

The Danish Payment Card Market 2012

Resume and conclusions

The use of payment instruments is important for overall economic efficiency and, hence, economic growth and prosperity. It is therefore vital that the payment instruments are effective and flexible. Payment cards are one of the most effective electronic payment instruments. Therefore it is crucial to create good environments for the payment card market.

Danish consumers are among the consumers in Europe who mostly use payment cards as means of payment, when they do their shopping. This is the case both in regards to shopping in a regular shop (physical trade) and in regards to E-commerce (internet shopping). The most common and most used payment card in Denmark is Dankort. Most Danes have a Dankort in their purse, but today many Danish consumers also have other payment cards. It is therefore crucial that the payment card market is well functioning, so the consumers easily, safely, and effectively can use all their payment cards.

The Danish Competition and Consumer Authority (DCCA) performs a part of the supervision of the payment card market and therefore monitors the development in the market. Every second year the DCCA makes a report on behalf of the Minister for Business and Growth regarding the Danish payment card market, see. The Danish Act on Payment Services and Electronic Money, paragraph 98, section 9.¹ The current report is the fourth published since 2005. The reports are published in Danish on www.kfst.dk/konkurrenceomraadet/betalingskort/undersogelser-af-betalingskortmarkedet/

Danes are among those Europeans, who most frequently use their credit cards

In 2010 the EU member states made 73.5 transactions on average with payment cards per capita. Every Dane made an average of 196.5 transactions with their payment cards, while the Finns made 193.9 transactions per capita on average. The Danes were only exceeded by the Swedes in regards to average transaction per capita in 2010, since the Swedes on average made a total of 196.8 transactions per capita in 2010.

Denmark, Sweden and Finland constitutes those EU member states where consumers most often use their payment cards compared to other EU member states, where in 2010 the average use with payment cards was between 7 and 142 transactions per capita. Out of the 197 transactions per capita, which the Danes made with their payment cards in 2010, 167 transactions were made with Dankort. In 2010 Sweden and Finland were the only EU member states where the number of transactions per capita on average exceeded 167. It is therefore considered that Dankort remain among the most widely used payment cards in Europe, when looking at the number of transactions per capita in the individual EU member states.

Dankort is the most widely used electronic payment instrument in Denmark. The number of Dankort issued in Denmark has increased almost continuously since Dankort was first issued in the early 1980's, but in the recent years the increase in the number of Dankort has been limited. At the end of 2011 there were issued approximately 4.5 million Dankort, which exceeds the number of

¹ Consolidating Act no. 365 of 26 April 2011 link: www.finanstilsynet.dk/Regler-og-praksis/Translated-regulations/~media/Regler-og-praksis/2012/C_Act365_2011_new.ashx

inhabitants over 18 years in Denmark. It is therefore assumed that most of the adult Danes have a Dankort

In 2011 every Dankort on average had 205 transactions. This means that on average every Dane used his/her Dankort four times a week in 2011. In 2011 the total spend using the Dankort was nearly 300 billion DKK, which corresponds to an average spend per capita of approximately 87,000 DKK.

Costs related to the acquiring of Dankort transactions in physical trade have declined from 2008 to 2010

Every other year the DCCA has a legal obligation to conduct a study of the costs of acquiring Dankort in the physical trade. In 2011 the DCCA carried out a study on the costs of acquiring Dankort for 2010. The study showed that the total costs of operating the Dankort system in the physical trade had declined by 27 million DKK from 2008 to 2010. In the same period the number of Dankort transactions in the physical trade had increased from 691 million transactions to 793 million transactions, which was an increase of almost 15 per cent.

The reduction in costs and the large increase in the number of Dankort transactions in the physical trade mean that the average cost per transaction has decreased from 0.89 DKK in 2008 to 0.74 DKK in 2010, representing a total decrease of 17 per cent.

The fees paid by retailers for accepting Dankort will decline in both 2012 and 2013

The costs of operating the Dankort card system for 2010 form the basis for calculating the maximum yearly subscription fees, which Nets can charge from the retailers for accepting Dankort as means of payment in the physical trade for both 2012 and 2013.

The decrease in costs from 2008 to 2010, together with a large increase in the number of credit card transactions, means that the average cost of a Dankort transaction in the physical trade has decreased with 17 per cent. Therefore the total subscription payment will decline in both 2012 and 2013.

Nets will be able to charge a maximum total subscription payment from the retailers of respectively 282 million DKK in 2012, and 276 million DKK in 2013. In 2010 and 2011 Nets could charge a maximum total subscription payment of respectively 319 million DKK and 324 million DKK. This means that the total calculated subscription fee is reduced by almost 13 per cent from 2011 to 2012, and will decline by almost 15 per cent from 2011 to 2013.

New regulations of calculating fees and surcharging fees in the physical trading

New uniform rules regarding fees for using payments card and new surcharging rules regarding international payments cards, payment cards without chip and other credit cards in the physical trade have been introduced in Danish legislation. The new rules no longer make a distinction between payment cards issued in Denmark and payment cards issued in other countries.

The impact of the new rules is that acquirers must stipulate their own fees for accepting international payment cards, payments cards without chip and other credit cards as means of payment for the retailers in the physical trade. The fees must be in accordance with paragraph 79 in the Danish Act on Payment Instruments and Electronic Money, which states that the acquirer may

impose fees on the retailers, which match the costs of acquiring payment transactions with the specific payments cards plus a reasonable profit.

Additionally, retailers in the physical trade are now allowed to surcharge fees to consumers who pay with credit card, such as MasterCard, while it is not allowed to surcharge fees for using debit cards, e.g., Visa Electron or MasterCard debit. This model is called the Split Model.

There have been no changes in the rules regarding use of payments cards in the non-physical trade, including E-commerce (Internet-shopping). Hence, the rules are the same for all payment cards in the non-physical trade, and the acquirer must stipulate his merchant service fees in accordance with paragraph 79 in the Danish Act on Payment Instruments and Electronic Money. The merchants are allowed to surcharge their fees to the consumer, no matter which payment cards the consumer uses in the non-physical trade.

Today, the numbers of international payment cards issued in Denmark exceed the numbers of Dankort

In Denmark the number of Danish issued international payments cards has increased during the last couple of years. Since 2009 Denmark has had more international payment cards in circulation than the number of Dankort and Visa/Dankort. In 2011 there were issued between 4.5 and 5.5 million international payment cards in Denmark.

This does not mean that Danish issued international payments cards are just as prevalent as Dankort as a mean of payment, because while the typical adult Danish consumer generally has one Dankort in his purse, most Danish consumers also have several international payment cards in their purse. In Denmark international debit cards such as MasterCard debit and Visa Electron are mainly issued to young people between 15 and 18 years who cannot obtain Dankort or international credit cards.

Increased use of Danish issued international payment cards

As mentioned there has been an increase in the number of Danish issued international payments card in the last couple of years, but at the same time there has also been an increase in the number of transactions with these cards in Denmark. Compared to the statistics from 2006, the number of transactions with Danish issued international payment cards in Danish retail stores has raised six fold in 2011.

The percentage increase in the number of transactions regarding Danish issued international payments card is significantly higher, than the percentage increase of the Dankort transactions. However, the absolute increase in the number of Dankort transactions was higher than the absolute increase in the number of transactions with international payment cards. As with the Dankort, the international payment cards are used more often in the physical trade than in the non-physical trade. Approximately 80 per cent of the total transactions with these payment cards are located in the physical trade.

International payment cards are being accepted in more Danish retail stores now

In 2011 almost half of the retail stores in the physical trade, which accepted Dankort as means of payment, also accepted international payments cards. This is an increase compared to 2010, where only about 40 per cent of the retail stores in the physical trade accepted international payment cards as means of payment. At the same time the number of retail stores in the physical trade that accept Dankort has fallen from almost 89,000 stores in 2010 to almost 84,000 stores in 2011, which

represents a decrease of 6 per cent. Still, the majority of retail stores in the physical trade accept Dankort as means of payment.

Since 2005 there has also been an increase in the number of stores on the Internet that accept international payment cards as means of payment. The number has risen from more than 2,000 stores in 2005 to more than 6,000 stores in 2011, which corresponds to approximately a threefold increase. Almost half of the internet stores, which accept the Dankort, also accept international payment cards as means of payment. Equal to the situation with the Dankort, international payment cards are used more often in the physical trade, than in the non-physical trade. Hence, around 80 per cent of the transactions are located in the physical trade

Increase in the number of Danish Internet merchants that accept the Dankort

In early 2012 nearly 13,000 Danish Internet stores accepted Dankort as means of payment corresponding to that the number of Danish Internet stores that accept Dankort has been more than tripled compared to the equivalent number from the 2005 statistics.

There are many retail cards and petrol cards issued on the Danish payment card market

It is the first time that the DCCA has collected information about retail cards and petrol cards in Denmark. The issuers of those cards have not fully been able to deliver the information that the DCCA asked for. However, the DCCA believes that the inclusion of these cards in the calculations gives a more complete overview of the Danish payment card market.

In 2011 almost 3 million retail cards and petrol cards were issued in Denmark. The vast majority of these were petrol cards. There are issued about half as many petrol cards in Denmark as the number of Dankort issued, which is a relatively large number of cards.

These cards all have in common that they can only be used in a rather limited number of stores. Overall, only about one-fifth of the merchants, who accept Dankort as means of payment, also accept the respective retail cards and petrol cards. Therefore, the number of transactions with these payment cards is also considerably smaller than the number of Dankort transactions in the physical trade. Petrol cards are used approximately 10 times as often as retail cards. The average annual revenue per petrol cards is also significantly higher than the average revenue of retail cards. In 2011, the revenue for petrol cards was just over 18 billion DKK, while the revenue for retail cards was almost 5 billion DKK. By comparison, the revenue for the Dankort was 300 billion DKK in 2011.

Payment card fraud

Since the introduction of the chip on Dankort in 2004, the number of fraud-cases concerning the use of fake copies of Dankort has declined significantly. Since 2008 there has not been registered any cases where a fake copy of the Dankort has been used. In 2006 the total loss of such fraud-cases alone amounted to almost 3 million DKK.

From 2010 to 2011 the total number of fraud-cases involving Dankort declined from over 14,000 cases to nearly 11,000 cases. From 2006 to 2010 the total number of fraud-cases involving Dankort increased from almost 4,500 cases to more than 14,000 cases in 2010. Compared to the number of transactions, the number of fraud-cases with stolen or lost Dankort has been fairly constant in the physical trade, as there have been 4 to 5 cases per 1 million transactions per year since 2006. The

number of fraud-cases related to E-commerce (shopping on the Internet) has declined from 261 cases to 142 cases per 1 million transactions from 2010 to 2011.

For both Dankort and international payment cards most of the misuse of payment card takes place on the Internet. Since 2007 there have been more fraud-cases with payment cards on the Internet, than in the physical trade. Today, almost 80 per cent of the fraud-cases involving the Dankort are related til E-commerce. Similarly, for international payment cards around 70 per cent of the fraud-cases in 2011 are related to E-commerce. Nevertheless, the total loss caused by the Internet fraud-cases with Dankort is limited compared to total turnover. Hence, from 2004 to 2011 the loss causes by fraud-cases declined from approximately 88 DKK to just 35 DKK per 1 million DKK in revenue.