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# Interchange fees, Fear or Confidence ?



## PaySys

Friday 23rd April 2004 - Frankfurt

Dr. Pascale Brien - FIDELIS -



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## **Interchange fees, between fear and confidence**

### **I. Factual background**

### **II. Multilateral interchange fees (MIFs) and EU competition law**

### **III. The way forward**



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## I. Factual Background

### What is an interchange ?\*

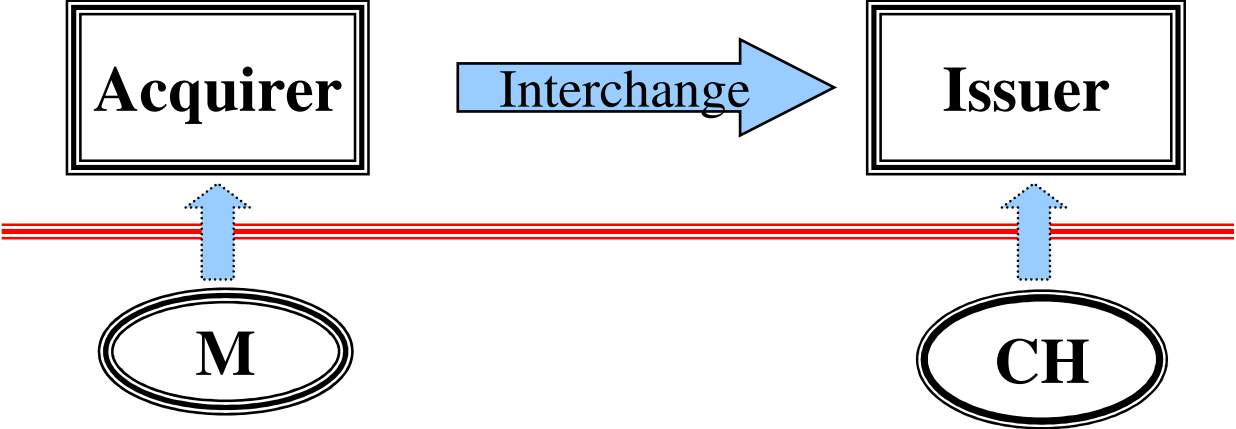
- Cost allocation devise
- Set on objective and verifiable criteria
- Interchange = Interbank agreement
- Commercial freedom at issuer/acquirer level
- As such, commercially neutral

\*based on long standing Jurisprudence from the European Commission



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# I. Factual Background

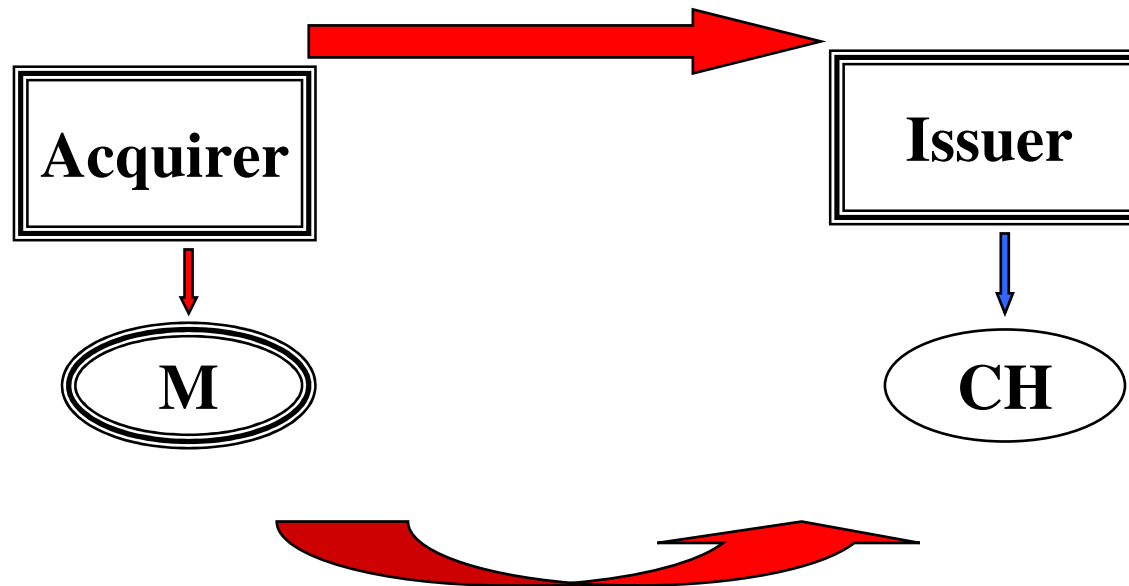


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## II. Interchange fees and EC Competition Law

Initial position of the EC (until Sept 2000)



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## EC . 2000 - The U Turn

### A. EuroCommerce Lobby

Interchange fees = unjustified profit for issuers

- Merchants are financing advantages provided to cardholders (mileage, insurance...)
- No objective justification

**→ “Should be forbidden”**

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## EC . 2000 - The U Turn

### A. EuroCommerce Lobby (cont'd)

If Interchange fees are not forbidden,

- should only cover processing costs (not cover the guarantee)
- components must be known and regulated
- guarantee should only be an option,

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## EC. 2000

### B. Revisited position of the Commission (on the Visa case)

- The clients' captivity allows for abuses without sanctions
  - No objective cost justification
  - No Interchange = Direct Tarification ◆
- (-) 80% MSC

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2000

## B. Revisited position of the Commission

- Multilateral Interchange fees are not necessary (e.g.ec-karte)
- Direct tarification should be preferred
- **Guarantee = joint offer** ◆ **should be optional**

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## The 2nd U-Turn - July 2002

On 24th July, the EC changes its mind again:

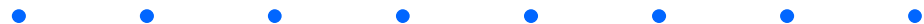
- Interchange fees restrict competition
- but **can be exempted** if they produce “beneficial efficiencies and economies”



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## The 2nd U-Turn - July 2002

- Visa has presented a “package” in which:
- It reduces the level of its interchange
  - 0.7% for deferred and credit cards by 2007
  - 0.28 Euro for debit cards
- Interchanges will be capped to costs based on a cost study.
- Merchants will be told about the level of interchange fees



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## The 2nd U-Turn - July 2002

This decision has been criticized because:

- The reduction of rate has intervened before any cost study
- a flat rate is applied to debit cards (quid cost of fraud).

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## III. The way forward

- Independent of the Visa move to save its interchange,
- There are other ways to defend interchange fees



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## III. The way forward

### **Introduce a proper methodology**

Coherent, objective and defensible (debit/credit)

↓ At cross-border level

↓ In every country

Based on objective cost studies.

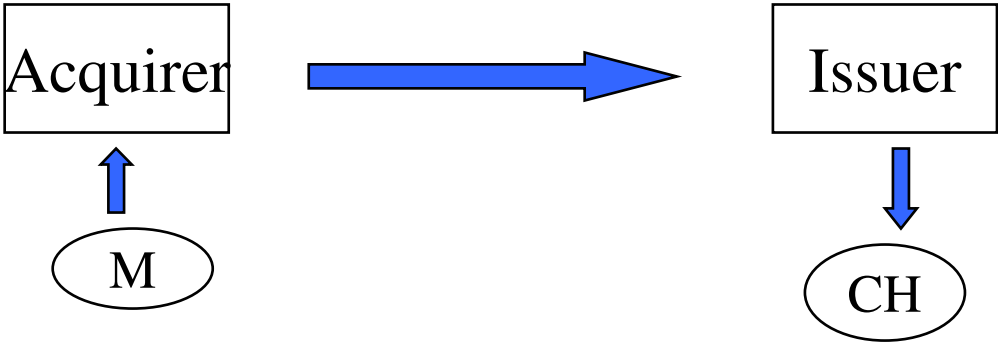
**Change programs can be implemented quickly**

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# III. The way forward

## 2. End cross-subsidization

Introduce a proper tarification at both ends (CH and M), as a complement to interchange: New tarification patterns to maintain profitability



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## Interchange Fees - Conclusion

- ↓ Interchange can be saved, both for credit and debit
- ↓ Introduce the necessary corrections, gradually but quickly
- ↓ To send the right message from within the industry

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## Interchange fees, the best way to pave the future

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**Interchange fees, the best way to pave the future**

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