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# EU Domestic Debit Card Scheme Blockages - Acquiring Sample -



What Practices Limit the Open Market Concept?

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For the context and background to this analysis please see accompanying notes

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1. Debit Scheme Business Rules and Practices		
Sample Practice	Impacts	Occurrence
1.1 High annual flat or transaction fees for low volumes	<ul style="list-style-type: none"> <li>Favours largest resident banks who receive discounted rates for high volumes. Deters new entrants and start-ups</li> </ul>	Medium
1.2 Lack of transparency in share ownership of both the scheme and operational company. Voting structure disadvantages small members. Lack of reasonable voting caps and super majorities on key issues	<ul style="list-style-type: none"> <li>Difficult for new members to assess value of membership. No separation of brand and processing assets.</li> <li>Not clear to new members how they dispose of shares</li> <li>In some cases M&amp;A creates one dominant shareholder who can unduly influence decisions and future of scheme</li> </ul>	Medium
1.3 Combined domestic card scheme and interbank operational company	<ul style="list-style-type: none"> <li>Lacks transparency and mixes commercial/business rules with processing. One single board. Combined entity sets Multi-lateral Interchange Fee (MIF), certifies members, delivers service and sets operational fees.</li> <li>Creates distrust and antagonises merchants/regulators</li> </ul>	Medium
1.4 Scheme rules not documented and embedded in "Operational Regulations". Lack of transparency.	<ul style="list-style-type: none"> <li>Members, regulators and merchants lack clarity on roles and responsibilities of the "scheme/brand" and "the processor"</li> <li>Scheme/processor executive management also not aware they are running two separate businesses</li> </ul>	Medium
1.5 Difficult to achieve debit scheme membership criteria, eg:		
- Exclusion of non-bank card schemes. Mandated use of agency or sponsorship	<ul style="list-style-type: none"> <li>Membership excludes non-bank schemes (eg. Cetelem, GE Capital, Diners, Amex, JCB) who are obliged to use agency agreements with banks who are members</li> </ul>	Medium/High
- High charges for non-bank schemes	<ul style="list-style-type: none"> <li>Designed to recover cost of infrastructure development, but often means non-banks pay more and are not represented on scheme board</li> </ul>	Medium/High
- Must issue before allowed to acquire	<ul style="list-style-type: none"> <li>Prevents competition in acquiring – start-ups/new entrants</li> </ul>	Medium
- Must be shareholder in scheme; membership is not automatic for qualifying banks	<ul style="list-style-type: none"> <li>Qualifying criteria is capability to pay entry fee – not to offer/deliver service/product</li> </ul>	Medium
- Must have local operations	<ul style="list-style-type: none"> <li>Not allowed to join the scheme unless accepted by local regulator. Means pan-European acquirers have to seek regulatory approval in each country</li> </ul>	Low/Medium
- Must have local regulatory approval		
- Minimum share of market volumes	<ul style="list-style-type: none"> <li>Deters new entrants and start-ups</li> </ul>	Low

Sample Practice	Impacts	Occurrence
<i>1.6 No transparency in the calculation of plastic card interchange/MIF</i>	<ul style="list-style-type: none"> <li>• Creates distrust amongst regulators, merchants and consumer bodies. Cartel-like practices not open to public scrutiny</li> <li>• Sometimes uses non standard MIF methodology which cannot be substantiated to regulators</li> <li>• Creates wide differences in MIFs in each country</li> </ul>	<b>Low/Medium</b>
<i>1.7 High membership fees</i>	<ul style="list-style-type: none"> <li>• Designed to compensate founders of scheme for their investment but has effect of deterring new entrants by increasing start-up costs and risks</li> </ul>	<b>Low/Medium</b>
<i>1.8 Regulation of MSC and no local debit MIF/MSD implemented for debit merchant fees</i>	<ul style="list-style-type: none"> <li>• MSC regulation creates market distortions and damages both sides (issuing and acquiring) often resulting in higher merchant/consumer fees</li> <li>• Lack of a debit MIF damages case to grow debit (ie. No revenue) and in some markets makes domestic acquiring uncompetitive</li> <li>• Deters large pan-European acquirers from entering market – reduces competition</li> <li>• Regulation reinforces role of central monopoly processing provider</li> </ul>	<b>Low/ Medium</b>
<i>1.9 Mandated use of a single acquirer for all, or a proportion of both debit and credit card acquiring</i>	<ul style="list-style-type: none"> <li>• Semi-monopoly provider – creates distrust amongst merchants/regulators</li> <li>• Potentially higher MSCs because of lack of competition</li> <li>• Deters entry of pan-European acquirers and local start-up operations</li> </ul>	<b>Low</b>
<i>1.10 Different merchant contracts for different card schemes – lack of transparency</i>	<ul style="list-style-type: none"> <li>• Lack of single contract for ICS and domestic debit results in different contract terms from different acquirers</li> <li>• Complex structure deters new acquirers and processors entering country</li> <li>• Merchants can pay higher fees for local debit as a result of an ICS/consolidated contract</li> </ul>	<b>Low</b>

2. Debit Scheme Operational Practices/Policies		
Sample Practice	Impacts	Occurrence
<i>2.1 Mandated use of a single processor for debit, credit, ATM and other plastic card processing</i>	<ul style="list-style-type: none"> <li>• Creates semi-monopoly provider, not open or transparent</li> <li>• Prevents domestic banks from moving in-house</li> <li>• Reduces processor competition and deters new entrants/start-ups</li> <li>• Creates over capacity and inefficiencies</li> <li>• Prevents entrants from benefiting from scale in other markets</li> <li>• Prevents banks (particularly entrants) from pursuing differentiated strategies</li> <li>• Service not market tested and put out to bid</li> </ul>	Medium/High
<i>2.2 Issuer/acquirer clearing/settlement processing mandated to one organisation</i>	<ul style="list-style-type: none"> <li>• Prevents other clearing and settlement providers from entering market (ie no chance to bid)</li> <li>• Higher operational costs through lack of competition and competitive bidding</li> </ul>	Medium/High
<i>2.3 No disputes or chargeback process for debit card transactions</i>	<ul style="list-style-type: none"> <li>• Consumers lack common redress process in event of transaction dispute/repudiation – consumer body concerns</li> <li>• Complex systems, not joined up, high cost to operate</li> <li>• Does not confirm to ICS credit card standards</li> <li>• Creates complexities and additional costs for merchants</li> </ul>	Medium/High
<i>2.4 Lack of common merchant accounting processes for credit and debit</i>	<ul style="list-style-type: none"> <li>• Often different approaches used for ICS credit card merchant accounting to those used for local debit</li> <li>• Different approaches mean merchants often do not have a common accounting process which results in lower levels of service, duplication and inefficiencies</li> </ul>	Medium/High
<i>2.5 Key data only provided to one interbank processing organisation (negative and positive consumer data, merchant risk data, credit risk data)</i>	<ul style="list-style-type: none"> <li>• Prevents acquirers and processors from entering market – no competition</li> <li>• New entrant processors must either deal with interbank processors or build new gateways into issuers</li> </ul>	Medium
<i>2.6 Mandated location of system components at one central processing interbank organisation (eg. HSMs for PIN checking)</i>	<ul style="list-style-type: none"> <li>• Locks issuer into one processing organisation</li> <li>• Issuers unlikely to move security data to a TPP</li> <li>• Prevents competition in processing</li> </ul>	Medium

Sample Practice	Impacts	Occurrence
<i>2.7 Mandated interbank network service</i>	<ul style="list-style-type: none"> <li>• Acquirers and issuers only allowed to use common interbank network for processing, clearing and settlement</li> <li>• Imposes high cost of certification on new entrants/start-ups</li> <li>• Lack of competition, high costs, inflexible service</li> <li>• Deters banks, acquirers and processors from entering market</li> </ul>	<b>Low</b>
<i>2.8 Mandated telecoms provider</i>	<ul style="list-style-type: none"> <li>• Banks/processors lack freedom to choose telcos and/or provide own networks</li> <li>• Telco/transmission costs can be higher – merchant objections</li> <li>• Lack of competition in network provision</li> </ul>	<b>Low</b>
<i>2.9 Multiple terminals provided to merchants because of different debit/credit schemes and acquirers acceptance rules and contracts</i>	<ul style="list-style-type: none"> <li>• Merchants have to install several terminals provided by different banking groups and/or contract terms</li> <li>• High cost of duplicate terminal provision</li> <li>• Split volumes and high costs deter pan-European acquirers and processors from entering market</li> </ul>	<b>Low</b>

3. Debit Scheme Technical Standards/Approaches		
Sample Practice	Impacts	Occurrence
<i>3.1 Complex and different terminal applications</i>	<ul style="list-style-type: none"> <li>Terminal costs across EU higher because of bespoke by country solutions acquire</li> <li>Processes, software and terminal providers, high costs of developing/marketing 15+ different applications</li> </ul>	High
<i>3.2 Complex and different terminal to host standards and protocols</i>	<ul style="list-style-type: none"> <li>No common approach thus high cost of developing many interfaces</li> <li>Deters acquirers and processors from entering market</li> </ul>	High
<i>3.3 Complex and different stand-in processes in the event of issuer or host system downtime</i>	<ul style="list-style-type: none"> <li>Different concepts reflecting different approaches – no common method</li> <li>Complex to develop, deters acquirers and processors from entering market</li> </ul>	High
<i>3.4 Complex and different acquirer host to issuer interfaces (often including different data fields)</i>	<ul style="list-style-type: none"> <li>Many different interpretations of ISO8583</li> <li>High cost of developing and certifying interface deters acquirer and processor entrants</li> </ul>	High
<i>3.5 Complex and different clearing and settlement interfaces</i>	<ul style="list-style-type: none"> <li>Each country operates to own standards reflecting local ACH processes and issuer/acquirer bank interfaces</li> <li>High cost of development and complexity deters new entrants</li> </ul>	High
<i>3.6 Terminal standards set by interbank organisation (separate from scheme) in which scheme members may have no governance</i>	<ul style="list-style-type: none"> <li>Prevents banks that do not belong to national interbank organisation (which may require residence) from influencing standards</li> <li>Poorly defined divisions of responsibilities, standards and governance.</li> </ul>	High / Medium
<i>3.7 System or PINpad security requirements require approval by national security standards body or to national standard</i>	<ul style="list-style-type: none"> <li>Multiple security standards increase cost and may be mutually incompatible</li> <li>Often impossible to justify development of products for niche markets (e.g. vending)</li> </ul>	High / Medium
<i>3.8 National requirements for privacy or disabled access</i>	<ul style="list-style-type: none"> <li>Difficult to build one terminal that meets all national requirements</li> </ul>	High/ Medium
<i>3.9 Different national practices for e.g. gratuities, unattended transactions</i>	<ul style="list-style-type: none"> <li>Difficult to meet customer expectations in each country using a common system</li> </ul>	High
<i>3.10 Complex and different PIN checking at acquirer host</i>	<ul style="list-style-type: none"> <li>Non standard approach which binds issuer to acquirer processing host</li> <li>Does not conform to open credit card model where all HSMs/PIN checking at hosts</li> </ul>	Medium
<i>3.11 Complex terminal or network security requirements</i>	<ul style="list-style-type: none"> <li>Increases cost of terminal application software</li> <li>Complex applications needed to drive terminals at host</li> <li>High cost of compliance deters new processor market entrants</li> </ul>	Medium

Sample Practice	Impacts	Occurrence
<i>3.12 Different approaches to EMV implementation – mandate only applies to ICS branded cards</i>	<ul style="list-style-type: none"> <li>• EMV implementation for domestic debit delayed</li> <li>• Benefits of EMV thus delayed in many countries – higher costs of fraud</li> </ul>	<b>Medium</b>
<i>3.13 Countries have implemented different debit card numbers which do not conform to international standards. In some cases front of card data represents only part of the data on the magnetic stripe</i>	<ul style="list-style-type: none"> <li>• No Pan-European standards for card issuing and acquiring</li> <li>• Complex card issuing and terminal applications</li> <li>• Makes Pan-European account to account transfers very complex</li> </ul>	<b>Medium/ Low</b>
<i>3.14 Scheme requires use of proprietary security module</i>	<ul style="list-style-type: none"> <li>• Acquirers cannot use common terminals or applications across EU</li> </ul>	<b>Low</b>

4. Macro Structural Issues		
Sample Practice	Impacts	Occurrence
<i>4.1 Non acceptance of domestic debit card schemes in other countries (except via Maestro/Electron/Visa Debit)</i>	<ul style="list-style-type: none"> <li>Banks unable to offer domestic current account and other products outside own country</li> <li>Acquiring banks in other countries not party to domestic card schemes – so cannot offer payments guarantee</li> <li>Prevents development of regional processing entities/PEACHes</li> </ul>	High
<i>4.2 No low cost facilities to enable consumer/competitor payments and settlement into accounts not resident in country</i>	<ul style="list-style-type: none"> <li>Banks unable to offer domestic current account product outside own country</li> <li>Accepting banks not a party to ACH and settlement schemes in each country</li> </ul>	High
<i>4.3 Different fraud/bad debt risk management philosophy in France, Ireland, UK to rest of EU (semi-offline versus online)</i>	<ul style="list-style-type: none"> <li>France, Ireland, UK have semi-online systems, only a proportion of transactions are authorised. Rest of EU is fully online/PIN for debit (Spain an exception)</li> <li>EMV will resolve some issues but different strategies being adopted for domestic debit in several countries</li> <li>Different philosophies mean different processing environments. Lower levels of authorisation in France/Ireland/UK mean lower processing costs</li> <li>Different systems mean more complex terminals and host applications</li> </ul>	High
<i>4.4 Different debit card scheme approaches and standards within a country (ie. No common national interbank standards)</i>	<ul style="list-style-type: none"> <li>Lack of common interbank standards/approaches mean different systems which cannot inter-operate</li> <li>High cost of maintaining and supporting different schemes and delivery systems</li> <li>Deters new entrants in banking, card issuing, acquiring and processing</li> </ul>	High
<i>4.5 Complexity and age of infrastructures</i>	<ul style="list-style-type: none"> <li>Lack of investment in infrastructures means old systems which are costly to support and inflexible</li> <li>Interbank processors reluctant to change systems to meet needs of new entrants (acquirers/processors) – thus low competition</li> </ul>	High
<i>4.6 Lack of back bone network which enables multi-country/ currency debit scheme bank authorisation, clearing and settlement (ie. A domestic debit equivalent to VisaNet/ MCINet). Lack of common features for risk management, disputes/chargebacks, exception items, AVS, cross border fraud</i>	<ul style="list-style-type: none"> <li>Acquirers and processors have to build own bespoke solutions specific to their businesses linking each country – high cost</li> <li>No common highway to lock together euro and non euro zone schemes</li> <li>Domestic debit cards cannot become accepted EU wide without equivalent of VisaNet/MCINet facilities and value-adds</li> </ul>	High
<i>4.7 Differing structures and availability of credit rating databases (for both consumers and businesses)</i>	<ul style="list-style-type: none"> <li>Prevents development of common application processing and risk assessment processes</li> </ul>	Medium

Sample Practice	Impacts	Occurrence
<i>4.8 Pricing structures (that have developed for historical reasons but are stable and widely accepted) that mean some services are in practice subsidised or offered below cost</i>	<ul style="list-style-type: none"> <li>Allows competition in some areas (which may be those requiring local presence) but discourages it in others</li> </ul>	<b>Low/ Medium</b>
<i>4.9 Interbank mandates on products/services offered in market</i>	<ul style="list-style-type: none"> <li>Domestic interbank schemes mandate card products issuer can/cannot deliver to market</li> <li>Restricts product development, prevents new entrant banks and processors entering markets</li> </ul>	<b>Low/ Medium</b>
<i>4.10 Semi regulatory role of schemes delays certification of new entrants</i>	<ul style="list-style-type: none"> <li>Complex certification processes and rules restrict new entrants from quickly providing new banking, processing services, products in specific markets</li> </ul>	<b>Low</b>
<i>4.11 Lack of inter-operability for cross border POS usage using ICS brands</i>	<ul style="list-style-type: none"> <li>Limits service to cardholders in some countries. Not all EU domestic debit cards have cross border inter-operability at the POS (ATM acceptance much higher)</li> <li>The different design and risk management philosophies mean that some fully online PIN cards cannot operate in an environment that is semi-online.</li> </ul>	<b>Low</b>