consumer at all stages, who can access the information and when- ensuring that an informed choice can be made.

*The relationship between consumers and recipients
(Green Paper section 4.2.2.)*

An appropriate manner to increase the use of efficient payment instruments is through the fees or discounts set by merchants in relation to the use of different payment means.

The Danish government finds that measures that can increase the option and the incentives of the merchants to charge fees or offer discounts to make consumers use the most effective and inexpensive means of payment should be encouraged.

It is a general principle that transparency enables competition and builds consumer confidence. As such it is important to find a reasonable solution that does not needlessly confuse or obfuscate purchasing decisions for the consumers.

The Danish government also considers that consumers are encouraged in a more effective way through fees and discounts than if the merchant simply informs about the costs of the different payment instruments as stated in the Green paper section 4.2.1.

Since the use of payment instruments in the EU countries is still very different it will be appropriate that the member states have a certain scope of action to establish rules or actions that can be adapted to national circumstances. This way the use of efficient payment instruments can be appropriately encouraged.

*The relationship between merchants and payment service providers
(Green Paper section 4.2.3)*

Transparency in prices for different payment cards and the true cost of accepting cards can be increased by preventing the rules set by acquirers that limit the opportunities of the merchants to set appropriate fees or rebates to difference payment means.

This especially concerns the *No Discrimination Rule (NDR)* where the payment service providers (acquirers) may prevent merchants from encouraging consumers to choose the cheapest payment cards, and the *blending practices rule* in which acquirers charge one price for all payment cards irrespective of whether they are actually associated with different costs. For example a “corporate card” is often more expensive to accept than a “consumer card”, but if the acquirers charge the same price for both cards the merchants will have no incentive to steer consumers towards the cheaper consumer cards.

If the merchant had larger possibilities to steer consumers towards cheap payment instruments and the acquirers were required to offer payment instruments to accurate merchant service charges this would increase the possibility of competitive pressures between card types and card companies.

Again it should be taken into account that the consumer should have transparency in terms of costs of making payments in order make an informed decision the consumer has to be appropriately informed.