

# Ensuring a level playing field to support European solutions – do not reduce interchange fees

- *A reduction in interchange fees jeopardises the future development of a European Girocard scheme for fast and secure payment transactions.*
- *Interchange fees facilitate fair competition between card schemes.*
- *In order to strengthen the European payment market we need to stop treating debit cards less favourably than credit cards.*

The 'EU Regulation on interchange fees for card-based payment transactions', or MIF<sup>1</sup> Regulation for short, is designed to reduce transaction costs for merchants and consumers. The cap established by the Regulation at the end of 2015 was set at 0.2 percent of the transaction amount for debit cards (e.g. Girocard) and 0.3 percent for credit cards (e.g. Visa and Mastercard). The Regulation is also intended to encourage investment in digital card technology and to promote fair competition between providers.

Data from the EU Commission show that, between 2015 and 2017<sup>2</sup>, card fees for merchants in Europe fell by 35 percent, or approximately EUR 2.6 billion. At the same time, the number of card-based payments rose constantly - in Germany alone by over 18 percent. Even small and very small payments are nowadays settled by card.

### Minimum fee is necessary and fair

Consumers are using their cards increasingly to pay for shopping and to settle bills. Thanks to the more advanced NFC technology, even the smallest amount is now being settled without thinking twice by means of a card or mobile wallet. However, since the technical effort is the same as for bigger transactions, a minimum fee is appropriate and fair.

### MIF Regulation leads to distortion of competition

The Girocard is currently the most popular payment card in Germany. Consumers appreciate it as an innovative product that functions securely. At present, there are more than 100 million of these cards in use. This European payment scheme is also a leader in other regional markets around Europe. The competitive strength of the Girocard is, however, increasingly being undermined by the effects of the MIF Regulation. The fee cap currently applied puts the debit card schemes at a distinct disadvantage. Since the caps were

first introduced, American credit card companies have been gaining ground in Europe. Europe's merchants and consumers, like the European banking industry, are becoming more and more dependent on US credit card companies. According to the Bundesbank, over two-thirds of all European card transactions are now processed via Mastercard and Visa. The market power of electronic payment providers whose fees are fully exempt from the scope of the MIF Regulation has been growing. A further reduction would accelerate that process.

### Expansion calls for big investment

Even now, the revenues from interchange fees hardly cover the costs of operating a scheme. This holds especially true of the already low cap on fees for debit cards, such as the Girocard. Digital payment schemes that are available around the clock call for big investments in cyber security and innovations. If the caps are reduced further, innovation and investment in the expansion of independent European payment schemes will not be feasible.

### Remove disincentives now

Cashless payment within the EU – with secure, efficient card transactions for both merchants and consumers – is a core concern for the Sparkassen. But after more than four years of experience, the flaws in the MIF Regulation are clearly visible: it promotes neither competition nor innovation.

The Regulation's review due in 2020 is an opportunity to correct the course. There are many good arguments for a return to market-based pricing without government regulation. Free negotiation of interchange fees without statutory price caps will strengthen competition between providers and generate sustainable price and cost efficiency.

<sup>1</sup> MIF (multilateral interchange fees).

<sup>2</sup> Latest statistically available year.