

# payments system research briefing

APRIL 2008

FEDERAL RESERVE BANK *of* KANSAS CITY

## Developments in Interchange Fees in the United States and Abroad

by Terri Bradford, Payments System Research Specialist, and Fumiko Hayashi, Senior Economist

As payment systems have evolved from being heavily paper-based to electronic, payment cards have become an increasingly important electronic payment type. Recent Federal Reserve payments studies show that in the United States from 2003 to 2006, the annual growth of debit and credit card payments was nearly 18 percent and 5 percent, respectively. Card payments are a growing component of payments abroad as well. According to the 2007 Blue Book, from 2003 to 2006, the EU area experienced an estimated 10 percent annual growth in card payments. With this growth, payment card fees have been much discussed, and the interchange fee in particular has been the source of a good deal of controversy.

The interchange fee is used by card networks, such as Visa and MasterCard, to achieve a desired balance between merchants accepting and consumers holding and using their cards. Typically, merchants pay the interchange fee, which ultimately flows to the bank that issues the card the consumer uses. In the United States, the interchange fee structure is very complicated. For example, the interchange fee for a \$50 transaction at a retail store ranges from \$0.30 to \$1.20. Factors that can influence the fee include: 1) the type of card the consumer uses, credit or debit; 2) if credit, whether the card offers rewards or not; 3) if debit, whether the

transaction is signature or PIN; 4) the volume of transactions the merchant generates over the card network; and 5) the merchant type, whether grocery, gas, restaurant, e-commerce, and so on. Moreover, the level at which interchange fees are set in the United States is among the highest in the world. It is estimated that in 2006, issuers of cards utilizing the Visa and MasterCard networks received more than \$30 billion in interchange revenue.

Interchange fees have become very controversial in the United States. Merchants contend that there is a lack of transparency in how the fee is derived, and consequently, there is a general dissatisfaction with the level at which the fee has been set. In the past several years in the United States, there have been more than 50 lawsuits filed by merchants and merchant associations against the card networks and their large issuers regarding interchange fees. Many of the most recent lawsuits have been consolidated in a case currently before the U.S. District Court of the Eastern District of New York that is anticipated to go to trial this year.

In addition to the number of legal actions taken by merchants and merchant associations, this past March a bill entitled “Credit Card Fair Fee Act of 2008” was introduced by the House Judiciary Committee. If passed,

this new legislation would open the possibility of regulation of interchange fees in the United States.

While regulation of interchange fees is still just a point of discussion in the United States, regulation abroad is a reality. In about 20 countries, public authorities have taken actions that limit the level of interchange fees or merchant discount fees. Many of these actions require interchange fees to be set according to cost-based benchmarks, although the cost categories that are eligible for the benchmarks vary by country. In several countries, interchange fees are set at zero. In some of these countries (and areas), interchange fees have recently been discontinued or ruled illegal, while in the other countries,

national debit card schemes have had a zero interchange fee from their origin due to public authority involvement. In at least six countries, public authorities have not yet regulated interchange fees but have initiated investigations. If these investigations find adverse effects of interchange fees on competition or illegality of interchange fees against competition law, interchange fees may be regulated in these countries as well.

The following table summarizes various regulatory developments in interchange fees abroad.

Note: An earlier version of this table, compiled by Fumiko Hayashi, appeared in Stuart E. Weiner (2008), Commentary on "Towards a Competitive Card Payments Marketplace" by Alan S. Frankel, Payments System Review Conference, Reserve Bank of Australia and Melbourne Business School, Sydney, pp. 73-86

## Public Authority Involvement in Credit and Debit Card Markets Abroad

Interchange and Merchant Service Fees		
<i>a. Actions taken by public authorities</i>		
Country	Credit	Debit
Argentina	1999: Law 25.065 for Credit Cards was enacted. The law established norms that regulate various aspects related to the credit, debit, and retail card systems, such as the relationship between the cardholder and the card issuer and the relationship between the card issuer and the merchant. Among these norms was the setting of limits on the ability to implement price discrimination in merchant fees.	
Australia	2003: The Reserve Bank of Australia mandated that Bankcard, MasterCard, and Visa set interchange fees based on a cost-based benchmark.	2006: The Reserve Bank of Australia introduced interchange standards for the EFTPOS and Visa Debit systems.
Austria	2006: Following the European Commission's interim reports on the retail banking industry, Austrian banks agreed to review arrangements for setting interchange fees and announced that a reduction could be expected.	
Canada		Mid-1990s: Through a consent order from the Competition Bureau of Canada, Interac set its interchange fee to zero.
Chile	2005: The Chilean Antitrust Court admitted a complaint filed by the National Economic Prosecutor alleging abuse of a dominant position by Transbank, the acquirer of all credit and debit cards issued in the country; the court imposed a fine of approximately \$56,000. The National Economic Prosecutor requested, among other things, the modification of the Transbank price structure in such a way that it would be public, objective, and based on costs. The issue was resolved with a partial understanding between the parties. According to this understanding, Transbank had to reduce merchant fee ceilings and present a self-regulating plan for setting prices.	
Colombia	2004: The Superintendent of Industry and Commerce, the Colombia competition authority, passed the new Inter-bank Exchange Tariff that allowed merchants to negotiate fee rates with merchant acquirers. 2006: Credibanco (a Visa issuer) was required to exclude some costs included in its fee computation that were judged not to correspond exclusively to payment card services offered to merchants.	
Denmark	1990: Act of Certain Payment Instruments set a cap on merchant service charges (MSC) on internationally branded credit/debit cards issued by Danish banks for domestic transactions at 0.75% of transaction value or 1.25% of transaction value with a minimum of DKK 1.95 on the Internet.	1990: Act of Certain Payment Instruments set Dankort MSC to zero. 2003: Amendment to the Act introduced a positive MSC to Dankort transactions and reduced the fees on Maestro and Visa Electron from 0.75% to 0.4%, with a maximum of DKK 4. 2005: Dankort MSC was replaced by an annual fee per retailer.

European Union	<p>2002: The European Commission reached agreement with Visa to reduce its cross-border interchange fees by December 2007. The benchmark for its interchange fees was to be set at the level of the cost of supplying Visa payment services and would not exceed the cost of the services which issuing banks provide, wholly or partly, to the benefit of merchants.</p> <p>December 2007: The European Commission ruled that MasterCard's interchange fees were illegal. MasterCard filed appeal of the decision in March 2008.</p>	
France	<p>1990: The Paris High Court ruled that the methods for determining interchange fees could be accepted in accordance with the Competition Council's statement of objections.</p>	
Israel	<p>2006: Agreement was reached between the banks and the competition authority to reduce interchange fees from 1.25% to 0.875% by 2012.</p>	
Mexico	<p>2006: Interchange fee reductions were agreed to between the Mexican Bankers Association and the Bank of Mexico.</p>	
Norway		<p>Zero interchange fee (Bank-Axcept). The general position of authorities regarding the introduction of new payment systems in Norway has been that payers should cover costs. This position can be seen as early as in the 1974 report from the Payment Systems Committee.</p>
Panama	<p>June 2003 - July 2004: Under the 1998 banking law, the Superintendent of Banks issued regulations for banks that issue and manage credit cards. It established procedures for approving a credit card and authorized the charges for commissions and other related items.</p>	
Poland	<p>2007: Polish Office of Competition and Consumer Protection ordered banks to discontinue their multilateral interchange fee agreements.</p>	
Portugal	<p>2006: Following the European Commission's interim reports on the retail banking industry, Portuguese issuers and acquirers met some of the commission's concerns by reducing domestic interchange fees somewhat and removing preferential bilateral domestic interchange fees.</p>	
South Korea	<p>Korean Fair Trade Commission ruled that BC Card's (South Korea's four-party scheme credit card) joint pricing of merchant service charges was a cartel and imposed a fine of 10.092 billion Won and corrective measures.</p>	
Spain	<p>2005: Spanish Competition Tribunal denied authorizing the interchange fee arrangements of the Spanish card schemes. In December, agreement was reached between the Spanish card networks and merchants, coordinated by the Spanish Ministry of Industry, Tourism and Trade, for interchange fees to be reduced from a maximum of 2.32% to 1.1% by 2008.</p>	
Switzerland	<p>2005: Agreement was reached between the Swiss Competition Commission and credit card issuers to reduce interchange fees from 1.65-1.70% to 1.30-1.35%.</p>	
Turkey	<p>2005: Turkish Competition Authority made a decision on Interbank Card Centre (BKM)'s clearing commission rate by member banks. It stated in the decision that, in order to grant exemption to the clearing commission formula proposed by the consultancy firm on behalf of BKM, certain cost items in the formula should be adjusted.</p>	

*b. Investigations initiated*

Country	Credit	Debit
Brazil	<p>May 2006: Banco Central do Brasil (the central bank of Brazil) issued Directive 1/2006. The directive's focus was on the payment cards industry (pricing: IF, discounts, customer fee; concentration; profitability; governance; etc). It did not establish either obligations or prohibitions and did not mandate any sanctions.</p> <p>June 2006: Banco Central do Brasil's Economic Law Office and the Secretariat for Economic Monitoring agreed to cooperate with each other to collect payment card industry data and to coordinate public policy actions.</p> <p>September 2006: Payment card industry data was collected.</p>	
Hungary	<p>2006: Gazdasagi Versenyhivatal, the competition authority of Hungary, considered intervening in the payment card market. Interchange fees were regarded as too high compared to costs, especially in the case of debit cards. Price discrimination between "on-us" (acquirer=issuer) and "foreign" (acquirer≠issuer) transactions was considered to have adverse effects on issuer competition.</p>	
New Zealand	<p>2007: Proceedings were initiated by the New Zealand Commerce Commission against Visa, MasterCard, and member institutions of the two schemes, alleging price fixing in the setting of interchange fees.</p>	
Norway	<p>2004: On the initiative of the Ministry of Finance, Kredittilsynet (the financial supervisory authority) established a project group to report on competitive conditions in the Norwegian market for international payment and charge cards.</p> <p>2005: "The regulation of interchange fees is also being considered in Norway," stated in the 2005 Norges Bank (the central bank of Norway) Annual Report.</p>	
South Africa	<p>2004: The Task Group for the National Treasury and the South African Reserve Bank recommended that the Competition Commission should investigate the possibility of a complex monopoly in the governance and operation of the national payment system.</p> <p>2006: Following the findings in the research report <i>The National Payment System and Competition in the Banking Sector</i>, the commission began a public inquiry into bank charges and access to the payment systems.</p> <p>2007: The inquiry was at the final, report writing, stage.</p>	
United Kingdom	<p>2005: The Office of Fair Trading (OFT) found that MasterCard's interchange fee arrangements were illegal (September). The OFT issued a statement of objections on Visa agreement (October).</p> <p>2006: The MasterCard finding was appealed, and since MasterCard had changed its method of setting interchange fees, the OFT consented to its decision being set aside by the Competition Appeal Tribunal (June).</p> <p>2007: The OFT launched a new MasterCard investigation in February.</p>	

## Sources:

### *Argentina*

[http://www.iadb.org/europe/files/news\\_and\\_events/2006/LACF2006/SesII\\_Marta\\_Troya\\_Martinez\\_EN.pdf](http://www.iadb.org/europe/files/news_and_events/2006/LACF2006/SesII_Marta_Troya_Martinez_EN.pdf)

<http://201.216.237.145/server1/novregul/novedad01.pdf>

<http://201.216.237.145/server1/novregul/novedad10.pdf>

### *Australia*

[http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues\\_for\\_the\\_2007\\_2008\\_review.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues_for_the_2007_2008_review.pdf)

[http://www.rba.gov.au/MediaReleases/2006/Pdf/mr\\_06\\_02\\_creditcard\\_standard.pdf](http://www.rba.gov.au/MediaReleases/2006/Pdf/mr_06_02_creditcard_standard.pdf)

[http://www.rba.gov.au/PaymentsSystem/Reforms/CCSchemes/common\\_benchmark\\_cci\\_fees.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/CCSchemes/common_benchmark_cci_fees.pdf)

[http://www.rba.gov.au/MediaReleases/2006/Pdf/mr\\_06\\_02\\_eftpos\\_interchange.pdf](http://www.rba.gov.au/MediaReleases/2006/Pdf/mr_06_02_eftpos_interchange.pdf)

[http://www.rba.gov.au/MediaReleases/2006/Pdf/mr\\_06\\_08\\_benchmark\\_calc\\_scheme\\_debit.pdf](http://www.rba.gov.au/MediaReleases/2006/Pdf/mr_06_08_benchmark_calc_scheme_debit.pdf)

[http://www.rba.gov.au/PaymentsSystem/LegalFramework/Standards/setting\\_interchange\\_fees\\_visa\\_debit\\_payment\\_system.pdf](http://www.rba.gov.au/PaymentsSystem/LegalFramework/Standards/setting_interchange_fees_visa_debit_payment_system.pdf)

### *Austria*

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/40&format=DOC&aged=1&language=EN&guiLanguage=fr>

### *Brazil*

[http://www.iadb.org/europe/files/news\\_and\\_events/2006/LACF2006/SesII\\_Marta\\_Troya\\_Martinez\\_EN.pdf](http://www.iadb.org/europe/files/news_and_events/2006/LACF2006/SesII_Marta_Troya_Martinez_EN.pdf)

<http://siteresources.worldbank.org/INTPAYMENTREMITTANCE/Resources/JoseMarciano.pdf>

### *Canada*

<http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Weiner-Wright.pdf>

[http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Regulatory\\_panel.pdf](http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Regulatory_panel.pdf)

### *Chile*

[http://www.iadb.org/europe/files/news\\_and\\_events/2006/LACF2006/SesII\\_Marta\\_Troya\\_Martinez\\_EN.pdf](http://www.iadb.org/europe/files/news_and_events/2006/LACF2006/SesII_Marta_Troya_Martinez_EN.pdf)

<http://www.tdlc.cl/noticias/detalle.php?id=8> (available as of November, 2007)

### *Colombia*

[http://www.iadb.org/europe/files/news\\_and\\_events/2006/LACF2006/SesII\\_Marta\\_Troya\\_Martinez\\_EN.pdf](http://www.iadb.org/europe/files/news_and_events/2006/LACF2006/SesII_Marta_Troya_Martinez_EN.pdf)

<http://www.consumidoresint.cl/novedades/detallenovedad.asp?id=1148001800> (available as of November, 2007)

### *Denmark*

<http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Weiner-Wright.pdf>

[http://www.forbrug.dk/fileadmin/Filer/FO\\_English/UK-betalingsmiddelov.pdf](http://www.forbrug.dk/fileadmin/Filer/FO_English/UK-betalingsmiddelov.pdf)

European Payment Cards Yearbook 2005-6.

### *European Union*

<http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Friess.pdf>

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/06/260&type=HTML&aged=0&language=EN&guiLanguage=en>

### *France*

European Payment Cards Yearbook 2005-6.

Judgment (Case A 318/02 SERVIRED Interchange fees)

### *Hungary*

[http://www.gyh.hu/domain2/files/modules/module25/pdf/bankkartyahasznalat\\_2006.pdf](http://www.gyh.hu/domain2/files/modules/module25/pdf/bankkartyahasznalat_2006.pdf)

### *Mexico*

[http://www.rnejournal.com/articles/negrin\\_RNE\\_dec05.pdf](http://www.rnejournal.com/articles/negrin_RNE_dec05.pdf)

<http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Ortiz.pdf>

[http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues\\_for\\_the\\_2007\\_2008\\_review.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues_for_the_2007_2008_review.pdf)

### *Norway*

[http://www.kredittilsynet.no/archive/f-avd\\_word/01/04/Regul011.doc](http://www.kredittilsynet.no/archive/f-avd_word/01/04/Regul011.doc)

<http://www.norges-bank.no/upload/import/front/rapport/en/bf/2005/ch3.pdf>

[http://ec.europa.eu/internal\\_market/finances-retail/docs/finfocus/finfocus3/finfocus3\\_en.pdf](http://ec.europa.eu/internal_market/finances-retail/docs/finfocus/finfocus3/finfocus3_en.pdf)

<http://www.norges-bank.no/Upload/English/Publications/Economic%20Bulletin/2006-04/01-Payments%20history.pdf>

### *Panama*

[http://www.iadb.org/europe/files/news\\_and\\_events/2006/LACF2006/SesII\\_Marta\\_Troya\\_Martinez\\_EN.pdf](http://www.iadb.org/europe/files/news_and_events/2006/LACF2006/SesII_Marta_Troya_Martinez_EN.pdf)

<http://www.iib.org/associations/6316/files/gS2004.pdf>

### *Poland*

[http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues\\_for\\_the\\_2007\\_2008\\_review.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues_for_the_2007_2008_review.pdf)

[www.uokik.gov.pl/download/Z2Z4L3Vva2lrL2VuL2RlZmF1bHRfYWt0dWFsbm9zY2kudjAvMzcvNzIvMS9zdW1tYXJ5Mi5wZGY](http://www.uokik.gov.pl/download/Z2Z4L3Vva2lrL2VuL2RlZmF1bHRfYWt0dWFsbm9zY2kudjAvMzcvNzIvMS9zdW1tYXJ5Mi5wZGY)

### *Portugal*

<http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/40&format=DOC&aged=1&language=EN&guiLanguage=fr>

### *South Africa*

<http://www.compcom.co.za/banking/default.asp>

<http://www.compcom.co.za/resources/Media%20Releases/Media%20Releases%202006/Payment%20system/Banking%20Press%20Statement.doc>

[http://www.compcom.co.za/banking/documents/terms\\_of\\_ref.pdf](http://www.compcom.co.za/banking/documents/terms_of_ref.pdf)

<http://www.compcom.co.za/resources/Media%20Releases/Media%20Releases%202006/Payment%20system/NPS%20Final%20Report%20180406%2012pm.pdf>

### *South Korea*

<http://www.oecd.org/dataoecd/0/30/39531653.pdf>

### *Spain*

[http://ec.europa.eu/comm/competition/antitrust/others/sector\\_inquiries/financial\\_services/report\\_1/09.pdf](http://ec.europa.eu/comm/competition/antitrust/others/sector_inquiries/financial_services/report_1/09.pdf) (available as of November, 2007)

<http://www.rbrlondon.com/newsletters/b221e.pdf>

[http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues\\_for\\_the\\_2007\\_2008\\_review.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues_for_the_2007_2008_review.pdf)

Judgment (Case A 318/02 SERVIRED Interchange fees)

Judgment on individual exemption (Case no. A314/2002 SISTEMA 4B)

Proceedings in the case of amendment or revocation (Case no. A287/00 Euro 6000)

*Switzerland*

<http://www.weko.admin.ch/publikationen/pressemitteilungen/00235/Zusammenfassung-KK-E.pdf?lang=en&PHPSESSID=3d18cb9>

[http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues\\_for\\_the\\_2007\\_2008\\_review.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues_for_the_2007_2008_review.pdf)

*Turkey*

<http://www.oecd.org/dataoecd/0/30/39531653.pdf>

*United Kingdom*

[http://www.ofc.gov.uk/shared\\_ofc/ca98\\_public\\_register/decisions/ofc811.pdf](http://www.ofc.gov.uk/shared_ofc/ca98_public_register/decisions/ofc811.pdf)

<http://www.ofc.gov.uk/news/press/2006/97-06>

<http://www.ofc.gov.uk/news/press/2006/20-06>

<http://www.ofc.gov.uk/news/press/2005/195-05>

<http://www.kansascityfed.org/PUBLICAT/PSR/Proceedings/2005/Vickers.pdf>

*Israel, New Zealand*

[http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues\\_for\\_the\\_2007\\_2008\\_review.pdf](http://www.rba.gov.au/PaymentsSystem/Reforms/RevCardPaySys/Pdf/issues_for_the_2007_2008_review.pdf)

payments system research **Web site:** [www.KansasCityFed.org/home/subwebs.cfm?subweb=9](http://www.KansasCityFed.org/home/subwebs.cfm?subweb=9)

The Payments System Research function of the Federal Reserve Bank of Kansas City is responsible for monitoring and analyzing payments system developments. Staff includes:

**Terri Bradford**

Payments System Research Specialist  
[Terri.R.Bradford@kc.frb.org](mailto:Terri.R.Bradford@kc.frb.org)  
816-881-2001

**Christian Hung**

Research Associate  
[Christian.Hung@kc.frb.org](mailto:Christian.Hung@kc.frb.org)  
816-881-4721

**Zhu Wang**

Senior Economist  
[Zhu.Wang@kc.frb.org](mailto:Zhu.Wang@kc.frb.org)  
816-881-4742

**Fumiko Hayashi**

Senior Economist  
[Fumiko.Hayashi@kc.frb.org](mailto:Fumiko.Hayashi@kc.frb.org)  
816-881-6851

**Rick Sullivan**

Senior Economist  
[Rick.J.Sullivan@kc.frb.org](mailto:Rick.J.Sullivan@kc.frb.org)  
816-881-2372

**Stuart E. Weiner**

Vice President and Director  
[Stuart.E.Weiner@kc.frb.org](mailto:Stuart.E.Weiner@kc.frb.org)  
816-881-2201

*The views expressed in this newsletter are those of the authors and do not necessarily reflect those of the Federal Reserve Bank of Kansas City or the Federal Reserve System.*