1. INTRODUCTION

The Danish Payments Council is a forum for collaboration on retail payments in Denmark. Its main object is to promote the safety and efficiency of payments made by consumers and firms. Furthermore, the Council contributes to improving the quality of Danish payments statistics. Box 1 provides a brief description of the Payments Council.

In 2014, the Payments Council analysed proposals for new EU legal acts in the payments area. These included a proposal for a card payment regulation that would affect the Dankort scheme, and a proposal for a revised Payment Services Directive. The analyses resulted in recommendations for Danish positions in the further negotiations of the two proposals.

In addition, the Council initiated an expansion of the Danish payments statistics. This work continues in 2015 and will make Danish statistics comparable with those published in other European countries. Statistics on new methods of payment will also be added. It is expected that the new statistics will be published for the first time in 2016.

Furthermore, analysis work has been carried out in relation to business-to-business, B2B, payments. Safe and efficient instruments for B2B payments are of major significance to society, but nevertheless there has been only little research into this area. The analysis was published in May 2015, and in the same month a seminar on B2B payments was held.

This is the Danish Payment Council's second Annual Report. Besides providing an account of the Council's work, it includes an overview of various initiatives that affect retail payments in Denmark. Finally, it also seeks to describe key tendencies in the payments market in Denmark and abroad.
2. RETAIL PAYMENTS IN DENMARK

2.1 Payments in Denmark
Retail payments is the term used for the payments of consumers, firms and public authorities. Every day a very large number of retail payments are made in Denmark. The methods of payment used in Denmark in 2014 are outlined below, with focus on the payments made by consumers.

Cash
Cash is used both for purchases of goods and services at point of sale and for transfers between consumers. Statistics for cash payments are not available. However, calculations show a marked decline over a number of years in cash payments as a share of retail transactions.¹ Likewise, it is estimated that use of cash for transfers between consumers dropped considerably in 2014. Instead, such payments are increasingly made by means of new mobile payment services, as described below.

Dankort and VisaDankort²
The number of Dankort payments rose by 7.9 per cent in 2014, cf. Chart 1, left. Part of this increase is attributable to MobilePay, one of the two new mobile payment services, which includes a card payment leg. Adjusted for payments via MobilePay, the increase in the number of Dankort payments was 5-6 per cent, which is in line with growth in the preceding years. Use of the Dankort has increased virtually every year since the card was introduced in 1984.

A card payment in connection with MobilePay is registered as an online payment. If this type of payment is eliminated, online use of the Dankort increased by 10-11 per cent in 2014, to just under 80 million transactions. Some of these relate to purchases of telecom services and transport, e.g. topping up the Rejsekortet travelcard. The vast majority of payments in Danish online stores are made using cards, predominantly Dankort.

In 2014, an average Dankort transaction amounted to kr. 300, cf. Chart 1, right. In recent years the average size of a Dankort transaction has gradually declined. For example, it was kr. 370 in 2007.

¹ See e.g. Danish Payments Council, Report on new payment solutions, November 2013 (link).
² Dankort is the national debit card scheme. VisaDankort is the brandname for Dankort cobranded with Visa International.
This is mainly because the Dankort is increasingly used as a substitute for cash when making small payments. This tendency is expected to strengthen with the introduction of contactless technology on the Dankort, cf. below.

**International cards**

International cards are cards issued under a licence from an international card company, e.g. Visa or MasterCard. They can be used both in Denmark and abroad.

The rising tendency in the use of international debit cards in Denmark continued in 2014, cf. Chart 3. These cards include Maestro, MasterCard Debit and Visa Electron and resemble the Dankort and VisaDankort, but include a balance control feature that makes it impossible for the cardholder to overdraw the account or exceed an agreed credit limit. In 2014, the Danes' use of international debit cards rose by 26 per cent, and this type of card was used for approximately one in six card payments in Danish stores.

![Payments made using international debit and credit cards in Denmark](Chart 2)

The increased use of international debit cards reflects a substantial rise in the prevalence of these cards, cf. Table 1. Previously, such cards were issued primarily to young people under the age of 18 and to people for whom the Dankort was found to be unsuitable because there was no balance control. Today a broader section of the population holds an international debit card. As a result, a larger number of stores now accept them.

In addition, use of the Dankort and international debit cards is supported by the Danish rules for card fees in stores, known as the "split model". This forbids stores to surcharge consumers using a debit card. On the other hand, stores are allowed to surcharge credit card payments e.g. MasterCard, Visa, American Express and Diners Club, i.e. cards for which the money is not debited from the cardholder's account until some time after the payment, typically once a month.
A survey shows that today around one store in four charges a fee to consumers using credit cards, cf. Box 2. Among these are the largest retail chains, which receive a large share of card payments in Denmark. Since the split model was introduced in October 2011, this has contributed to stagnation in the use of international credit cards in Denmark and a decrease in the number of credit cards issued.

**Mobile payment services**

Among the fastest growing new methods of payment in Denmark are the mobile payment services MobilePay and Swipp, provided by Danske Bank and the other Danish banks, respectively. Both services were originally launched as instruments for person-to-person payments (P2P). Subsequently, their use has been broadened to include payments in stores, including payments for online purchases.

Both instruments are app-based and characterised by the payee being identified by his or her mobile number. A major difference is that Swipp payments are pure credit transfers, while MobilePay also makes use of the card infrastructure. This affects the user requirements for the two instruments, including whether users need to be customers of the service providers. Another difference is the maximum limit on the amounts transferred.

Use of mobile payment services in Denmark increased considerably in 2014. For example, the number of MobilePay transactions rose by almost 14 per cent a month on average according to Danske Bank. The two mobile services have mainly replaced cash transfers and online bank transfers. In addition, both MobilePay and Swipp have seen a surge in the number of stores accepting this instrument. Nevertheless, their use in retail trade remains limited.

Similar instruments have been launched in other European countries, but typically they have not caught on to the same extent as in Denmark. One of the reasons for the strong growth in the prevalence and use of MobilePay and Swipp is the broad access to both instruments. The Payments Council does not see it as a problem that there are two mobile payment services in Denmark. On the contrary, the Council finds that this contributes to a varied product range and enhanced competition.
Surcharging in Denmark

When a store accepting a card payment charges a fee to the cardholder, this is referred to as surcharging. In physical transactions, where the buyer and seller are both present at the point of sale at the same time, Danish stores may surcharge credit card payments. In non-physical transactions, e.g. online purchases, fees may be passed on for all card types. When surcharging, the store may not charge a higher fee than the one it pays to its provider of card payment services, i.e. the acquirer.

The extent to which Danish merchants surcharge is outlined below, based on a survey performed in 2013 as part of the Payments Council’s analysis of new payment instruments, which was published later that year. 1,000 stores of varying sizes from a wide range of industries participated in the survey. Since the survey was performed, there has presumably been a small increase in surcharging.

In physical transactions, just over one fifth of all stores surcharged in 2013, cf. Chart 3, top left. Especially the large stores made use of this possibility. This is seen in that stores passing on fees accounted for approximately 35 per cent of credit card turnover and approximately half of all points of sale, reflecting that some of the largest retail chains have chosen to surcharge.

One in two stores surcharging had done so since this was permitted by a legislative amendment in October 2011, cf. chart 3, top right. These stores accounted for approximately one third of credit card turnover. In March 2013, the number of stores surcharging had doubled, but their share of turnover was almost unchanged. This indicates that large stores surcharged from the beginning, and then a number of smaller stores followed suit.

The tendency to charge fees for using credit cards varies substantially across industries. For example, it is fairly common among grocery stores and hotels and restaurants, cf. Chart 3, bottom left. Conversely, it is less frequent among specialist stores. Whether the individual store chooses to surcharge depends on a number of factors, including usage within the industry in question.

In connection with online purchases, it has been permitted to surcharge for all card types since 1999. According to the survey, approximately 30 per cent of all stores make use of this possibility, cf. Chart 3 bottom right. This applies both to pure online stores and to stores offering both physical sales and online sales. However, among stores with online sales that surcharge physical transactions, more than half also do so for online transactions.

**Surcharging in Danish stores**

**Chart 3**

Note: The charts shows the percentages of Danish stores that surcharged customers according to a survey from 2013. Source: Danmarks Nationalbank.
Transfers

Transfers initiated by the payee are referred to as direct debit. This method of payment is particularly suitable for collection of regular payments. The most widespread instrument for such payments is Betalingsservice, which is provided by Nets. Today, Betalingsservice is used by practically all Danish households. In 2014, the number of direct debits via Betalingsservice rose by 1.6 per cent, cf. Table 2, which is lower than in the preceding years.

In connection with credit transfers, the payer initiates the transfer, typically via online banking or a bank branch. A credit transfer may be based on an inpayment form. In 2014, the number of payments via inpayment forms rose by 1.4 per cent. The continued growth in the use of inpayment forms reflects that this is a useful instrument for many firms, e.g. because it is easy to reconcile payments received.

Credit transfers can also be made without the use of an inpayment form. This type of transfer usually requires a short notification text from the payer to the payee. In value terms, credit transfers without inpayment forms make up the largest share of total transfers between bank customers. In 2014, the number of such credit transfers in Denmark rose by almost 14 per cent.

<table>
<thead>
<tr>
<th>Number and value of transfers</th>
<th>Table 2</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Betalingsservice</td>
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<tr>
<td></td>
<td>(direct debit)</td>
</tr>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>Millions</td>
</tr>
<tr>
<td>2009</td>
<td>174.6</td>
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<tr>
<td>2010</td>
<td>184.2</td>
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<tr>
<td>2011</td>
<td>190.2</td>
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<tr>
<td>2012</td>
<td>194.6</td>
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<tr>
<td>2013</td>
<td>199.3</td>
</tr>
<tr>
<td>2014</td>
<td>202.5</td>
</tr>
</tbody>
</table>

Note: Inpayment forms and other credit transfers include transfers settled via the Sumclearing, Intradagclearing or Straksclearing only; this means that transfers between customers who use the same bank are not included.

Source: Danish Bankers Association and Nets.

2.2 Payments infrastructure
The payments infrastructure is the clearing and settlement systems and underlying agreements that make it possible to exchange payments between users, i.e. payers and payees. It is often assumed to comprise payment instruments as well as terminals and other equipment needed to execute a payment.

Infrastructure modernisation
In November 2014, the Danish banks introduced the Straksclearing, which enables consumers and firms to transfer money instantly, typically within just one or a few seconds. The Straksclearing is intended for payments of up to kr. 500,000 and can be used 24/7. Previously it usually took a day – and sometimes more – for such payments to reach the payee. Today, the Straksclearing is used by both MobilePay and Swipp.
With the Straks clearing, the banks completed an extensive project to modernise the Danish payments infrastructure. In the autumn of 2013, the banks introduced the Intradag clearing, which made transfers within the same day possible. Furthermore, retailers’ receipt of Dankort payments made over the weekend has been moved forward and there have been a number of improvements to firms’ access to transfers via Danmarks Nationalbank’s payment system, Kronos.

The work to modernise the infrastructure was based on a 2012 report on domestic payment transfers.3 Danmarks Nationalbank chaired the working group that prepared the report, which also comprised representatives of all current members of the Danish Payments Council. With the implementation of the report’s recommendations, Denmark now has a payments infrastructure that is among the most advanced in the world, and the Payments Council acknowledges the huge effort made.

**Contactless Dankort**

In September 2014, Nets, the banks and representatives of the Danish retail sector concluded an agreement to introduce contactless technology on the Dankort. The new functionality can be used without a PIN for payments of up to kr. 200 and will make it possible to pay by swiping the card close to the reader instead of inserting it into a terminal. The aim is to reduce payment time and make it easier for users to pay by card.

Contactless Dankort cards will be introduced from the 3rd quarter of 2015. In future all Dankort and VisaDankort cards issued will have this new functionality, while existing cards will be replaced as they expire. The cards can be used with the new technology if the terminal is able to receive contactless payments. This is already possible for a large number of terminals in Denmark, but they may need a software update.

Experience from other countries does not indicate that the possibility of making small payments without the use of a PIN increases fraudulent use. This is primarily because the potential amounts are limited. In addition, it is customary to ask for a PIN from time to time, even though the amount is below the fixed limit. The Danish liability rules mean that as a main rule the cardholder does not suffer losses if the card is used fraudulently without a PIN.

The Payments Council welcomes the decision to introduce contactless technology on the Dankort. This will help to ensure that the Dankort remains an up-to-date and efficient payment instrument. In addition, it can be expected to support the use of payment cards in retail trade at the expense of cash, thereby contributing to lower payment costs in Denmark, cf. a previous survey made by Danmarks Nationalbank.4

In Denmark, contactless technology is still used only to a limited extent in connection with payments. Well-known examples of payment instruments based on this technology are the Rejsekortet travelcard and the Brobizz device for transport and parking services. In addition, various contactless payment instruments have been used for e.g. music festivals. In 2014, several banks began to issue international cards in the form of Visa and MasterCard with contactless functionality.

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3 Working group on domestic payment transfers, Report on domestic payment transfers in Denmark (in Danish with an English summary), January 2012 (link).
4 Danmarks Nationalbank, Costs of payments in Denmark, 2011 (link).
**Sale of Nets**

In March 2014, the former owners of Nets – more than 180 primarily Danish and Norwegian banks and Danmarks Nationalbank – entered into an agreement to sell the company to two US-based private equity funds, Advent International and Bain Capital, and the Danish pension fund ATP. In practice, the acquisition took place in July 2014, after approval of the transaction by the relevant authorities in Denmark, Norway and Finland – where Nets has companies – and by the European Commission.

Nets was established in 2010 by a merger between the Danish company PBS and its Norwegian counterpart. The company's activities are now spread across a number of IT-intensive business areas that relate not only to payments. The decision to sell the company was based on an assessment that new owners with the necessary expertise and financial clout were needed to continue the operations of the company. In addition, Danmarks Nationalbank had a number of separate reasons for selling its shareholding.⁵

Nets owns a number of products that are key to payments in Denmark. These include the Dankort, Betalingsservice and NemID, which is also the shared log-in for many public and private sector self-service solutions. The Danish Payments Council is pleased to note that the new owners have announced that they attach importance to developing these products. This is also in line with the agreements concluded with the relevant parties.

### 2.3 Legislation

In Denmark, retail payments are regulated primarily by the Payment Services Act, which came into force in 2009. The Act implemented the Payment Services Directive of 2007 and replaced the Act on Certain Means of Payment. A number of other acts and executive orders are also relevant to this area.

**Basic deposit account**

In October 2014, the Ministry of Business and Growth submitted a bill on the terms and conditions for consumers' access to a basic deposit account for consultation. The bill was to implement a recommendation from a report prepared by a working group chaired by the Danish Financial Supervisory Authority and comprising representatives of relevant authorities, the Danish Bankers Association, Nets and the Danish Consumer Council.⁶ The working group had been set up in 2012 on the basis of an EU recommendation concerning consumers' access to an account with certain basic features.

According to section 20 of the Executive Order on good practice for financial enterprises, a bank was not previously allowed to refuse to open an ordinary deposit account without an individual and objective reason. However, the bank only had an obligation to offer consumers an account where they could deposit and withdraw cash and receive transfers. Moreover, the fees that could be charged for such accounts were not regulated.

In its report, the working group recommended that in future banks must give all consumers access to an account that, in addition to the above features, also includes a debit card with balance control or a cash card. Furthermore, the working group proposed that for this type of account – known as a

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⁵ See Danmarks Nationalbank, Derfor er Nationalbankens aktier i Nets til salg (Why Danmarks Nationalbank's shares in Nets are for sale – in Danish only), press release of 5 March 2014 (link).

⁶ Danish Financial Supervisory Authority, Rapport om adgang til indlånskonti på fair og rimelige vilkår (Report on access to deposit accounts on fair and reasonable terms – in Danish only, 2014 (link).
"section 20 account" – the maximum fee that can be charged is kr. 180 p.a., subject to indexation by the index of net retail prices. The bill was subsequently presented in the Folketing (Danish parliament) and passed in April 2015.7

The working group also analysed the consequences of an EU directive on payment accounts that was adopted in the spring of 2014.8 This directive entitles consumers to an account with more features than a section 20 account, including direct debit and online bank transfers. The working group recommended that banks be allowed to charge a reasonable fee for such accounts. The recommendations regarding the expanded account are expected to be implemented via a bill that will be presented in the next session of the Folketing.

Within the working group, the Danish Consumer Council could not support the report. As the Consumer Council sees it, the intention of the Directive is to ensure that consumers have access to the wider range of payment services on reasonable terms, and this is not achieved with the proposal for two account types. According to the Consumer Council, the proposal will make legislation unnecessarily complex and in effect limit the payment services to which access is granted on reasonable terms.

**Electronic money and payment surrogates**

In 2014, the Folketing adopted a number of amendments to the Payment Services Act, relating to e.g. issuers of electronic money, also known as e-money.9 The latter is monetary value that is stored electronically, typically on the chip of a payment card or on a server, issued against prepayment and accepted by others than the issuer. Issuers of e-money are regulated by the 2009 e-money Directive, which was implemented in Denmark via an addendum to the Payment Services Act in 2010.

The amendments exempted certain issuers of e-money from the provisions of the Act. This applies to issuers of e-money in amounts of less than kr. 3,000 with limited use and without automatic top-up. In addition, the exemption requires that the issuer's aggregate commitment in the form of outstanding e-money never exceeds an amount equivalent to the value of 5 million euro.

It was also decided that "payment surrogates" are not to be comprised by the Act if they are issued free of charge, i.e. without the recipient having paid for them, e.g. vouchers, or have a value of less than kr. 3,000. Payment surrogates were introduced into legislation in connection with the implementation of the Payment Services Directive. This was done in order to continue the regulation of a number of means of payment, e.g. electronic vouchers that can be used multiple times, not comprised by the Directive.

The exemptions ease the administrative burden on the issuers in question while they are not assessed to increase risk for users. Issuers of e-money who are comprised by the exemption must still comply with the Money Laundering Act and be registered with the Danish Financial Supervisory Authority. Furthermore, issuers of e-money and prepaid payment surrogates must still meet the requirements of the Payment Services Act on redemption of the remaining value of claims.

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7 Bill L154 to amend the Securities Trading, etc. Act, Financial Business Act, Credit Agreements Act, Financial Advisers Act, Mortgage Deed Companies Act, Mortgage Credit Loans and Mortgage Credit Bonds, etc. Act and various other acts (link).
8 Directive 2014/92/EU on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features (link).
9 The amendments were part of bill L73 to amend the Financial Business Act, Securities Trading, etc. Act, Payment Services and Electronic Money Act and various other acts (link).
However, as a special provision, the redemption obligation will not apply to issuers of free-of-charge payment surrogates, which are often given to users in connection with marketing. Previously, issuers of such claims had an obligation to redeem the monetary value if the claims were electronic – making them a payment surrogate – but not if they were paper-based. With the legislative amendment, this distinction, which did not seem to be rational, is removed.\footnote{See Danish Payments Council, Report on new payment solutions, November 2013 (link).}

**Betalingsservice (direct debit)**

In November 2014, the Danish Competition and Consumer Authority published an analysis of the pros and cons of regulating Betalingsservice.\footnote{Danish Competition and Consumer Authority, Direkte Debitering – fordele og ulemper ved regulering (Direct debit – pros and cons of regulation – in Danish only), November 2014 (link).} The analysis had been prepared at the request of the Minister for Business and Growth. The Minister had also asked for proposals for potential amendment of legislation to allow regulation of direct debit products, i.e. collection of payments by debiting the consumers' bank accounts.

The background to the Minister's wish was a previous analysis of Betalingsservice made by the Danish Competition and Consumer Authority.\footnote{Danish Competition and Consumer Authority, Betalingsservice – en opfølgning på analysen fra 2011 (Betalingsservice – a follow-up of the 2011 analysis – in Danish only), June 2014 (link).} It concluded that Nets' costs per transaction have fallen in recent years while the price paid by payees has been more or less constant. In the analysis, Nets' earnings were described as high and rising, and competition from similar instruments was described as limited.

In a consultation response to the Danish Competition and Consumer Authority's analysis of Betalingsservice, Nets claimed that the analysis gave a one-sided presentation of the product without analysing the value created for users and for society as a whole.\footnote{Nets, Nets' høringssvar til Styrelsens endelige udkast til rapport om Betalingsservice (Nets' consultation response to the Authority's final draft of the Betalingsservice report – in Danish only), 28 May 2014 (link).} Moreover, Nets found the analysis backward-oriented because it did not take into account the technological, market-related and regulatory changes characterising the market for payments in these years.

As part of the analysis of legislative options, the Danish Competition and Consumer Authority investigated the consequences of expanding section 79 of the Payment Services Act to include direct debit instruments. This provision allows the Authority to take action against unreasonable prices and profits. However, in its current version the Act applies only to payment instruments, e.g. payment cards, not to payment collection solutions such as Betalingsservice.

On the basis of the analysis, the Minister in the spring of 2015 initiated the process of preparing a bill to grant the Danish Competition and Consumer Authority the same powers in relation to direct debit instruments as it has for cards and other payment instruments.

**Challenges**

Considerable innovation is taking place in the retail payments area these years, driven by technological advances. This increases the demands for legislation in the area, which must keep abreast with developments while not constituting a barrier to new instruments and actors wanting to enter the market. In practice, there is a need regularly to review existing legislation and make the necessary adjustments.
The rapid development is a major reason why political agreement has just been reached on a revision of the Payment Services Directive, cf. below. Since the original Directive was adopted, new services have emerged that are not regulated. Moreover, several of the Directive’s definitions and other provisions, including those specifying its scope, are no longer sufficiently precise or in accordance with the original intention.

Likewise, there may be a need to look at several of the specific Danish provisions. One example is the charge-back rules, which ensure that consumers making online purchases can demand that the money be transferred back if the goods are not delivered or are damaged. According to the explanatory notes to the legislation, they also apply to issuers of e-money, including non-resident issuers. However, this is typically not in line with these issuers’ terms and conditions, which leads to uncertainty about the legal position of consumers.

In connection with the forthcoming implementation of the revised Payment Services Directive, it might be an idea to review the entire Payment Services Act, including the specific Danish provisions. This will fulfil the need for regularly reviewing legislation in the area and make it possible to amend any provisions and explanatory notes that are no longer up-to-date.

3. INTERNATIONAL DEVELOPMENTS

3.1 Payments abroad

The methods of payment preferred by consumers and firms and the design of the payments infrastructure vary from country to country. However, a number of common tendencies and issues that set the agenda in the payment markets in 2014 can be identified.

Faster settlement of payments

Internationally, there has been extensive focus on reducing payment settlement times in recent years. This includes the option to transfer money between two bank accounts with immediate effect, i.e. instant payments.

Most central banks today provide RTGS (real-time gross settlement) systems that enable instant payments. However, these systems are typically intended for large, time-critical payments and are usually available at certain hours only, e.g. between 7 am and 3:30 pm on weekdays. Danmarks Nationalbank’s RTGS system, Kronos, is a case in point.

For retail payments settlement times have traditionally been longer, ranging from a few hours to several days. But technological advances and user expectations have led to pressures to introduce instant payments in the retail area on a 24/7 basis. It has also been argued that this option would facilitate new instruments based on the underlying infrastructure, such as mobile payment services.

In recent years a number of countries have launched payment systems that allow real-time transfers. This applies to e.g. the UK and Sweden and, as already mentioned, Denmark, cf. section 2.2. In addition, there are plans for a similar system in Australia, and most recently the Federal Reserve has concluded that a system with instant settlement of retail payments offers certain advantages and initiated a process to establish such a system.

In the euro area there has so far been only limited discussion of the possibility of introducing instant payments. One reason could be that focus has been on the migration to SEPA, the single euro payments area, cf. section 3.2. Recently, member states such as Finland and the Netherlands have
started investigating potential solutions, and the new Euro Retail Payments Board has announced that it will look into the issue during 2015, cf. section 3.3.

**Mobile payments**

For several years it has been anticipated that mobile phones will become important payment instruments alongside – and perhaps even replacing – payment cards. Users are gradually becoming accustomed to handling many everyday tasks via their mobile phones, including payments. In addition, mobile phones are also expected to become a widely used trading platform since they offer Internet access, which will support their use for payments.

There are various types of mobile payment services. Two of the most interesting main types are:

- **P2P services.** This type of service entails using mobile phones to transfer money between two persons, i.e. P2P. Typically, the payer opens an app on a smartphone, enters an amount and the payee's mobile phone number and approves the payment. The payer does not have to know the payee's account number or other information. In Denmark, MobilePay and Swipp are examples of this type of instrument. Other examples include Swish in Sweden and PayM in the UK. All these services are based on instant payments, and another common feature is that they can all be used in retail stores.

- **Digital wallets.** A digital wallet is an electronic wallet that the user downloads as a mobile phone app. It may contain a registration of the consumer's card or other payment instruments, e.g. an online account or online banking instrument. When paying, the consumer needs to select the card or other instrument to be used. Visa, MasterCard and Google all offer digital wallets, and in March 2015 Nets launched a similar service, initially offered to customers of seven local Norwegian banks from June this year.

An initiative that received much attention in 2014 was Apple's launch of Apple Pay. This is a digital wallet that gives owners of e.g. iPhone 6, the most recent version of Apple's mobile phone, the option to link a payment card to the phone and pay in stores using contactless technology. Hence, the instrument is based on the existing card infrastructure, and Apple has concluded agreements with Visa, MasterCard and American Express, among others. Apple Pay is not yet available in Denmark.

**New players in the market**

Historically, banks have been the primary providers of payment services. This is because a number of traditional services are based on deposit accounts, which may only be held by banks. But in the past few years, non-banks have begun to play an increasing role in the payment services market as providers of payment services and of more technical services.

This tendency is mainly attributable to technological advances and above all to the prevalence of the Internet and mobile phones. This has opened new business opportunities in the retail payments area, which has attracted other firms than banks. At the same time, new types of institutions which are allowed to offer several of the same payment services as banks have been introduced in legislation – in the EU these are e-money and payment institutions.

New players in the payments market include small, newly established firms as well as large, technology-intensive companies such as Amazon, Facebook and, as already mentioned, Apple and Google. The latter can harness their positions and user networks to offer payment services. Their
motives may also differ from those of other providers. For example, the purpose may be to collect data or offer advertisers an efficient payment instrument.

A common feature of many of the new players, including the large, global companies, is that their instruments are based on the existing payments and card infrastructure. This also applies to an established provider of payment services such as PayPal. The new players typically contribute by adding new functionality or improving user-friendliness – or in the case of PayPal by offering an instrument that can be used for cross-border payments, including P2P transfers.

**Virtual currencies**

"Virtual currencies" were also high on the retail payments agenda in 2014. This concept basically covers a broad spectrum of payment means but can be defined as a digital measuring unit for payments that does not exist physically and is not issued by a central bank. By far the best known of these virtual currencies is Bitcoin, but there are many other examples too.

Virtual currencies are used only to a limited extent for payments, primarily in connection with online purchases. At present it is difficult to see them as serious alternatives to other methods of payment. To be widely accepted, a means of payment must enjoy broad trust among consumers. This requires that its purchasing power is stable. Furthermore, it must be avoided that incidents such as the closure of the Mt. Gox Bitcoin exchange in February 2014, which led to Bitcoin losses totalling 450 million dollars, cause uncertainty about institutional issues.

If virtual currencies become more prevalent and widely used, it will be necessary to consider how they are to be regulated. In July 2014, the European Banking Authority, EBA, published its opinion on virtual currencies and described a number of regulation options. The EBA also warned providers of payment services, including banks, against making transactions in virtual currencies before such regulation is in place.

Although virtual currencies are still used for payments only to a limited extent, the underlying technology is attracting more and more attention. A number of virtual currencies, including Bitcoin, are based on a "blockchain", which can be seen as a public ledger of transactions. This technology, which in simplified terms ensures that the individual unit of the virtual currency does not appear more than once, is assessed to have a potential use for other purposes.

### 3.2 SEPA

SEPA – the Single Euro Payments Area – crystallises the vision of a single European retail payments area in euro. In SEPA, the payments of consumers and firms are to be effected on the same terms and as efficiently as domestic payments. SEPA comprises 34 countries – the 28 EU member states plus Switzerland, Norway, Iceland, Liechtenstein, San Marino and Monaco. In Denmark, SEPA is relevant for payments in euro only, i.e. primarily in connection with cross-border payments.

As part of the establishment of SEPA, two products have been defined for credit transfers and direct debit, respectively – SEPA Credit Transfer and SEPA Direct Debit. Since migration to these two products was relatively sluggish, agreement was reached in March 2012 on an EU regulation that set a deadline for phasing out the national instruments in favour of the SEPA products. For euro area member states it was set at 1 February 2014 and for other EU member states at 31 October 2016.

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14 EBA, EBA Opinion on ‘virtual currencies’, July 2014 ([link](#)).
When the deadline for the euro area member states’ migration to SEPA approached, it became obvious that it would not be met in several member states. Hence it was decided to postpone it until 1 August 2014 in order to avoid the problems that would arise if the national instruments for credit transfers and direct debit were discontinued before users were ready to switch to the new products. By the expiry of the new deadline, migration to the SEPA products in euro area member states was virtually complete.

Although migration to the new SEPA products has now been successfully accomplished, there is still some way to go before the vision of a single payments area in euro has been realised. This is because several member states have preserved various niche products and special instruments, which is permitted during a transitional phase, and because a number of technical standards have not been fully harmonised. These outstanding issues have been described by a working group under the new Euro Retail Payments Board, cf. below.

In Denmark, migration to SEPA is assessed to have been more or less completed. In 2012, the banks discontinued the Eurosumclearing, which did not observe the SEPA standards. Instead, the banks settle their payments in euro via other systems, primarily the EBA Clearing’s STEP2, which handles SEPA products only. The EU regulation relates only to payments in euro, i.e. it is not a requirement that national products in Danish kroner observe the SEPA standards.

### 3.3 The Euro Retail Payments Board

In 2014, the European Central Bank, ECB, set up the Euro Retail Payments Board, ERPB. Besides the ECB, which chairs the Board, it comprises representatives of European industry associations for users and providers of payment services. In addition, selected euro area central banks and one central bank from a non-euro area member state take turns at participating. The European Commission is an observer on the Board.

According to its mandate, the Board is to contribute to and to facilitate the further development of an integrated, innovative and competitive market for euro retail payments. In 2014, the Board considered various outstanding issues in relation to the migration to SEPA and published a number of recommendations. In addition, it analysed the options for a common solution for handling electronic mandates for SEPA Direct Debit and agreed on a set of recommendations.

Issues to be addressed under the auspices of the ERPB in 2015 include P2P mobile payment services and contactless payments, the aim being to identify the potential for shared solutions. Another topic to be discussed is initiatives in relation to instant payments; the Board has expressed concerns that this may lead to a more fragmented European payments market. Furthermore, the ERPB plans to initiate an analysis of electronic invoicing and barriers to solutions that can be used across borders.

### 3.4 European regulation

Regulation of retail payments in Denmark is based mainly on EU legislation, either in the form of directives, which have subsequently been implemented in Danish legislation, or regulations, which have immediate legal effect.
Interchange fees

In December 2014, the Council of Ministers and the European Parliament reached agreement on a regulation introducing a cap on the fee payable between payment service providers in connection with a card transaction, i.e. the interchange fee. The regulation also includes a number of provisions on the set of rules for payment cards and the processing of card payments. The content of the regulation is described in Box 3.

The purpose of the regulation is to enhance competition for services provided in connection with card payments. This applies both to processing and to the services performed by the payment service providers of the consumer and the retailer, i.e. the issuer and the acquirer. The Danish Payments Council supports the intention of the regulation and is pleased to note that clarity has now been achieved as regards interchange fees, which have been the subject of several cases at the European Court of Justice.

In 2014, the Payments Council analysed the consequences for the Dankort scheme of the European Commission’s original proposal for a regulation on interchange fees. Against that background, the Council expressed concerns about a number of the provisions in the proposal. The Council also found that a transition period might be considered for card types such as the Dankort, or perhaps an exemption from certain provisions for cards associated with lower costs than the proposed cap on interchange fees.

During the negotiations in the Council of Ministers, the Danish government argued that national debit cards with an interchange fee below the cap – as is the case for the Dankort – should be exempt from the regulation. However, such exemption did not meet with support. Instead, amendments were made to several of the provisions that were of greatest consequence to the Dankort according to the Payments Council’s analysis. This has limited the impact of the regulation on the Dankort.

The regulation will also apply to the use of international cards in Denmark. The caps on interchange fees for debit and credit cards, respectively, are lower than the current levels for international cards in Denmark, which are, as a main rule, published by the card companies. This means that fees in Denmark must be lowered so that the acquirer of a card payment pays a lower percentage of the transaction value to the issuer than is the case today.

Whether lower interchange fees will benefit consumers depends on several factors. Firstly, it must become cheaper for retailers to receive card payments. This means that there must be sufficient competition to acquire such payments. Secondly, the lower costs for retailers in connection with card payments must be reflected in lower prices for goods. Furthermore, it is a condition that issuers do not respond by imposing less favourable terms and conditions on cardholders.

The regulation is supplemented by a ban on surcharging in the revised Payment Services Directive, cf. below. This ban applies to cards comprised by the regulation of interchange fees. This means that the Danish split model, whereby fees for use of credit cards can be passed on to cardholders, cannot be maintained in its current form. Furthermore, it entails that fees can no longer be charged for online card payments in general.

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15Danish Payments Council. Rapport vedrørende forslag til EU-forordning om interbankgebyrer (Report on proposal for EU regulation on interchange fees – in Danish only), March 2014 (link).

16See Danish Payments Council, Recommendations from the Payments Council regarding proposed EU regulation, 25 February 2014 (link).
The Payment Services Directive

In July 2013 – when the proposal for a regulation on interchange fees for card payments was also presented – the European Commission presented a proposal for a revised Payment Services Directive. In early May 2015, political agreement was reached between the EU Presidency and the European Parliament on the Directive, which is expected to be adopted in the near future.

A significant new element is the regulation of third parties providing payment services on the basis of access to payment accounts in banks. A third party is another provider of payment services than the institution where a user holds an account. Such services could be e.g. to make payments from the user's account. Alternatively, it could be to compile and process information from one or more accounts and present it to the user, i.e. account information services.

The object of the Directive provisions on third party access is basically to support new types of payment services provided by others than the user's account holding institution. At the same time, the aim is to ensure that providers of such solutions are adequately regulated. It is assessed that this is achieved by e.g. requiring that third parties providing payment services must be approved as payment institutions and meet a number of security requirements.

These provisions give the third party a legal right to access a user's payment account, subject to the account holder's approval. At the same time, they seek to reduce the risks arising from such access without introducing new barriers for third parties. In connection with this trade-off, a number of controversial choices were made, including the decision not to forbid a user to transfer all personal security measures, e.g. access codes, to the third party.

To gain a better understanding of the issues relating to regulation of third party access, the Danish Payments Council analysed the provisions of the Commission's original proposal. Among other things, the analysis included an assessment of the potential challenges related to users' transfer of online banking log-in information. On the basis of this analysis, the Council published a number of recommendations for Danish positions in connection with the further consideration of the proposal.

Danish Payments Council, Rapport vedrørende bestemmelser om tredjepartsadgang i forslag til revideret betalingstjenestedirektiv (Report concerning provisions on third party access in the proposal for a revised Payment Services Directive – in Danish only), March 2014 (link).

See footnote 15.
EU regulation on interchange fees for card payments

In December 2014, political agreement was reached on an EU regulation on interchange fees for card payments. The interchange fee is the fee paid by the retailer's provider of card payment services, known as the acquirer, to the cardholder's provider, known as the issuer, cf. Chart 4. The fee may be agreed bilaterally by the issuer and the acquirer or by all issuers jointly or by the company owning the rights to the card.

The interchange fee is typically a lower limit on the fee charged by the acquirer to the store, i.e. the acquirer fee. In recent years, competition authorities in many countries and in the EU have had sharp focus on the interchange fees fixed by the card company or by all issuers and acquirers jointly. This is because these fees are claimed to have the same effect as a collectively agreed minimum price for the acquirer fee.

The regulation caps the interchange fee. For credit card payments, the fee may not exceed 0.3 per cent of the value of the transaction, and for debit card payments the upper limit is 0.2 per cent. However, for domestic debit card payments, the national authorities may choose to introduce a cap of 5 euro cents or – for a transitional period of five years – permit the fee to be calculated as a weighted average.

As a main rule, all card-based payments are comprised by the regulation. This also applies to solutions where the card is electronically registered in an app on a mobile phone or tablet. However, exemptions to the cap on interchange fees apply to cash withdrawals, payments using cards issued to employees of a firm, i.e. corporate cards, and payments using cards issued and acquired by the same company.

Besides the cap on interchange fees, the regulation contains a number of provisions on the organisation of payment cards and the related sets of rules. For example, it bans rules stating where in the EU the issuer or acquirer of a payment card must be based. Furthermore, a licence to issue or acquire a payment card may not be limited to one or a few countries, but must as a minimum apply throughout the EU.

Another requirement is independence between ownership of the rights to the card and the processing of card payments. It is also made clear that the card company may not treat processing companies differently and that processing of card payments must observe common standards. These provisions are basically aimed at increasing competition within processing.

Moreover, no limits may be imposed on the cards that can be co-branded. Co-branding is when several cards appear on the same physical card, e.g. Dankort and Visa. And when using a co-branded card, the cardholder must be free to choose which of the cards to use, provided that the store accepts both cards. However, the store may set the terminal to use one particular card by default.

The regulation also limits the acquirer's use of blending. This is the practice whereby the acquirer charges the store an average fee for all cards issued under a licence from the same card company. At the same time, the regulation prohibits the "honour all cards" rules that impose an obligation on a store to accept all cards from a given card company if it accepts one of the company's cards. The purpose of these provisions is to give stores a better possibility of rejecting expensive cards.

Card payment fees

Chart 4

<table>
<thead>
<tr>
<th>Card issuer</th>
<th>Interchange fee</th>
<th>Card acquirer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cardholder</td>
<td>Payment</td>
<td>Acquirer fee</td>
</tr>
<tr>
<td></td>
<td>Goods</td>
<td></td>
</tr>
<tr>
<td>Payment</td>
<td></td>
<td>Surcharged fee, if any</td>
</tr>
</tbody>
</table>
**EBA and SecuRe Pay**

SecuRe Pay, which was established by the ECB in 2011, is a European forum for improving the security of retail payments. Since the autumn of 2014, the chairmanship has been shared by the ECB and the European Banking Authority, EBA. Other participants in SecuRe Pay are the national central banks and supervisory authorities, as well as the European Commission and Europol, both of which are observers. The Danish participants are Danmarks Nationalbank and the Danish Financial Supervisory Authority.19

This forum has previously made a number of recommendations for improving the security of Internet payments. The recommendations are aimed primarily at providers of payment services. At the end of 2014, the EBA published guidelines on the security of Internet payments based on the SecuRe Pay recommendations. In January 2015, the Danish Financial Supervisory Authority announced that from 1 August 2015 it will include these guidelines in its supervision of providers of payment services.20

The EBA’s guidelines include the use of "strong customer authentication". This is not currently the case when the Dankort is used online. Conversely, a security solution such as 3D Secure, which is used for international card payments, does meet this requirement. Here the cardholder receives a text message with a code to be entered in connection with the payment. A similar solution for the Dankort would enhance the security of online payments.

In 2014, SecuRe Pay also finalised its recommendations for third parties providing payment services from accounts that they do not control themselves. The revised Payment Services Directive, cf. above, gives the EBA a mandate, in collaboration with the ECB, to lay down a number of security requirements for providers of payment services, including third parties. It is expected that the EBA will take the SecuRe Pay recommendations into account when laying down these requirements.

Finally, SecuRe Pay has prepared draft recommendations for secure mobile payments. They cover three categories of mobile payments, namely contactless payments, payments using apps and payments via a telecom operator’s network, e.g. by sending a text. Payments made via a mobile phone’s Internet browser are comprised by the recommendations for secure Internet payments. The draft recommendations were submitted for public consultation in 2014.

### 4. THE PAYMENTS COUNCIL

#### 4.1 The Payments Council’s work in 2014

Besides analysing the European Commission’s proposals for legal acts, the Danish Payments Council in 2014 prepared an expansion of the existing payments statistics. In addition, the Council analysed business-to-business, B2B, payments. Finally, the Payments Council assessed its method of work and discussed various measures to strengthen the debate within the area of retail payments in Denmark.

**Statistics**

One of the objects of the Payments Council is to contribute to providing better statistics for payments in Denmark. Since 2012, Danmarks Nationalbank, acting on behalf of the Council, has published semi-annual statistics of the most common methods of payment. However, these statistics are fairly

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19 For further information about SecuRe Pay, including its mandate, see Danmarks Nationalbank’s website under Banking and payments, Retail payments [link].

20 Danish Financial Supervisory Authority, Orientering om kommende sikkerhedskrav knyttet til internetbetalinger (Notification of future security requirements for Internet payments – in Danish only) 21 January 2015 [link].
general and in most cases do not meet the European standards. Consequently, the Payments Council in early 2014 decided to initiate a process to expand the existing statistics.

A working group was tasked with the preparation of the new statistics. In 2014, the working group performed an assessment of the value to users of various potential expansions of the statistics seen in relation to the effort required to generate the data. Against this background, a proposal was presented for the design of the future statistics; this proposal was approved by the Payments Council in November 2014.

The statistics will be expanded to include e.g. information on contactless cards, cards issued to private individuals and corporate customers, use of cards broken down by physical and online transactions, and the number of cash dispensers and card terminals. In addition, they will cover new solutions such as the banks' mobile payment services and include data on the extent of fraudulent use of payment cards, etc. Statistics will be published on a quarterly basis, but some information will only be published annually.

In 2015, the Council will work with reporters to prepare the regular compilation of data for the new statistics. In addition, preparations must be made for publication, in which connection confidentiality is a key issue. It is expected that the new statistics will be published for the first time in 2016.

**Business-to-business payments**

The Payments Council has previously analysed solutions for consumer payments, but has not looked into B2B payments. In general, research into B2B payments is limited, both in Denmark and abroad. All the same, this is an issue that affects practically all firms and is of major significance to society. Consequently, the Council in 2014 decided to begin to analyse the B2B payments market in Denmark with a view to publishing a report on the subject.

The Payments Council set up a working group to perform the analysis. It was tasked with describing existing solutions for B2B payments, mapping firms' views of the solutions offered and identifying any problems in relation to cross-border payments. As part of the analysis, interviews were conducted with selected firms, including banks, and an extensive questionnaire survey was performed.

The working group's report was published in May 2015, and on 27 May the Confederation of Danish Industry, DI, hosted a seminar on B2B payments on behalf of the Payments Council.

**4.2 The Council's work in 2015**

As previously mentioned, work in 2015 will include further preparation for the expansion of Danish payments statistics. Besides that, the Payments Council has decided to look into the challenges posed by new instruments and actors in the retail payments area with respect to e.g. safety and accessibility, as well as the need for updating certain parts of the legislation. A more detailed description of this work will be published at a later date.