

# Banking Automation **BULLETIN**

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## **Latin America's ATM boom coming to an end**

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UK banks reaffirm commitment to free cash withdrawals

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Eurosystem throws down the gauntlet to banking community

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Danish card usage falls following introduction of customer fees

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Business strategy: The growth gamble, banking on new business

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**Country profile: Spain**

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## EDITORIAL

### How MSCs became a major political issue

Following re-election in Denmark in February, the ruling Liberal Party has followed through on its promise to eliminate a controversial merchant service fee that was only introduced at the beginning of January

– a populist move that has infuriated the banking community.

Dankort is Denmark's national debit card scheme; there are 3.4 million cards in circulation and 90% of retailers accept the cards. In contrast to most other countries, there were until recently no merchant service charges (MSCs) for card payments in the national debit card scheme. Following pressure from the Government to upgrade Dankort to EMV chip cards, a loose agreement was reached in 2003 with banks, retailers and consumer groups that allowed the banks to charge a DKK 0.50 (£0.05) transaction fee to merchants to offset some of their costs.

The banks erroneously assumed that merchants would simply absorb these charges, as they tend to do for card-present transactions in other countries where merchants are allowed to pass on MSCs. In reality many merchants were passing the fee on to consumers with a note on receipts saying the fee is being passed on from the banks. Transaction volumes in the Dankort scheme fell by as much as 18% following the introduction of the charge. The media picked up on the story and the issue turned into a public relations disaster for the banks which are perceived to make large profits at the expense of their customers. Politicians then used the abolition of the fee as a campaign tool for the recent election.

An alternative solution is being introduced which will see merchants pay an annual fee to acquirers, based on transaction volumes – and merchants will no longer be able to pass on any fees to consumers. While this is the end of the story in the short term, it is likely that the European Commission will investigate whether the Danish Government's restriction on these MSCs is a constraint of market competition. The banks also have much to think about – can they trust the Government to stand by future agreements with the banking sector? How can they improve their PR to avoid future charging fiascos? The latter is something that banks in many countries would be keen to find out.

**Dominic Hirsch**

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