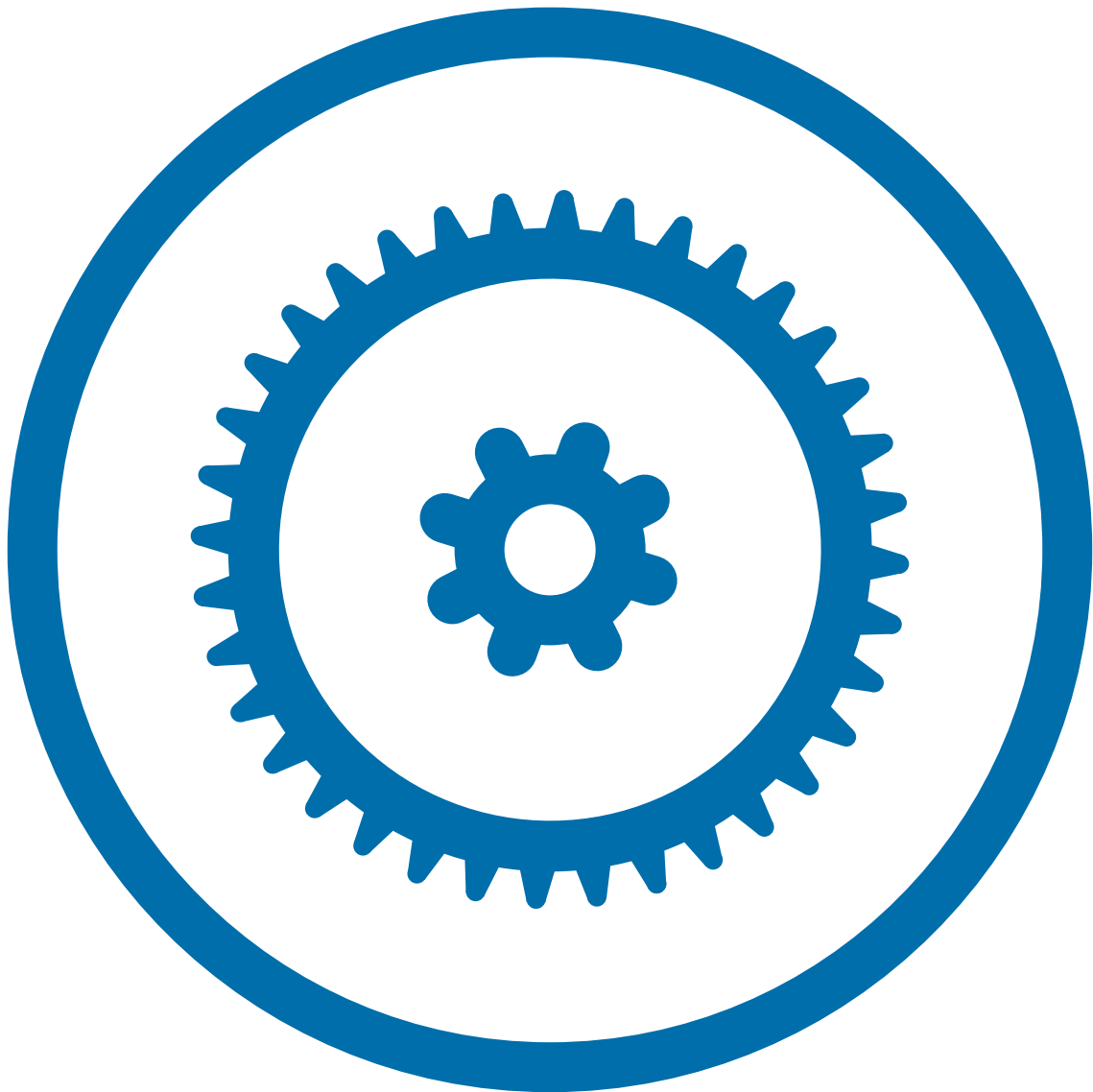


# acquire

maximum business advantage  
from new EU Regulation on interchange  
fees for card-based payment transactions



## **The payment landscape has changed a lot over the last few years.**

New Payment Service Providers have entered the market, new payment schemes have been introduced, smart phones have become not only “the” device but are also used for electronic payments, are just some of the examples we could mention.

Some acquirers have already started to take advantage of changing regulations to build a cross-border business, and thus to enhance their offer by bundling attractive acceptance and acquiring proposals for their customers.

Furthermore, new payment channels are becoming more important and acquirers are increasingly engaged in mobile payment projects.

# There are various drivers of change and innovation including:

## New technologies

The ongoing digitization has brought new technologies which allow for applications that were not possible some years ago, such as internet based pre-paid wallets or smart phone payments. Cloud services grant access to data, the next generation of POS-solutions using tablet computers are on the market and smart phones supporting NFC are already in the hands of the consumers. The customer is known and internet based services can react on their personal preferences leading not only to new buying experiences but also a need for higher security standards and of course data privacy.

## Consumer

The consumer's expectations towards payment systems have changed. It is only a small step from high mobility and "always online" towards a more flexible way of buying things such as ordering goods online in any country and paying for them with your national debit or credit card - of course without being charged for cross-border-use. Why not, for example, order an online-copy of your favorite TV-series directly in the country of production.

You can see, the entire purchase process has changed - products and services are searched, found and checked on the internet, prices and delivery conditions are compared online and, finally of course, the payment is also done online.

## Merchant

To react to the changing consumer behavior, merchants are expected to offer a large variety of payment means and to support the innovations that have been made. Web-shops without the means to pay online are today unacceptable and contactless cards or mobile payments are the must-have for retailers who want to attract the most interesting group of buyers for their specific sector. In addition to the changing consumer requirements, retailers need faster check-out-times and therefore welcome new developments that can help them reduce queues. And last, but not least: a more extensive card usage makes it easier to introduce closed-loop-schemes and thus build a closer relationship to the customer.

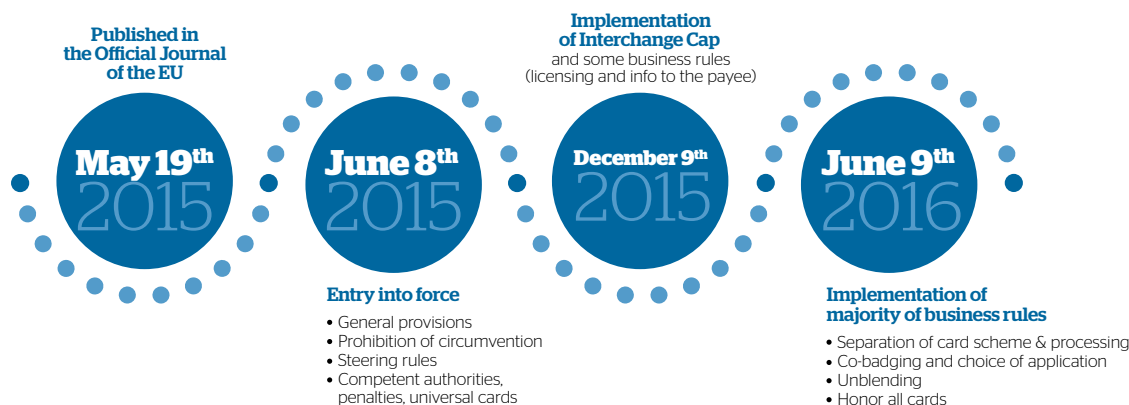
## Going Europe

The European countries are moving together and cross-border-business becomes more and more normal, fostered through the harmonization of the environmental conditions from regulation changes. As well as controlling fees, regulations prepare the ground for the European acceptance of consumer cards - regardless of borders. In addition, by using a European standard terminal-protocol, terminal certifications can be used for the whole European Economic Area - and that obviously supports cross-border acquiring business.

Contributing to the evolution towards a common European market, the EU-Commission has proposed a legislative package on July, 24th 2013, of two Parts:

- The first initiative is the MIF Regulation, which is capping the interchange fees for card-based payment transactions. It was finally adopted on 20th April 2015 with the planning mentioned in the timeline below.

### MIF Timeline for the entry into force



- The second initiative concerns a revised Payment Service Directive PSD2 which will replace PSD1. In February 2015 the trilogue (European Council, European Parliament and the European Commission) has started to finalize the content of PSD2. The adoption is expected in first half 2015. There will be a transposition period of two years to adopt it into the national laws of each member state. Therefore the appliance for the directive is expected in 2017.

The aim is to develop an EU-wide market for payments which will enable consumers, retailers and other undertakings to enjoy the full benefits of the EU internal market including e-commerce, in line with Europe 2020 and the Digital Agenda.

# Impacts and challenges for acquirers

## 1 - Cap on interchange fees

One major topic of the regulation is the harmonization of interchange fees (ICH). Today, the fees vary broadly from country to country. By harmonizing the EU-market, fees will be capped at 0.3% for consumer credit cards and 0.2% for debit cards for four-party or assimilated schemes, for countries within the European Economic Area. Excluded are cash withdrawals at ATMs, transactions with commercial cards and transactions with cards issued by three-party schemes (referred to as non-regulated cards).



Merchant service charges (MSC) will decrease as a consequence of the ICH-capping. New pricing models will be required. More transactions can be expected as merchants will accept more card payments due to lower cost.



Offer attractive fee models to merchants to pass on effects from price reductions to merchants. Have the capacity to manage higher transaction volumes.

## 2 - Going Europe

A major goal of the interchange fee regulation is to stimulate cross-border acquiring. This is to be achieved by three factors: Firstly, the harmonized interchange fees as described above, and secondly, the elimination of territorial restrictions in licensing agreements. Both apply 6 months after entry into force on December 9<sup>th</sup> 2015.



Acquirers will extend their operations to other European countries and compete with the local acquirers. Large Merchants will sign new contracts with cross-border acquirers to save money



Seize the opportunity to go for Europe, offer services abroad and follow your customers. Be able to comply with local regulations in countries like Germany, France, Belgium and UK. Support acquiring based on new European standards (e.g. EPAS). Retain and grow your local business when competing against new cross-border acquirers who are extending their operations to your home country

## 3 - Fee unblending

The second chapter of the European Commission's regulation project is dedicated to business rules, both for regulated and non-regulated cards. Most of these business rules apply on June 9<sup>th</sup> 2016.

An essential new business rule for acquirers is the full transparency on merchant service fees. Details have to be provided per transaction (default) or aggregated per brand, card application, payment instrument categories and rates of interchange fees applicable to the transaction (on merchant's request).



Acquirers have to upgrade their IT systems to support fee unblending. Especially the charging of scheme fees per transaction has to be implemented. Efforts are expected to agree with each merchant the kind of fee report he wants to receive. Moreover, merchants will use unblended fees to request new price models such as Interchange Plus with price reductions not only resulting from the capped interchange fee, but also on the merchant service charge, both for domestic and cross-border transactions.



Acquirer IT must support fee unblending and new fee models. This means an adaptation of the data model used and additional resources to process data in time. Furthermore, detailed invoices may require alternative submission channels (e.g. replace paper invoices by electronic delivery). Acquirers must be able to sustain price pressure on their MSC.

## 4 - Card handling at POS

The regulation allows the merchants to refuse or surcharge non-regulated cards, like commercial cards or third-party-payment card schemes. For cards with two or more different payment brands/application an application selection process needs to be implemented at the POS and check out process. The merchant has the opportunity to prioritize his preferred payment instrument, but the cardholder gets the final decision.

This will likely introduce a higher complexity at the POS as a different handling of regulated and non-regulated cards can be expected. Since non-regulated cards can be surcharged or even refused the terminal-software may have to support the choice of regulated payment means on co-badged cards. Although a lot of details are still under discussion, we already see impacts and challenges:



Merchants will optimize their business rules regarding the choice of payment means at the point of sale: e.g. they may ask their customer to pay with a regulated card instead of a corporate card. Merchants have to inform consumers if they decide not to accept all cards of a certain scheme prior to the payment.  
Merchants will adapt their own IT systems and POS applications.



Acquirers will have to inform their merchants about the new business rules and change parts of the acquiring contracts which might contradict them.  
Merchants will ask their acquirer to support them in optimizing their use of payment means with a minimal impact on payer's convenience at the POS or in the internet. Furthermore, acquirers may be asked to refuse transactions which are not allowed anymore, e.g. regulated card transactions with surcharges.

## 5 - Differentiators

As a conclusion of these challenges, acquirers are asked to react on the newly regulated card payment market. Differentiators will help them to retain their business increase market visibility and thus help to seize new European opportunities. Those differentiators certainly include online access to transactions as merchants will request a more meaningful reporting and large retailers, especially, will prefer a consolidated reporting for their business across Europe covering all payment means.

Furthermore we expect the requests for a seamless support of non-card payments such as credit transfer, direct debit or merchant specific payment schemes will increase due to these regulation changes.

Finally, more fraud prevention for specific merchant branches can help to reduce cases where the merchant or acquirer will be liable to take the loss.



Merchants will request more comprehensive reporting and seamless support of non-card-payments.



Differentiate from your competition with value added services for card payments and expand your portfolio with non-card payments.

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### Key



Impact



Challenge



# Meeting these challenges

As THE European payment service provider and processor, Worldline is ready to support your future within the harmonized EU-payment-area.



## 1 - Cap on interchange fees

Merchants will expect you to pass through the reduced interchange fees and will request new billing models. Worldline's acquiring customers already benefit from using multiple merchant billing models - they can help you as well to react to the new market requirements.

The MIF regulation caps the ICH with the consequence of a reduction of the MSC. Due to the reduced cost for card payments the merchants are expected to accept more card transactions. This will result in an increase of transaction volumes. We are prepared to handle huge traffic: with our focus on up-to-date hardware and the investments in our IT-infrastructure, we are the right partner for you and your business.

In addition we have a proven track record in innovation and strategic projects (e.g. gateway services to connect French eRSB with Visa and MC, JCB authorization through MC as well as J-Link).

## 2 - Going Europe

Being an international acquirer processor, Worldline is not only serving the European key markets but also supports acquirers with their ambitions to go abroad. Here are some recent examples:

- Worldline successfully supported an acquirer to expand his operations to Poland with a quick certification and roll-out of contactless payments.
- Worldline accompanied a non-German acquirer who started with new business in Germany including the connection of German Netzbetreiber
- A third Worldline example shows a real pan-European setup: terminals use the French Worldline connection infrastructure to capture local card schemes as well as international schemes. In addition, transactions from other European countries are authorized and everything is summarized in a consolidated billing. The billing shows all transactions regardless of their acceptance country.

Worldline's central acquiring authorization systems already support EPAS, thus being prepared for a more standardized European future.

Despite all our European ambitions, we do not lose the focus on your home market requirements and continue to take care of the local specificities. To enable you to retain and grow your local business, Worldline offers a large variety of additional services that will differentiate you from your competitors.

## 3 - Fee unblending

The foreseen extended billing requirements will force acquirers to keep transaction data on a more detailed level. Being an international acquirer processor, Worldline already collects such data and therefore can manage the new billing and reporting requirements for your business - combined with the advantage that cross-border-transactions can also be included.

Instead of mailing invoices and reports to your customers, why not grant them access to a modern online system where they can generate and download reports themselves?

## 4 - Card handling at POS

Your merchant has new possibilities in choosing which card to accept: but how can he distinguish regulated from non-regulated cards? Worldline can configure your authorization system (WLP-FO) according to the needs of your customer: a specific message could be displayed to inform about a card program – and your merchant can choose case by case if he wants to accept the card or ask for a different payment mean. This new functionality will of course be supported by Worldline terminals!

Transaction steering can be used in different payment channels – merchants can motivate their customer to use a certain card by offering bonus points. In case a merchant does not want to accept certain cards, you may offer a one-off contract to try out a new scheme and sign a proper acceptance contract later on. Alternatively, your clients could be interested in surcharging non-regulated cards in order to minimize the cost effect the higher interchange will have on their MSC.

Worldline's services incorporate such features along the complete value chain - to the benefit of yourself and your merchant.

## 5 - Differentiators

To support your merchant in accepting transactions across different sales channels, Worldline can help you to make use of a larger part of the payment value chain: Why not, for example, offer POS-terminals to your pan-European customers, accept payments on the internet or as contactless transactions with mobile phones?

For your cross-border business, Worldline offers all needed services to enable your customer to have a centralized view on their electronic transactions. This will be of great interest for large retailer-chains operating in various European countries. A self-service-tool, such as Worldline's MEX can fulfill these requirements.

Worldline is an international player with deep knowledge of local specificities and will be a strong partner at your side who can centralize transaction processing for you – and enable you to use the advantage of a combined transaction clearing for all the countries you may want to serve.

Worldline has already enabled internationally-minded acquirers to build a new business in other European countries – and, what is more, you will have the possibility to offer a combined consolidated billing, detailing transactions from all subsidiaries of your merchant – across Europe.



This regulation is intended to develop a harmonized European market and to adapt to the requirements and challenges coming from digitization. The new EU regulation is now adopted by the European Council, European Parliament and the European Commission. On the twentieth day following the publication in the Official Journal of the European Union the regulation enters into force on June 8<sup>th</sup> 2015. It is binding in its entirety and directly applicable in all Member states. Worldline is an active member of several committees including European Payments Council / Cards Stakeholders Group (EPC/CSG), Payment Service Market Expert Group (PSMEG), European Switch Forum (ESF+), European Association of Payment Service Providers for merchants (EPSM), Interessengemeinschaft Kreditkarte (IG KK) and standardization initiatives like EPAS (epas.org), Open Standards for Cards (OSCAR) and is as well engaged in the dialogue with the EU commission.

Worldline strongly recommends acquirers to review their business cases and business models and adapt them to the changed needs. Concerned stakeholders and parties have started an impact analysis in order to identify appropriate measures.

The proposed regulations comprise some challenges while as the same time they provide good opportunities for you to add new services to your portfolio.

As the European leader with over 40 years' experience in payments, Worldline is positioned as your competent business partner to discuss the challenges, define and implement solutions suitable for your acquiring strategy.

Worldline offers a variety of products along the complete value chain of electronic payments and can respond to any of your needs – regardless if you plan to source services out or if you want to provide them yourself. With our attractive licensing models and individual BPO-services we are prepared for a European future – at your side!

# About Worldline

Worldline [Euronext: WLN] is the European leader in the payments and transactional services industry. Worldline delivers new-generation services, enabling its customers to offer smooth and innovative solutions to the end consumer. Key actor for B2B2C industries, with over 40 years of experience, Worldline supports and contributes to the success of all businesses and administrative services in a perpetually evolving market. Worldline offers a unique and flexible business model built around a global and growing portfolio, thus enabling end-to-end support. Worldline activities are organized around three axes: Merchant Services & Terminals, Mobility & e-Transactional Services, Financial Processing & Software Licensing. Worldline employs more than 7,300 people worldwide and generated 1.15 billion euros revenues in 2014. Worldline is an Atos company.



## Financial Processing & Software Licensing

Financial processing provides banks and other financial institutions with a comprehensive set of services to help them and their customers manage their cashless payments. Our services and innovative software solutions support the full range of card and non-card payments for acquirers and issuers. By combining our core services with a growing list of value-added services and full integration with in-house systems, we help our clients offer their customers a customised, profitable, secure, extensive and innovative product portfolio.

For further information  
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The mark of  
responsible forestry