The British Retail Consortium (BRC) represents the whole range of retailers including large multiples, department stores and independent shops, selling a wide selection of products through centre of town, out of town, rural and virtual stores. The retail sector employs around 3 million people (11% of the workforce) and retail sales were £303 billion in 2011. The retail sector consists of 284,490 outlets, contributing an estimated 5% to Gross Domestic Product (GVA).

Current BRC Payments Position

The BRC’s experience of working within the UK market on behalf of its members that represent more than 75% of all UK retail sales has shown that having an integrated market for card, internet and mobile payments is highly desirable for all our members. Both for the local UK payments market, Europe, and internationally. Integration of standards for the end to end acceptance, processing and settlement of all payment types from whatever sales channel they emanate is required to satisfy our members’ requirements. From a wider perspective, an integrated payments market will be a cornerstone to the development of a digital single market, in turn helping to complete the internal market, and so help create the growth and jobs so vital to European economic recovery. The key requirements are:

1. Cost of handling payments, particularly cards, is too high and should be a fixed cost per transaction independent of card or product type. For a retailer, processing ANY and ALL cards requires the equivalent process and functions, but not cost. There is no justification for the large differences in cost to retailer and consumer.

2. Cost of handling a payment should be known by the retailer at the time the payment is accepted – not as today after the event. This is the only part of the supply chain where costs are non-negotiable, lack transparency and accountability. Further the Honour All Cards Rule means that retailers have zero ability to contest any given price increase.

3. All payment related costs and products accepted should be fully negotiable by retailers – there is a severe lack of competition in the cards market because of a lack of competition in the market and fee charging structure.

4. The retailer does not want to influence how a customer pays for his goods as it is the customer that should determine how they want to pay.
Key UK Stats

- In 2011 UK retail sales were over £303 billion.
- The BRC-Bond Pearce Retail Employment Monitor showed that in quarter four of 2011 retail employment was 0.5% higher than in the same quarter a year earlier, equivalent to 4,074 more jobs.
- 9% of all VAT-registered businesses in the UK are retailers, with the total number currently at 187,390.
- More than a third of consumer spending goes through shops.
- Consumer spending makes up two-thirds of GDP.
- The retail sector generates 5% of the Gross Domestic Product of the UK.
- The value of internet retail sales in 2011 was £27 billion, accounting for around 9% of total retail sales.

Annex A - is the BRC Cost of Payments Collection survey issued in 2011. This covers 60% of total UK retail sales (£173 billion) and highlights the large differences in the costs of cash, debit and credit. Retail does not support any payment method over the other, the key concern is why there should be such a large (and increasing) difference in cost where there is no evident difference in merchant process or associated benefit.

Summary of BRC Response

The BRC response to the Green Paper (GP) has concentrated on the specific questions that are considered to be specific to the BRC members and their activities domestically, within the EU region and internationally. Whilst the majority of consumer payment transactions occur domestically today, as they do in most EU countries, some of our members are physically present in their own right within the EU states and therefore they handle payment transactions domestically within those countries in addition to cross border within the Euro zone.

Another important aspect that needs to be taken into account is not only the size but the sophistication of the UK market in its central clearing, its early adoption of fraud protection measures, the detailed reporting of payments through the UK Cards Association and Payments Council enhanced by the BRC’s own detailed annual cost of collection survey (Annex A).

It is important for our members to be on top of all developments particularly those currently occurring in the mobile market in the context of the changing customer behaviour and the means of rapid communication through social media etc. The underlying danger is that the speed of change continues to overtake reviews such as the Green Paper. The lack of change and/or action on payments within the EU now continues to manifest itself in the existence of out of date and outmoded anti-competitive controls. The multi-lateral interchange fee (MIF) is a prime example. This allows the continued exploitation of the lack of...
controls by those financial institutions and card schemes which allows financial exploitation without let or hindrance. In simple terms if the MIF debate was resolved, a process that has now been going on for more than ten years, most of the issues raised within the GP would not need to be addressed or stated. It is worth repeating the words made in a recent speech made by EC Vice President Joaquin Almunia (at the event “Building Europe’s future payments market Next Generation Cards and Payments conference Brussels, 12 October 2011):

“The model is profitable and expanding; worldwide point-of-sale interchange fees have been estimated at almost €50 billion in 2006; an increase of 140% from 2000. In the EU, retailers estimate that interchange revenues amount to over €13 billion and the cost of total merchant fees is about twice as much”.

“….in Belgium the interchange fee for a debit card transaction of €50 is likely to be 10 cents; but in Poland it can be as much as 80 cents. The difference may seem small, but for an average retailer it can easily add up to more than €200,000 per year for the same transactions. It is hard to see any justification for this added cost.”

What is crucial and important to the BRC members is a fair, equitable and competitive market place free from outdated cartels and rules that protect a few to the detriment of the majority. This clearly contradicts one of the fundamental principles of the EU yet here we are yet again researching in what can only be considered as further delaying tactics.

The BRC has always indicated that a level of equitable protection to all parties involved in the payments market should be possible, a view consistently stated over the years, yet it would appear from the content of the GP that we are no further forward. Of even greater concern is that by watching the dramatic changes taking place from the sidelines the EU is in effect endorsing the anti-competitive payments market as an acceptable way forward.

A prime example of this is the acquisition, primarily by the Visa and MasterCard organisations, of domestic debit card schemes (often endorsed by and to the gain of the shareholding financial institutions looking for short term financial benefit rather than the long term market impact). New risks to a competitive market continue to arise through the current spate of acquisitions of major elements of the clearing and transaction processing functions. This clearly demonstrates the main card schemes desire to control and dominate the acquiring, settlement and processing systems within the EU with no apparent barriers in place.

From a wider perspective, reform to introduce fairer costs for payments is long overdue. The UK Cruickshank review of banking recommended change in the payment landscape, which the UK Treasury supported but then did not implement – for over ten years nothing has changed. The BRC has engaged in a lengthy and costly European court case. Currently, national governments and the EC strive for reform that produces greater
protection and fairness in financial services. In the US (Durbin Amendments), Australia and France we have witnessed how dramatic change is possible. The GP presents great opportunity to develop a future of payments that supports retailers and consumers over pure banking profit. UK and European retailers urge the EC to demonstrate its willingness and ability to seize this opportunity and create an integrated payments market that supports fair costs for retailers and consumers.

For simplicity the BRC will use the same numbering convention as that used in the original document however where multiple sub questions have been asked our response has been to split them, in some instances, into individual answers for each sub-question.

As a general comment the BRC finds that the Green Paper focuses in the main on the card market to the exclusion of other payment methods that are and will continue to emerge. E.g. PayPal.

EC will be used as a standard abbreviation for the European Commission.
Response to the specific Questions raised in the Green Paper

Question 1 MIFs

Under the same card scheme, MIFs can differ from one country to another, and for cross-border payments.

1a  Can this create problems in an integrated market?

Yes and not only in an integrated European market but also in the total world market as well. Given that both the MasterCard and Visa card schemes utilise different definitions and rules for both individual European countries and their own generic groups of countries specific to that individual card scheme it is the concept of an integrated market that is inconsistent. A good start would be for all parties, including the card schemes, to agree what is the integrated market and which countries are to be considered part of it from a European Commission perspective.

A standard market definition together with a standard MIF policy for that whole market irrespective of the individual country would significantly help retailers operating anywhere within the European integrated market. The lack of consistency and a single standard MIF definition throughout the market has made it difficult, if not impossible, for BRC members to think of the pan European market as a single market.

1b  Do you think that differing terms and conditions in the card markets in different Member States reflect objective structural differences in these markets?

In the context of the MIF there is no rationale for the commercial differences in the MIFs in the different countries or for them to differ dependant on the type of card used, the transaction type, the value or location of the transaction.

1c  Do you think that the application of different fees for domestic and cross-border payments could be based on objective reasons?

There are no rational reasons at all just the power of the individual card scheme to favour its card issuers in providing them with a guaranteed income stream paid for by retailers that have no influence on the MIF automatically collected from them.

Question 2 MIFs

Is there a need to increase legal clarity on interchange fees? If so, how and through which instrument do you think this could be achieved?
Yes there is a need for legal clarity on interchange fees. However the current position could be easily solved if all account holding institutions (whether banks or not) were only allowed to receive up to a maximum fixed fee per payment transaction no matter what the underlying transaction or card type is or in which country it occurred.

Regulation by the EC and the individual countries within that definition would require the card schemes and their card issuing members to accept those terms and be obligated to introduce and conform to those in respect of all payment transactions within the EU area.

**Question 3 MIFs**

3a If you think that action on interchange fees is necessary, which issues should be covered and in which form? For example, lowering MIF levels, providing fee transparency and facilitating market access?

Yes action and resolution is required now (it has been a requirement for a very long time) as shown by our active participation with both the UK and European competition authorities over more than ten years. The position could be easily solved by making any solution simple and equitable through the establishment of a maximum fixed revenue that an account holding institution can receive for any payment transaction. The collection of this fee could be via an intermediary (an acquirer) or through a direct relationship between the retailer and the account holding institution. The possibility of a zero fee being mandated for some payments including micropayments is not excluded.

The key complaint by UK retailers centres on the actual cost of a MIF and its overall impact on significantly increasing the cost of goods sold to consumers by imposing an indirect sales tax. The requirement to have transparency of the cost of components within the MIF arose as a means of:

- identifying what the MIF cost actually included for each card type
- understanding what payment guarantees were included with the MIF and under what circumstances were they provided to retailers
- determining whether the MIF is set at a fair and equitable level for each payment transaction

The UK does not believe that the MIF issue is limiting market access to new payment developments per se within the UK but it can act as a deterrent for the timely introduction of implementation of those new payment developments.

3b Should three-party schemes be covered?

All payment transactions whether domestic or cross border and no matter how they arise should be covered within the proposed EC review of payments.
3c Should a distinction be drawn between consumer and commercial cards?

Definitely not. The UK has long expressed a view within any of its complaints to the competition authorities that a payment transaction is a payment transaction irrespective of the card type as all are handled in exactly the same way at the retailer’s point of sale. The BRC members believe that the rule should be that the party sponsoring the underlying product (the card issuer) should appropriately price the product to their consumer (our customer) whether that consumer be a personal or corporate customer to the card issuer. The BRC believes all card types should be included within any actions undertaken by the EU.

Question 4 Cross-border acquiring

4a Are there currently any obstacles to cross-border or central acquiring?

Yes.

4b If so, what are the reasons?

The current international and local card scheme rules within both MasterCard and Visa together with local domestic banking regulations and local protectionist market rules for handling payments do not make it simple or financially viable for many retailers to benefit from implementing a central acquiring payment solution.

4b Would substantial benefits arise from facilitating cross-border or central acquiring?

Markets always have and will continue to benefit from competitive pressures. Those pressures do not exist today. However there are a number of our members operating in a pan European environment that would consider implementing a central acquiring solution on a standard pricing basis.

Question 5 Cross-border acquiring

5a How could cross-border acquiring be facilitated?

Cross border acquiring occurs today. The key issue for our members is that it involves a complex negotiation process where local rules prevail.

In the future the aim should be to allow the acquirer the freedom to acquire all types of transactions from many countries and for those transactions to contribute to a consolidated card scheme membership position for that individual acquirer. On this basis ‘Moores Law’ of economy of scale should prevail especially given advances in technology that are significantly reducing costs.
If you think that action is necessary, which form should it take and what aspects should it cover? For instance, is mandatory prior authorisation by the payment card scheme for cross-border acquiring justifiable?

With the advances and changes in the cost dynamics that have and are still occurring in the electronics and communications market their impact on the transaction authorisation process in the UK has been significant. It should be noted that the current authorisation standard for the UK is that most transactions wherever the cardholder/card issuer emanates from are being authorised and approved on-line. The BRC estimates that nearly all of its members’ transactions seek online authorisation.

Moving forward what is required by retailers is that a fully authorised payment transaction guarantees payment to those retailers, a demand consistently voiced by our members.

Should MIFs be calculated on the basis of the retailer’s country (at point of sale)? Or, should a cross-border MIF be applicable to cross-border acquiring?

The concept of having a cross-border MIF that is different to any other acceptable MIF does not appear to our members to be justified in any circumstances. Provided rules are in place governing the maximum fixed payment transaction fee that can be charged for each payment transaction then this issue would not arise within the EU area.

Question 6 Co-badging

What are the potential benefits and/or drawbacks of co-badging?

With rules in place co-badging would be an open competitive product enhancement that each payment provider would need to asses in terms of the payment product that they wish to bring to the market. From a retailer’s perspective the ease and speed of handling a payment transaction at point of sale is paramount. The retailer does not want to enter into a dialogue with the customer re choice of payment method - it needs the POS system to act seamlessly in an electronic manner dependent upon pre-determined customer actions and/or choices. This will mean that customers will have to determine how they want to pay prior to the retailer completing a sales transaction.

Are there any potential restrictions to co-badging that are particularly problematic? If you can, please quantify the magnitude of the problem.

There should always be an absolute requirement for speed of transaction at point of sale to be minimal making many of the dual function cards in their present form unacceptable. For the cardholder there should be freedom of choice in terms of the card types they have and similarly the
retailer should have a choice as to which card types they wish to accept, not to be told they have to accept all, within an individual card scheme.

For the retailer this in effect means there is a key requirement for the clear electronic identification of card and/or payment type at point of card/payment acceptance. The retailer does not want to be entering into a dialogue with the customer as to which type of card or payment function they want to use whenever there are multiple card or payment functions available on a single card or payment device the customer wishes to use.

6c Should restrictions on co-badging by schemes be addressed and, if so, in which form?

Our understanding is that some of the reasons for the card schemes to allow co-badging is a response to the economic pressures of their card issuers to reduce the end to end costs associated with issuing multiple pieces of plastic for single function usage. From a retailer perspective single use products are easy for their customers to use (no confusion) and it is simple for the retailer’s internal operational processes to handle and complete the sale of goods transaction at the point of sale terminal and/or system.

Question 7 Co-badging

7a When a co-badged payment instrument is used, who should take the decision on prioritisation of the instrument to be used first?

The consumer can and should make the decision prior to instigating payment at a retailer. All transactions at point of sale must be seamless, fast, efficient and rely on the programming of the electronics at point of sale to determine the actions required. Any form of manual intervention or decision processing by the retailer will be unsuccessful and extend the transaction time at point of sale.

7b How could this be implemented in practice?

Clear electronic identification of all payment products such that there is no ambiguity as to what the identification of the type of payment product being used and what it will cost the retailer to accept.

Question 8 Separating card schemes and card payment processing

8a Do you think that bundling scheme and processing entities is problematic, and if so why?

Given the maturity of the card market both within the UK and Europe there is a clear requirement to define exactly what the roles of each party are within the end to end handling of a payment transaction. The identification of clear roles and responsibilities is particularly relevant now.
given that the existing card schemes are independent companies operating as for profit organisations and have stated they see themselves as transaction processing organisations hence their recent acquisition of companies within that sector that provide specialist services to the payment industry.

From our members perspective it is important to differentiate and define exactly what is the purpose now and in the future of a card scheme. Our members want a choice of how transactions can be processed that ensures settlement of those transactions into their bank account at the earliest opportunity. Historically the only choice of processor was determined by which bank owned acquirer the merchant chose to use to deliver transactions direct to the card scheme. Today the role of the acquirer is becoming more difficult to define especially as MasterCard will now allow any payment service provider – whoever is their owner, subject to specific criteria being met, to deliver transactions direct to the card scheme for settlement. This change has the opportunity to create a new payment processing landscape controlled directly by the card schemes and its rules with little regard for local or European banking regulations.

From a retailer perspective the separation of the requirement for them to accept card payments that adhere to card scheme rules for being part of the club and the freedom to competitively choose a payment processor is paramount. Maintaining a competitive card payments environment is required as there is a fear that the current international card schemes will individually create/maintain an infrastructure that overall will increase the end to end costs of handling a payment transaction and exploit the possibilities of circumventing any rules or restrictions that may be put in place upon them.

**8b What is the magnitude of the problem?**

Currently a payment card issuer who wishes to be an acquirer processor can do so as the bank in question would simply conform to the rules/standards set out for those individual functions. From a retailer point of view there have on occasions been some financial benefits if their acquirer is also a major issuer but in recent years the complete separation of issuing from acquiring within many UK banks has further increased merchant service charges to retailers.

By extending the option of what type of organisation can deliver transactions direct to the card scheme there is a fear by UK retailers that the card schemes will be in total control of all costs with even less opportunity for retailers to negotiate with their acquirer and or payment processor - which could even be the card schemes themselves!

The problem is, as it is with most of the points raised, the lack of clear, simple and unambiguous standards where those should be fair equitable and simple, curb profiteering, yet promote and allow competition. In summary a fair market price not affected by monopolistic/cartel restrictions is needed.
The standards would also need to take into account the desire by some of the large retailers within the UK to have the opportunity to deliver their transactions directly without having to process such transactions through an intermediary.

**Question 9 Separating card schemes and card payment processing (linked to question 8)** Should any action be taken on this? Are you in favour of legal separation (i.e. operational separation, although ownership would remain with the same holding company) or ‘full ownership unbundling’?

No action would be needed if a fixed payment fee solution was put in place. True market forces would then allow all potential participants to decide which role(s) they would like to function and participate in.

**Question 10 Access to settlement systems**

Is non-direct access to clearing and settlement systems problematic for payment institutions and e-money institutions and if so what is the magnitude of the problem?

UK national systems operate with maximum efficiency in a cost effective manner with the development of a national system called “Faster payments” being the latest innovation. The know-how and techniques of this service could provide a blueprint for further development throughout the EC. This current settlement infrastructure therefore lends itself to enabling card acceptors to deliver and process transactions directly into the ultimate account holding institutions.

**Question 11 Access to settlement systems.**

Should a common cards-processing framework laying down the rules for SEPA card processing (i.e. authorisation, clearing and settlement) be set up? Should it lay out terms and fees for access to card processing infrastructures under transparent and non-discriminatory criteria? Should it tackle the participation of Payment Institutions and E-money Institutions in designated settlement systems? Should the SFD and/or the PSD be amended accordingly?

In view of the proliferation of PSPs it is essential that the licensing of such organisations is such that their integrity, security and financial activities are in effect the responsibility of the card schemes and regulators and that any breach or default is fully covered by those authorities within Europe and locally.
Question 12 Compliance with the SEPA Cards Framework (SCF).

What is your opinion on the content and market impact (products, prices, terms and conditions) of the SCF? Is the SCF sufficient to drive market integration at EU level? Are there any areas that should be reviewed? Should non-compliant schemes disappear after full SCF implementation, or is there a case for their survival?

No response provided to this question.

Question 13 Information on the availability of funds

Is there a need to give non-banks access to information on the availability of funds in bank accounts, with the agreement of the customer, and if so what limits would need?

None whatsoever since the only party that should hold and keep that information is the account holding institution as any compromise here would be a breach of confidentiality. The availability of funds or otherwise would as it is today be ascertained at the point of sale transaction through the use of online electronic communications.

Question 14 Dependence on payment card transactions.

Given the increasing use of payment cards, do you think that there are companies whose activities depend on their ability to accept payments by card? Please give concrete examples of companies and/or sectors. If so, is there a need to set objective rules addressing the behaviour of payment service providers and payment card schemes vis-à-vis dependent users?

Given the maturity of the cards market with the UK all our members currently accept card payments and would ascertain that it was a necessity in this day and age so to do. Whilst the % of turnover on card payments will vary within individual members from our 2010 Payments survey (which represented more than 60% of total UK retail spend) circa 67% of total retail turnover was on cards.

For our members it is most important that they will be able to choose which payment methods to accept in all the forms that are developed now or in the future on the basis of their individual business requirements and where acceptance is cost effective.

Within our membership all retailers accept card payments.

Question 15 Consumer – merchant relationship: transparency

Should merchants inform consumers about the fees they pay for the use of various payment instruments? Should payment service providers be obliged to inform consumers of the Merchant Service Charge (MSC) charged / the MIF income received from customer
transactions? Is this information relevant for consumers and does it influence their payment choices?

With a competitive structure in place there is no need to introduce another layer of complexity that will serve no purpose. Consumers need to know how much their payment providing institution (e.g. card issuer) is charging them for each payment transaction (not the retailer’s responsibility) dependant upon their choice of payment method such that the consumer is able to make an informed choice.

**Question 16 Consumer – merchant relationship: rebates, surcharging and other steering practises.** Is there a need to further harmonise rebates, surcharges and other steering practices across the European Union for card, internet and m-payments? If so, in what direction should such harmonisation go? Should, for instance:

– certain methods (rebates, surcharging, etc.) be encouraged, and if so how?
– surcharging be generally authorised, provided that it is limited to the real cost of the payment instrument borne by the merchant?
– merchants be asked to accept one, widely used, cost-effective electronic payment instrument without surcharge?
– specific rules apply to micro-payments and, if applicable, to alternative digital currencies?

Currently, virtually all BRC members choose not to surcharge although local laws do allow them so to do. The BRC does not see that there is a major requirement to change any laws but would welcome the addition of commentary that indicated any surcharge applied to payment transactions should be reflective of the additional costs incurred by the merchant for handling that type of payment transaction i.e. not used as a profit stream.

**Question 17 Merchant – payment service provider relationship**

Could changes in the card scheme and acquirer rules improve the transparency and facilitate cost-effective pricing of payment services? Would such measures be effective on their own or would they require additional flanking measures? Would such changes require additional checks and balances or new measures in the merchant-consumer relations, so that consumer rights are not affected? Should three party schemes be covered? Should a distinction be drawn between consumer and commercial cards? Are there specific requirements and implications for micropayments?

Immediate changes to facilitate cost-effective pricing of payment services would clarify and undoubtedly protect the payments market now and in the future. It will be important to consider all payment transactions on the same criteria no matter how they arise e.g. to a retailer commercial cards
are no different in their functionality to those of a consumer classification. If the account holding institution wishes to add functionality or incentivise their product against those of a competitor then they will be free to do so based on sound commercial analysis rather than hidden and illogical revenues currently collected via the MIF.

**Question 18 E- and m- payments**

Do you agree that the use of common standards for card payments would be beneficial? What are the main gaps, if any? Are there other specific aspects of card payments, other than the three mentioned above (A2I, T2A, certification), which would benefit from more standardisation?

Standards no matter which industry are important and have always been so for card payments. UK retailers fully support the introduction of appropriate standards for these payment methods.

**Question 19 E- and m- payments**

Are the current governance arrangements sufficient to coordinate, drive and ensure the adoption and implementation of common standards for card payments within a reasonable timeframe? Are all stakeholder groups properly represented? Are there specific ways by which conflict resolution could be improved and consensus finding accelerated?

The UK Cards Association is sufficiently representative to ensure the appropriate governance once the rules are in place. What is essential at this point in time is for clear simple guidelines to emerge at both a domestic and international levels that would solve 90+% of the issues raised within the Green paper.

**Question 20 E- and m- payments**

Should European standardisation bodies, such as the European Committee for Standardisation (Comité européen de normalisation, CEN) or the European Telecommunications Standards Institute (ETSI), play a more active role in standardising card payments? In which area do you see the greatest potential for their involvement and what are the potential deliverables? Are there other new or existing bodies that could facilitate standardisation for card payments?

All stated names should be involved in view of the evolving technology but only to move forward not inhibit the development of the market. The UK Cards association standards are an ideal blueprint which could be used as guidance.
Question 21 E- and m- payments
On e- and m-payments, do you see specific areas in which more standardisation would be crucial to support fundamental principles, such as open innovation, portability of applications and interoperability? If so, which?

No response provided to this question.

Question 22 E- and m- payments
Should European standardisation bodies, such as CEN or ETSI, play a more active role in standardising e- or m-payments? In which area do you see the greatest potential for their involvement and what are the potential deliverables?

No response provided to this question.

Question 23 Interoperability in the domain of e-payments
Is there currently any segment in the payment chain (payer, payee, payee’s PSP, processor, scheme, payer’s PSP) where interoperability gaps are particularly prominent? How should they be addressed? What level of interoperability would be needed to avoid fragmentation of the market? Can minimum requirements for interoperability, in particular of e-payments, be identified?

One challenge is the use of domestic schemes to make cross border and international (non EU) payments.

Question 24 Interoperability in the domain of e-payments
How could the current stalemate on interoperability for m-payments and the slow progress on e-payments be resolved? Are the current governance arrangements sufficient to coordinate, drive and ensure interoperability within a reasonable timeframe? Are all stakeholder groups properly represented? Are there specific ways by which conflict resolution could be improved and consensus finding accelerated?

In the UK we are making rapid progress it is not stalemate as all UK parties are working together.

Question 25 Payments security
Do you think that physical transactions, including those with EMV-compliant cards and proximity m-payments, are sufficiently secure? If not, what are the security gaps and how could they be addressed?
BRC members have to date shown their willingness and their ability to invest in technology (e.g. full roll out of chip and pin) that meets the security requirements as specified by the payment issuers and processors. In that context it is those suppliers who need to address, if they exist, any security gaps. The massive investment that has and continues to be made by our members has undoubtedly reduced all account holding institutions costs e.g. write offs.

**Question 26 Payments security**

*Are additional security requirements (e.g. two-factor authentication or the use of secure payment protocols) required for remote payments (with cards, e-payments or m-payments)? If so, what specific approaches/technologies are most effective?*

Additional security requirements are in place today for card payments, all of them defined by the card schemes yet they still fail to deliver guaranteed payments, a key requirement of our members. As new payment methods evolve this key requirement, guaranteed payment, must be defined as one of the prime requirements for all payment methods.

**Question 27 Payments security**

*Should payment security be underpinned by a regulatory framework, potentially in connection with other digital authentication initiatives? Which categories of market actors should be subject to such a framework?*

No response provided to this question.

**Question 28 Payments security**

*What are the most appropriate mechanisms to ensure the protection of personal data and compliance with the legal and technical requirements laid down by EU law?*

No response provided to this question.

**Question 29 Governance of SEPA**

*How do you assess the current SEPA governance arrangements at EU level? Can you identify any weaknesses, and if so, do you have any suggestions for improving SEPA governance? What overall balance would you consider appropriate between a regulatory and a self-regulatory approach? Do you agree that European regulators and supervisors should play a more active role in driving the SEPA project forward?*

No response provided to this question.
Question 30 Governance in the field of cards, m-payments and e-payments

How should current governance aspects of standardisation and interoperability be addressed? Is there a need to increase involvement of stakeholders other than banks and if so, how (e.g. public consultation, memorandum of understanding by stakeholders, giving the SEPA Council a role to issue guidance on certain technical standards, etc.)? Should it be left to market participants to drive market integration EU-wide and, in particular, decide whether and under which conditions payment schemes in non-euro currencies should align themselves with existing payment schemes in euro? If not, how could this be addressed?

No response provided to this question.

Question 31 Governance in the field of cards, m-payments and e-payments

Should there be a role for public authorities, and if so what? For instance, could a memorandum of understanding between the European public authorities and the EPC identifying a time-schedule/work plan with specific deliverables (‘milestones’) and specific target dates be considered?

No response provided to this question.

Question 32 General Remarks

This paper addresses specific aspects related to the functioning of the payments market for card, e- and m-payments. Do you think any important issues have been omitted or under-represented?

The Green Paper is a welcome move to advance the payments landscape. However, BRC members remain cautious about how this paper will result in actual and positive development in a meaningful period of time. The policy issues presented by the document have been discussed at great length for many years but, as yet, without meaningful outcome. UK retailers have invested significant resource in the court case, and as yet await an outcome.

We would be keen to understand how this Green Paper will produce real and positive change for retailers and consumers. Until the EC can take concrete steps, existing practices and problems that have dominated the payments market will continue.
Annex A – BRC Cost of Payments Collection Key Findings 2010

Base Data for Survey

The British Retail Consortium (BRC) announces the results and analysis of its Retail Cost of Payment Collection Survey for the 2010 Calendar year.

The response level to the survey covers circa 60% of total UK retail sales with a combined turnover of over £173 billion.

The respondents to the survey incurred collection costs totaling more than £659 million.

Key Results

Year on Year Changes in Payment Methods used by Consumers

During the period 2009 to 2010 as a percentage of transactions there have been changes in the main payment methods used by consumers – these are:

- Debit Cards up 15.8%
- Cash down 5.2%
- Credit Cards down 12.9%
- Cheques down 55%

During the period 2009 to 2010 as a percentage of turnover value spent there have been changes in the main payment methods used by consumers – these are:

- Debit Cards up 3.6%
- Cash up 1.96%
- Credit Cards down 7.6%
- Cheques down 66.7%

Collection Costs are still too high for card transactions

Collection costs for 2010 are still out of line with the costs that retailers incur for payment transactions within each category. The cost comparison analysis for the main payment methods are as follows:

- Cash accounts for 55.2% of transactions - yet only account for 11.5% of Costs
- Debit cards account for 34% of transactions - and account for 37.5% of Costs
- Credit cards account for only 9.95% of transactions - but account for a staggering 44.5% of Costs

These figures speak for themselves with the only light at the end of the tunnel being a possible further reduction in the consumers’ use of credit
cards and the BRC’s continuing campaign to seek a reduction of all financial industry costs.

**Key Results continued**

**Rising Card Merchant Service Costs (MSCs)**
Merchant service charges as a cost per transaction have risen in 2010 yet again -
- Debit card pricing increased by 9.8%
- Credit card pricing increased by 12.4%

*Card Merchant service charges include the acquirer processing fees, interchange and card scheme fees applicable to every transaction.*

As debit cards are the currently favoured cash replacement product the increasing debit card cost levels, despite massive financial industry savings, is of great concern to all retailers.

**Retailers Actions and Investment have help significantly Reduce their Losses**

The survey results have shown a dramatic fall in the value of write offs borne by retailers – overall a 37% plus reduction. Much of this reduction is due to the continued investment in technology by retailers. The UK card industry has also seen a substantial drop in the losses that they have incurred.

The survey results indicate that the actual retailer write offs per average transaction are:
- Debit Cards down by 64.2%
- Credit Cards down by 28.2%
- Cash down by 12.8%

**Key Findings by Payment Method**

**Cash**
- Cash has not lost its appeal – it is still dominant – now accounts for circa 55% of retail transactions.
  * £32.78 in every £100 spent at retail outlets is by Cash
  * Each cash transaction (whatever the value) now costs the retailer an average of 1.7 pence per transaction to handle *(down by 17.4% in 2009 from 2.1pence)*
  * Average cash transaction value is £12.93
- During the last year whilst the number of cash transactions as an average proportion of total transactions has dropped by 5.21%, the average value of each cash transaction has increased from £11.43 to £12.93. This 13% increase is reflective and typical of consumer behavior during a recession to move to larger cash purchases within a single transaction.

*Not specifically available from this survey but anecdotal evidence indicates that when a deep recessionary downturn occurs higher cash volumes occur within the grey (no accounting) market so*
increasing the number of transactions involving higher cash values. As noted by the Bank of England in its quarterly bulletin in quarter 4 2010 the value of cash in circulation has increased by circa 5% during 2009/10 so supporting the assumption of a higher velocity/value of cash in circulation.

- Cash remains the most cost effective method for retailers to accept customer payment

Key Findings by Payment Method continued

**Debit Cards**
- Debit cards continue to account for 46.13% of retail sales value
  - Each debit card transaction (whatever the value) costs in total the retailer an average of 9.2 pence per transaction to handle
  - During 2010 cost of handling a debit card transaction increased by 7.5% (2009: 8.5 pence)
  - Average debit card transaction value is now £29.58

As the move away from other forms of payment occurs the increased use of debit cards within the survey base is in line with the latest available UK card market statistics that cover the total market not just retail.

**Credit Cards**
- The average credit card transaction costs the retailer over 37 pence to handle
- Average credit card transaction value is £41.63
- 2010 results for credit cards can be summed up as follows compared to the 2009 results:
  - Turnover by Sales Value down 7.6%
  - Number of Transactions down 12.9%
  - Cost of Collection per transaction up 11.5%

This result is very much in line with the available card industry figures confirming as well that the era of virtually unlimited credit has disappeared.

**AMEX / Diners Cards**
- The use of AMEX / Diners cards within the retail sector continues to be less than 1% of total transactions but does represent circa 1.75% of total sales turnover value.
- Average AMEX / Diners transaction value is £41.68 – only 5 pence more than that for a MasterCard or Visa branded credit card

**Cheques**
- The use of cheques continued to decline as retailers became more selective on the type of cheques they accepted – now only 0.3% of turnover (2009: 0.9%) and less than 0.06% (2009: 0.13%) of transactions
- Average cheque transaction value is £111.82
Management Summary of Cost of Payment Collection Survey Results 2010 Data

1 Introduction

This report presents the results from the British Retail Consortium (BRC) Cost of Payment Collection Survey conducted in respect of the 2010 calendar year which was completed by retailers that represent circa 60% of UK retail sales annual turnover. Total UK retail spending in 2010 was £292 billion.

The cost of payment collection refers to the costs associated with taking payment from customers both at point of sale and through the internet. Within the different payment types the costs include items such as card acquiring fees (inclusive of the interchange and card scheme fees), fraud, bad debt, losses, cash in transit and related administration costs in all categories. These costs amount to more than £659 million in the responses received and therefore account for one of the key costs in retailing operations today.

The primary objectives of the survey are:

◊ Provide participating BRC members with a range of figures to allow them to benchmark and improve their own cost structure and components
◊ Compare the results with previous surveys covering the period 2007 to 2010 in order to analyse how the mix of payment methods and the collection costs have changed
◊ Keep the BRC informed of payment market trends within its membership to enable the BRC to speak in a knowledgeable way on all payment and related issues
◊ Position and present the key data in a consolidated format in order for the BRC to communicate selected data to the regulatory authorities within the UK and Europe
◊ Provide provable data in support of BRC’s continuing representation of its members interests in the ongoing UK and European cases fighting for significant reductions specifically in MasterCard and Visa interchange fees for all card types and any specific card scheme related additional charges.
2 Survey Coverage

This survey has been compiled on a consistent basis since 1999, and provides the only representative and reliable measure for the cost of collection of payments in UK retail. Respondents represent circa 60% of UK retail sales and results have shown consistency and credibility. Despite conflicting claims, regarding these costs, made by the financial industry and card schemes the BRC survey remains the most credible and representative report on the cost of collection.

The BRC circulated questionnaires to all BRC members including its associated trade associations. Responses were received from members who account for an annual sales turnover in excess of £173 billion, which is circa 60% of total UK retail sales. Most of these retail sales arose from more than 20,000 shops of all types with 4% of those total sales being made via the internet or mail order channels.

The survey covered the following cost items:

**Bank Handling Charges**
*Service charges, night safe costs, etc.*

**Cash In Transit**
*Costs incurred in using a Cash-In-Transit service provider to collect cash / cheques and distribute them to the bank and deliver coin (change) to retailer*

**Other Cash Handling Charges**
*Third party handling costs for Prime Count, Provision of coin*

**Card Merchant Service Charges**
*Card Merchant service charges including acquirer processing fees, interchange and card scheme fees*

**Write Offs (Losses)**
*All write-offs including losses arising through till and banking discrepancies, Chargebacks, unpaid cheques, bad debt and fraud.*

**Other Card Handling Costs**
*For example to include some or all of the following - Depreciation of PIN Pads and any card specific hardware, Maintenance of PIN Pads and Server Costs, Specific additional Call Authorisation costs, Terminal Rental, Storage and filming of signature receipts*

Research has shown that the staff costs involved in handling payments is marginal in terms of the total costs incurred and evenly divided across all payment methods therefore this cost has been excluded from all categories. However recent research has shown that the average time
taken to process a cash transaction at point of sale is 27.2 seconds compared to 39.4 seconds for a card payment.

Confidentiality of individual retailer submissions has been assured by the method of data collection.
3 Sales Turnover and Payment Mix

- In 2010 Total Sales Turnover by value is £173 billion

<table>
<thead>
<tr>
<th>Payment Type</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit Cards</td>
<td>43.04%</td>
<td>43.97%</td>
<td>44.52%</td>
<td>46.13%</td>
</tr>
<tr>
<td>Cash</td>
<td>33.81%</td>
<td>32.90%</td>
<td>32.15%</td>
<td>32.78%</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>20.93%</td>
<td>20.34%</td>
<td>20.58%</td>
<td>19.03%</td>
</tr>
<tr>
<td>AMEX / Diners</td>
<td>1.35%</td>
<td>1.78%</td>
<td>1.83%</td>
<td>1.75%</td>
</tr>
<tr>
<td>Cheques</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
</tbody>
</table>
In 2010 Total Sales Turnover by transaction number is 7,957 million

<table>
<thead>
<tr>
<th>Cheques</th>
<th>0.85%</th>
<th>1.01%</th>
<th>0.92%</th>
<th>0.31%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total</strong></td>
<td><strong>£132 billion</strong></td>
<td><strong>£139 billion</strong></td>
<td><strong>£151 billion</strong></td>
<td><strong>£173 billion</strong></td>
</tr>
</tbody>
</table>
In 2010 the overall average transaction value increased by more than 5% despite debit cards decreasing by nearly 6%.

<table>
<thead>
<tr>
<th>% Turnover by Number of Transactions</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit Cards</td>
<td>27.36%</td>
<td>31.92%</td>
<td>29.29%</td>
<td>33.93%</td>
</tr>
<tr>
<td>Cash</td>
<td>60.56%</td>
<td>55.71%</td>
<td>58.18%</td>
<td>55.15%</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>10.96%</td>
<td>11.37%</td>
<td>11.41%</td>
<td>9.95%</td>
</tr>
<tr>
<td>AMEX / Diners</td>
<td>0.74%</td>
<td>0.94%</td>
<td>0.98%</td>
<td>0.92%</td>
</tr>
<tr>
<td>Cheques</td>
<td>0.38%</td>
<td>0.07%</td>
<td>0.13%</td>
<td>0.06%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>6,680m</strong></td>
<td><strong>6,403m</strong></td>
<td><strong>7,315m</strong></td>
<td><strong>7,957m</strong></td>
</tr>
</tbody>
</table>

In summary the retail turnover in the survey is £173 billion arising from more than 7,957 million transactions.

- The use of cash as a means of payment continues to be the most popular method of payment when measured in transaction terms 55.2%
- 89% of all customer transactions at retailers are now made using “Pay Now” products – Cash and Debit cards
- In 2010 circa 67% of total turnover value has been made using cards.
- Only 4.73 million Cheques were handled by retailers participating in the survey
4 Total Cost of Payment Collection

- Total Amount spent by retailers in the survey on Payment Collection is £659.24m

<table>
<thead>
<tr>
<th></th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debit Cards</td>
<td>7.9</td>
<td>8.1</td>
<td>8.5</td>
<td>9.2</td>
</tr>
<tr>
<td>Cash</td>
<td>1.9</td>
<td>2.0</td>
<td>2.1</td>
<td>1.7</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>34.7</td>
<td>35.5</td>
<td>33.3</td>
<td>37.1</td>
</tr>
<tr>
<td>Charge Cards</td>
<td>52.4</td>
<td>57.1</td>
<td>50.3</td>
<td>58.2</td>
</tr>
<tr>
<td>Cheques</td>
<td>53.0</td>
<td>117.5</td>
<td>38.6</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>Average for all payment types</strong></td>
<td><strong>7.7</strong></td>
<td><strong>8.4</strong></td>
<td><strong>8.0</strong></td>
<td><strong>8.3</strong></td>
</tr>
</tbody>
</table>

The biggest single cost of payment collection for retailers continues to be the merchant service charges (MSC) for processing card payments accounting for over 86% of total collection costs. The MSC is inclusive of the acquirer processing fee, the card issuers’ interchange fee and the card scheme fee applicable for that individual transaction.
For the two main card schemes, MasterCard and Visa, the interchange and card scheme fees which are paid by retailers to bank card issuers and the card schemes can amount to over 90% of the total MSC cost.