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Research Report

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Europe's Payments Bottleneck: Merchant Choice as a Competition Remedy[*]

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This Policy Letter draws on Inderst, Valletti and Wentzien (2026), "Beyond Interchange Fee Caps: Rethinking Merchant Choice and Competition in European Payments", Journal of Competition Law & Economics.

Abstract

A decade after the EU Interchange Fee Regulation, the central competition problem in European card payments has not disappeared. Fee caps regulate one important price component, but they do not by themselves create a credible merchant-side outside option at the point of sale. Merchants remain exposed to payment methods that are, in practice, difficult to refuse and difficult to steer away from. This Policy Letter argues that the next step in European payments policy should therefore be structural rather than merely price-based. Building on the German experience with electronic direct debit and its migration into the SEPA direct debit framework, we propose a European right for merchants to initiate direct debit transactions from debit-card credentials. Such a right would discipline card-scheme fees, reduce dependence on non-European payment infrastructures, and strengthen contestability in European retail payments.

[*] SAFE policy papers represent the authors' personal opinions and do not necessarily reflect the views of the Leibniz Institute for Financial Research SAFE or its staff.

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Executive Summary

- The European card-payments problem is not only a question of excessive fees. The deeper bottleneck is that merchants often lack an effective choice of payment at the point of sale.
- Interchange-fee caps addressed one important fee component, but they did not remove the structural dependency that arises once a consumer presents a particular card or wallet.
- As cash declines and card and wallet payments become the default, merchants become increasingly dependent on infrastructures operated by US-based card companies and large digital-payment providers.
- This concern now overlaps with the European debate on payment sovereignty. The remedy proposed here uses existing European infrastructure rather than waiting for new instruments, such as the "digital euro".
- The German ELV/SEPA direct debit model shows that competition can be created on the card already presented by the consumer. The merchant can use card-carried account information to initiate a direct debit instead of routing the transaction through the card scheme.
- EU policy should give merchants the legal and technical right to initiate a SEPA direct debit transaction, or an equivalent domestic direct-debit transaction, when a consumer presents a debit card, including where that card is used through a digital wallet.

1 Introduction: from fee caps to merchant choice

Card-based payments have long raised competition concerns in Europe. The principal regulatory response has been to focus on interchange fees, culminating in the Interchange Fee Regulation of 2015. That intervention was important. It recognised that merchants often face payment instruments which they cannot realistically refuse, and that this can give card schemes and issuers market power on the merchant side of the market.[1]

Yet the problem should not be understood only as the level of a particular fee. The more fundamental issue is the absence of effective merchant choice at the moment of payment. At the point of sale, the consumer presents a card, or increasingly a wallet containing a card. The merchant is then typically locked into the payment rail selected by the consumer and by the technical and contractual architecture behind that instrument. If the merchant cannot choose a lower-cost rail, and cannot credibly steer the consumer to one, fee regulation addresses only part of the problem.

The policy setting has also changed. Cash is declining as an outside option, while card and mobile payments have become routine for everyday retail transactions. This strengthens the position of card schemes and wallet providers. It also gives the issue a broader European dimension. Dependence on US-based card companies such as Visa and Mastercard, as well as on large digital-payment infrastructures, is now part of the wider debate on European payment sovereignty. The digital-euro debate reflects this concern, but the remedy proposed here does not depend on it. It uses an existing European infrastructure: SEPA direct debit.[2]

The central claim of this Policy Letter is therefore simple. European payments policy should move beyond a narrow focus on fee caps and address the missing layer of competition: merchant choice at the point of payment. The most direct way to do so is to give merchants the legal and technical right to initiate a SEPA direct debit transaction when a consumer presents a debit card. This would not force consumers to carry another card, install another app, or actively select another payment method. Competition would be created on the card already presented.

2 The bottleneck: the payment rail is chosen before the merchant can compete

The competition concern at the point of sale arises because the merchant's choice set is much narrower than it appears. In theory, a merchant may accept different payment methods. In practice, once a consumer is at the checkout and presents a card or wallet, the merchant has little realistic ability to switch the transaction to a lower-cost instrument. The consumer may hold only one relevant debit card, may use only one preferred card, or may rely on a default card embedded in a mobile wallet. In each case, the merchant is confronted with a take-it-or-lose-the-sale situation.

This situation has become more important as cash has lost ground. Cash used to provide

[1] Regulation (EU) 2015/751 introduced EU-wide caps on interchange fees for most consumer card-based transactions, including 0.2% for debit cards and 0.3% for credit cards. The Commission reviewed the application of the Regulation in 2020, and a further review is included in the Commission's current evaluation agenda.

[2] European Central Bank, *Study on the Payment Attitudes of Consumers in the Euro Area (SPACE)*, 2024, reports that cash at physical points of sale in the euro area fell from 72% of transactions in 2019 to 52% in 2024.

a simple benchmark and an outside option. It allowed merchants to avoid card acceptance for at least some transactions, and it informed the original policy logic behind fee caps. But as consumers carry less cash and expect card or wallet acceptance, cash no longer disciplines card payments in the same way. The decline of cash therefore strengthens the need for another outside option.

Nor can merchants generally solve the problem through steering. Surcharging is heavily restricted by European consumer protection regulation, and even where some forms of steering are legally possible, they may be ineffective at the checkout. If consumers are effectively single-homed, asking them to change payment method is unlikely to discipline a card scheme. Wallet defaults can further reinforce this effect.[3]

This is why interchange-fee regulation, while justified, is incomplete. Capping one fee component does not remove the structural bottleneck if merchants remain locked into the chosen card rail. Moreover, when regulation applies only to interchange fees, other components of the merchant's payment cost have gone up. The policy problem is therefore not only whether the cap is too high or too low. It is that the merchant often lacks a credible alternative with which to discipline the total price of card acceptance.[4]

The appropriate policy objective is contestability at the moment of payment. A card-scheme transaction should have to compete against a functionally available alternative that does not depend on the consumer having selected it in advance. It must be available to the merchant when the consumer presents the debit card.

3 The German example: ELV as competition on the card

Germany provides the practical model for this proposal. For decades, German merchants have been able to use electronic direct debit (*Elektronisches Lastschriftverfahren*, ELV) as an alternative to scheme-based debit-card payments. The basic idea is straightforward. When the consumer presents a girocard, the merchant reads the account information from the card and obtains a mandate to debit the consumer's bank account. The transaction is then processed as a direct debit rather than through the card scheme.[5]

The importance of ELV is not that it is technologically identical to all future solutions. Its importance is institutional. It gives the merchant, or the merchant's payment service provider, a routing choice at the point of sale. The merchant can decide whether to process the transaction through the card system or as a direct debit. This creates competition on the card. The consumer does not need to present a second card, and the merchant does not need to persuade the consumer to adopt another payment instrument at the checkout.

The German model also shows that such a system can adapt to technological and legal change. ELV originated in an environment based on magnetic-stripe cards and paper signatures. It later survived the migration to chip cards and the transition to the SEPA direct

[3] Article 62(4) of Directive (EU) 2015/2366 (PSD2) prohibits payees from requesting charges for payment instruments whose interchange fees are regulated under Regulation (EU) 2015/751.

[4] Copenhagen Economics and EY, *Study on the Application of the Interchange Fee Regulation*, Final Report to the European Commission, 2020, reports that interchange fees declined after the IFR while non-regulated components, including scheme fees and acquirer margins, increased.

[5] For the legal and economic analysis of the German ELV model and the proposal to generalise merchant-initiated direct debit, see Inderst, Valletti and Wentzien (2026), "Beyond Interchange Fee Caps: Rethinking Merchant Choice and Competition in European Payments", *Journal of Competition Law & Economics*, doi:10.1093/joclec/nhag019.

debit framework. In that process, the girocard continued to serve as the data carrier for the information required to initiate a direct debit under a customer mandate. The model therefore demonstrates that merchant choice can be preserved even when payment technology changes.

There are, of course, differences between a card transaction and a direct debit transaction. A direct debit does not provide the same real-time guarantee to the merchant unless additional services are used. But this does not undermine the model. Merchants can rely on payment service providers, factoring, insurance, or payment guarantees to manage the risk of non-payment. German evidence also shows that merchants have used ELV not only as an actual payment route but also as a bargaining instrument. Even if the outside option is used only for a subset of transactions, its availability disciplines card-acceptance costs.[6]

The German experience contains a further regulatory lesson. The value of ELV depends on payment infrastructure not being redesigned in a way that eliminates access to the necessary information. The Bundeskartellamt has treated ELV as an important competitive constraint and intervened against changes that would have made it impossible. Technical design choices should not remove a merchant's competitive outside option.[7]

The German lesson is thus not a narrow national peculiarity. It is a general policy principle. Where a debit card is connected to a bank account, the merchant should be able, subject to appropriate authorisation and security rules, to use that account connection to initiate a direct debit transaction. This turns the debit card from a proprietary gateway into a carrier of contestable payment options.

4 A European right to merchant-initiated SEPA direct debit

The proposal is to generalise the core feature of the German model at European level. When a consumer presents a debit card at the point of sale, the merchant should have the right to initiate a SEPA direct debit transaction using the payment credentials necessary for that purpose. In Member States outside the euro area, the same principle should apply to the relevant domestic direct-debit equivalent.

The right should be both legal and technical. It is not sufficient to say that merchants may use SEPA direct debit if the practical information required for doing so is unavailable. Card issuers, card schemes, processors and wallet operators should not be able to remove this option through technical design, scheme rules, contractual restrictions or access fees. The obligation should be functional: if a debit-card credential can be used to route a card transaction, the infrastructure should also allow a merchant-initiated direct-debit alternative, subject to proportionate security and authorisation requirements.

The choice should lie with the merchant or the merchant's payment service provider. This is essential. If the consumer must actively choose between the card transaction and the direct-debit route at the checkout, the competitive effect will be weak. The bottleneck arises precisely because consumers arrive with a pre-selected instrument, sometimes even unaware of alternatives. The policy remedy must therefore create a merchant-side routing option, not merely

[6]EHI Retail Institute, *Zahlungssysteme im Einzelhandel 2025*, reports continued ELV/SEPA direct debit use in German retail and estimates transaction costs for SEPA direct debit in 2024.

[7]Bundeskartellamt, *Standard Charges for Retailers in Electronic Cash Card Payment System Abandoned*, press release and decision of 8 April 2014, describes ELV as a major rival product to girocard and an alternative for retailers.

add another consumer-facing payment method.

The scope should initially be limited to debit-card point-of-sale transactions. Credit cards raise additional issues because they include a credit function and may provide other services. The proposal does not imply that card schemes provide no value. A card transaction may offer speed, guarantee, fraud management, international acceptance and operational convenience. But these services should be priced against a credible alternative. If a merchant can process the same consumer's payment through SEPA direct debit, card schemes and issuers can still charge for the additional value they provide. What they can no longer do is rely on the absence of merchant choice.

Consumer protection can be preserved. SEPA direct debit is a regulated payment instrument with established refund and dispute rights. Mandate rules, data minimisation and authentication standards can be specified at European level. The policy issue is therefore how to design a secure architecture that preserves both consumer protection and merchant choice.[8]

5 Implementation and safeguards

A European merchant-choice right would require more than a legal permission. It would have to be reflected in technical standards, scheme rules, issuer obligations and wallet certification requirements. The relevant standard should be outcome-based. Payment infrastructure should preserve the merchant's ability to route a debit-card payment through direct debit where the consumer has presented a debit card linked to a bank account and has given the required mandate.

This right should not give merchants unrestricted access to account data. It should be framed around data minimisation and purpose limitation. Merchants, or more likely their payment service providers, should receive only what is necessary to initiate the specific direct debit transaction, subject to certification, audit trails, encryption, mandate storage and liability rules.

A staged approach would be appropriate. The first stage should cover physical debit cards at the point of sale, where the German experience is most directly informative. The second should address contactless card transactions, including mandate handling and repeat-use authorisation. The third should address wallet-based and online payments, where tokenisation and device architecture create additional barriers.

6 Mobile payments: tokenisation must not become foreclosure

The most difficult case is mobile payments. At present, a merchant-initiated direct-debit alternative is almost impossible in many wallet-based transactions. NFC wallet payments typically transmit a token rather than the underlying card or account information. The merchant receives what is needed to process the wallet-card transaction, but not what would be needed to initiate SEPA direct debit. Tokenisation can therefore turn the wallet into a tighter bottleneck than the physical card.[9]

[8] European Payments Council, *SEPA Direct Debit Core Rulebook and Implementation Guidelines*, 2025, sets out the mandate, refund, return and operational rules for SEPA direct debit transactions.

[9] On mobile payment architecture and access to NFC, see OECD, *Competition in Mobile Payment Services*, OECD Roundtables on Competition Policy Papers No. 324, 2025; European Commission, Case AT.40452 - Apple Mobile Payments, commitments made legally binding on 11 July 2024.

This difficulty should be acknowledged clearly. The proposal cannot simply assume that the merchant can read the same information as from a physical card. Tokenisation is not objectionable as such; it protects consumers by reducing exposure of sensitive credentials. But security architecture can be designed differently. The relevant policy question is whether a secure, standardised and data-minimising access path can be created, for example, through a separate direct-debit token, a secure mandate object, or an access layer that provides only the minimum information necessary for a regulated SEPA direct debit transaction.

The principle should be functional equivalence. If a physical debit card must preserve the possibility of merchant-initiated direct debit, the same competitive function should not disappear merely because the consumer stores the card in a wallet. Otherwise, the shift from plastic card to mobile wallet would silently remove the merchant's outside option. That would make payment innovation a source of foreclosure rather than competition.

This would not require compromising security. It would require that security measures remain proportionate and do not eliminate merchant choice where less restrictive technical solutions are available.

7 Why structural choice should come before another fee-cap debate

The European Commission may still need to review the level and scope of card-fee regulation. If card schemes can offset interchange-fee caps through other fees, fee regulation may have to be broadened or recalibrated. But such adjustments should not distract from the central point. A fee cap is a substitute for competition only when competition cannot be restored. If a credible merchant-side outside option can be created, structural choice should come first.[10]

A European right to merchant-initiated direct debit has three advantages. First, it targets the bottleneck directly by giving the merchant a choice when the consumer presents the payment instrument. Second, it disciplines total payment costs rather than only one regulated fee component. Third, it relies on existing European payment infrastructure and therefore contributes to payment sovereignty without requiring the immediate success of a new pan-European payment scheme.

The measure would also improve the policy debate. Today, discussions often alternate between accepting high card-scheme fees as the price of payment convenience and expanding price regulation to control those fees. Merchant choice offers a third path. Card schemes remain free to compete on speed, security, convenience and payment guarantees, but they compete against an actual alternative rather than a theoretical one.

The conclusion is therefore straightforward. The next stage of European payments policy should not only ask what the regulated card fee should be. It should ask why the merchant is locked into the card rail in the first place. Giving merchants the choice to use a regulated direct-debit route would turn SEPA direct debit into a competitive constraint, reduce dependence on non-European payment infrastructures, and address the structural problem that fee caps alone have not solved.

[10] European Commission, *Study on New Developments in Card-Based Payment Markets, Including as Regards Relevant Aspects of the Application of the Interchange Fee Regulation*, Final Report, 2024, examines developments in card-based markets after the IFR, including new fee structures and payment technologies.

In our view, this proposal addresses many of the concerns behind the current digital-euro debate, while solving the key problem that remains unresolved there: acceptance.