

Chapter 1

Introduction

1.1 Introduction and conclusions

The use of payment instruments is important for the economy because flexible and cashless payment methods help create good conditions for growth and prosperity. It is therefore important that there are good framework conditions for the payment card market. Payment cards are still one of the most effective electronic payment instruments available.

Danes are among the European consumers, who use payment cards the most when shopping. This applies to both shopping in physical stores and on the internet. The most widespread and commonly used payment card in Denmark is the Visa/Dankort. Today, most Danes have at least a Dankort, and many also have other payment cards. In order for consumers to easily, securely and effectively use all their payment cards, it is important that the payment card market is well-functioning. The Competition and Consumer Authority is responsible for part of the supervision of the payment card market and therefore continuously monitors developments in the market.

Every two years, the Minister for Business and Growth has to submit a report on conditions in the payment card market to the Danish Parliament. In connection with the preparation of the report, the Competition and Consumer Authority acts as the secretariat to the Minister. This report is the sixth in the series since 2005

Box 1.1

Main conclusions

- » **Danes getting more and more payment cards.** In 2015, Danes had more than 11 million payment cards. The number of Visa/Dankort cards has risen by over 30 percent since 2010. Since 2013, the number of international payment cards has increased from about 3 million to over 4 million.
- » **Payment cards being used more.** In 2015, the number of transactions with Dankort and Visa/Dankort cards rose by 9 percent. For international payment cards, the number of transactions increased by 28 percent.
- » **Abuse of payment cards rising but still low overall.** In the period 2008-2015, there was an increase in the number of abuse cases in remote sales, while in the same period there was a decrease in the number of cases of abuse of lost and stolen cards. In 2015, the total number of abuse cases totalled 57,181. There are, however, relatively few cases compared to the total number of transactions.
- » **The cost of operating the Dankort system has fallen.** The cost of operating the Dankort system in physical trade fell by approx. 20 percent from 2012 to 2014. It therefore became considerably cheaper to process a Dankort transaction in physical trade.
- » **The Danes' knowledge of the fee rules has improved.** In 2013, a survey conducted by the Authority showed that 31 percent of consumers knew about the rules on the passing on of fees. In 2015, the Authority repeated its survey and found that the proportion of consumers who knew about the fee rules had risen to 55 percent. This indicates a marked improvement in consumer awareness of fee rules.
- » **There are new rules on the way which may affect the payment card market.** Among other things, the rules will introduce a cap on so-called "interchange fees" and, in time, surcharging fees to consumers paying with the most common payment cards will be prohibited, both in physical trade and online.

More cards

The Danes are obtaining more and more payment cards. In 2015, Danes possessed more than 11 million payment cards. Dankort and Visa/Dankort remain the most popular payment cards in Denmark. In 2015, there were 5.8 million Dankort and Visa/Dankort cards in circulation. Since 2010, the number of Dankort and Visa/Dankort cards has increased by over 30 percent.

The number of international payment cards has also increased. In 2013, there were about 3 million international payment cards in circulation, while in 2015 there were over 4 million cards in circulation. The Competition and Consumer Authority has conducted a survey showing that 87 percent of Danes have a Visa/Dankort card and 45 percent a MasterCard. The payment cards are still being used much more in physical stores than online.

In 2015, a Dankort or Visa/Dankort card could be used in nearly 80,000 physical stores. The level of the use of these cards in physical trading is slightly lower than in 2013, which should perhaps be seen in the light of growing subscription payment in the same period, cf. chapter 7. Conversely, since 2013 a few more stores have begun to accept international payment cards in physical trade.

In internet trading, since 2013 there has been a marked increase in the number of businesses accepting international payment cards.

Cards being used more

Alongside the increase in the number of issued payment cards, the use of the cards has also increased. In the past five years, the number of payment card transactions and the turnover generated by payment cards have increased significantly. The Visa/Dankort card is the main driver of the increase in transactions and turnover, but international payment cards are also gaining in prominence. The largest increase has been seen in Dankort sales, but relatively speaking international payment cards have seen the largest increase in both number of transactions and turnover.

In 2015, the number of transactions made with international payment cards rose by 28 percent, while turnover generated by international payment cards rose to over DKK 50 billion. In comparison, the Dankort card alone experienced a 9 percent increase in number of transactions, while Dankort turnover topped with DKK 350 billion, corresponding to approx. 17 percent of Denmark's GDP. Thus, Danes are using their cards - and especially their international payment cards - more.

Abuse has increased, but is still low overall

Since the introduction of the chip Dankort and Visa/Dankort in 2005, there have been no recorded cases of counterfeiting of chip cards in Denmark. The last recorded case of Dankort counterfeiting was in 2008.

The total number of abuse cases has risen, however, since 2008. This is due primarily to growing abuse via remote sales (e.g. phone or internet). In the period 2008-2015, there was an increase in the number of remote sales abuse cases, while in the same period there was a decrease in the number of cases of abuse of lost and stolen cards.

In 2015, the total number of abuse cases totalled 57,181. The vast majority of abuse cases take place either in other countries or through internet businesses registered abroad. Furthermore, remote sales are most often where payment card abuse takes place, i.e. online trading, trading by mail order, telephone orders and self-service payment machines without a PIN.

The number of abuse cases should be seen in light of the extensive use of payment cards in Denmark and abroad. In 2015, more than 1.7 billion transactions were carried out with the Visa/Dankort and international payment cards in Denmark and abroad. This means that approx. 30,000 payment card transactions were completed for each abuse case.

Generally, the abuse of payment cards is therefore very low.

Costs associated with operating the Dankort system have fallen

Each year, the Competition and Consumer Authority has to examine the costs of operating the Dankort system in physical trading. The latest study showed that the total cost of operating the Dankort system in physical trading dropped by approximately 20 percent from 2012 to 2014. Thus, it has become substantially cheaper to process a Dankort transaction in physical stores.

Knowledge of fee rules has improved

The rules on passing on fees (the fees that stores are allowed to collect from consumers for a card payment) distinguish between debit and credit cards. According to the rules, physical stores can only charge consumers a fee when payment takes place by credit card. The stores cannot, by contrast, charge consumers who use debit cards in physical stores. In non-physical trade, stores are allowed to charge consumers for payments with all payment cards.

In 2013, the Competition and Consumer Authority made a survey of businesses' and consumers' knowledge of and attitude towards the fee rules. The study found that 31 percent of respondents knew the rules. In 2015, the authority repeated the survey and found that the number had increased to 55 percent.

However, 60 percent of respondents were not aware that shops must refrain from charging a fee for debit cards in physical trading.

New rules on the way

In 2015, the Regulation on Interchange Fees and the new Payment Services Directive (PSD2) were adopted. The Directive has to be implemented in Danish law by January 2018. When implemented, the rules will introduce a ban on charging consumers for using the most common payment cards. The ban applies to card payments both in physical stores and online.

The Directive also introduces expanded access to existing payment systems. In the long term, this may help to enable more players to acquire e.g. Dankort.

As a result of the Regulation, businesses and consumers will generally have greater freedom of choice. For stores, this will be effected through a restriction on which payment cards a store can be required to accept, as well as the store's ability to pre-set payment terminals for cards other than the Dankort. For consumers, the freedom will be apparent in the ability to choose which part of a co-branded card (e.g. Visa/Dankort) they want to use in a store. Finally, the Regulation introduces a cap on interchange fees (fees paid by the acquirer to the issuer for every card payment). The price cap for interchange fees will be 0.2 percent of the transaction value for debit cards and 0.3 percent of the transaction value for credit cards.
