

## SEPA impact on card payments for Travel Agents

### Frequently Asked Questions

IATA, 13/02/2009

#### **What is SEPA ?**

The Single Euro Payment Area (SEPA) is an initiative from the European Union (EU) Commission. SEPA objective is to increase the efficiency of the euro payments within the EU, and affects credit transfers, direct debits and card payments. The vision is that all euro-based payments should be conducted in the same way across the European Union (EU).

This initiative led to the creation of the European Payment Council (EPC) in June 2002. The EPC represents all the banks established in Europe, covering 31 countries:

- the 27 EU countries
- the 3 non EU countries from the European Economic Area (EEA): Island, Norway and Liechtenstein
- Switzerland

#### **How does SEPA affects card payment?**

The aim of SEPA is that cardholders and merchants (such as Travel Agent) see no difference between a payment made with a card issued in the country of the merchant, and a payment made with a foreign card.

#### **What is the Scheme Card Framework?**

The Scheme Card Framework (SCF) published on 08/03/2006 describes the EPC vision for card payment. Its major impacts for the merchants are:

- harmonize the experience of the cardholder and the merchant when conducting a card payment, with no difference between a national transaction and a transaction with a foreign card
- a single terminal should allow the merchant to connect to the acquirer of its choice, anywhere in Europe, without being limited to the acquirers located in the country of the merchant
- the merchant should be able to decide which card products he accepts for payment
- there should be no different fee for a national and cross border payment (this is already stipulated in EU Regulation 2560/2001)

#### **Is there a concrete application of the SCF principles?**

The SCF is now taking shape for Point of Sale (POS) attended merchant terminals through the roll out of 'chip and PIN' across Europe.

All face-to-face card payments in Europe should be 'chip, and PIN' compliant by 31/12/2010. The chip follows the EMV (Eurocard, MasterCard, Visa) standards, hence it is often referred to the 'EMV migration'.

#### **How is the SCF affecting my card payment terminal?**

The POS terminals used by the Travel Agents when initiating card payment under their own merchant card acceptance contract are progressively upgraded to EMV, according to the schedule of each national banking industry.

The Agent should check with its acquiring bank the national roll-out plan which is affecting the POS terminal he is using.

#### **Are BSP card sales concerned by EMV?**

BSP card sales are not conducted with a POS terminal, but through the process known as Manual Personal Account Number Key Entry ('manual PKE'), where the Agent 'keys in' the card details into his workstation.

Hence, BSP card sales are not affected by the on-going EMV roll-out. Their future evolution in the broad SEPA context remains to be discussed with the card payment industry.

#### **Are telephone or Internet sales concerned by EMV?**

A significant share of BSP card sales is initiated in the 'Card Not Present' (CNP) mode, to which the EMV migration does not apply.

However, there is an increasing demand to improve the security of CNP transactions, and bring it at par with the security delivered by 'chip and PIN' for face-to-face transactions. For example, MasterCard Worldwide and Visa Inc are using the '3D secure' protocol to secure Internet transactions. This protocol can make use of the chip and the PIN to authenticate both the cardholder and the card he intends to use for an Internet purchase.

#### **How is manual card payment affected by SEPA?**

Paper-based card payments, initiated with a manual imprint of the card on a carbon sales voucher, are not covered by SEPA.

Such payments are considered as marginal today in SEPA, and are expected to decrease even further in the future.

#### **Will there be a standardization of card transaction formats across Europe?**

Today there is often a dominating national card format in each country across Europe. The EPC intends to harmonize card transaction formats in the future, so that a merchant terminal bought in one country can be installed in another country.

#### **Will the SCF lead to the creation of new card systems in Europe?**

No new card system has appeared so far, contrary to the creation of 2 new European payment instruments called SEPA Direct Debit (SDD) and SEPA Credit Transfer (SCT). The reason is that making a cross border payment with a card was widely available to consumers prior to the beginning of the SEPA discussions. On the contrary, making a cross border direct debit or credit transfer was not common for consumers, and the process was not standardized at all.

#### **Is there more European Union legislation affecting card payment?**

The Payment Service Directive (PSD) was adopted by the European Union on 13/11/2007. It aims to remove all barriers to the provision of payment services across Europe, and hopes to foster more competition by encouraging new, non bank entrants to deliver payment services, including card payment services.

The PSD has to be translated into the national legislation of each of the 27 EU countries to take effect. Translation must take place before November 2009 at the latest.

#### **Is there any action likely to affect the price the Travel Agent, as a merchant, pays for card transactions?**

EU Regulation 2560/2001 adopted on 19/12/2001 required banks to charge the same price for a national and a cross-border payment in euro. It intended to incite banks to build a single market for payments across Europe. This has led to the harmonization of the card acceptance fee paid by merchants, and the suppression of the traditional pricing distinction between a national and a cross-border transaction.

The EU Commission decided on 19/12/2007 to prohibit MasterCard Europe interchange as of June 2008. As interchange is the largest component of the card acceptance merchant fee, the decision should lead to a decrease in merchant fees. However the decision applies only to cross-border transactions made in Europe with consumer cards, which is a fraction of the overall card payment market.

The EU Commission has also opened an investigation of Visa Europe interchange.

**What is IATA doing on SEPA issues?**

IATA will be monitoring the translation of the PSD into the national legislations in order to understand how it affects card payment of Airline ticket sales.

IATA will also engage into discussions with the EPC on the standardization of card transactions. The Airline industry is heavily dependent on card payment, and it has specific business requirements which differ from other merchant sectors, such as lodged card, signature on file, deferred authorization, orders for multiple tickets, third party sales, etc. It is important that the card payment industry recognizes those specific needs and that the banks take them into account for the definition of the future card transaction formats in Europe.