

Visa Response to the Amendment Decision implementing the EU Interchange Fee Regulation (“wijziging besluit uitvoering EU-verordeningen financiële markten”)

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Visa welcomes the opportunity to provide comments on the Dutch Finance Ministry’s Amendment Decision implementing the EU Interchange Fee Regulation. The Decision seeks to adjust the maximum interchange fee for domestic consumer debit card transactions by maintaining the current ceiling of €0.02, but removing the weighted average.

Visa recognises that interchange fee levels for domestic debit card transactions have been historically low in the Netherlands and that the ceiling of €0.02 is as close as possible to the current market situation.

However, it is well established that interchange fees can play an efficiency enhancing role and are required to 1) effectively balance issuance and acceptance for the functioning of the payment market, 2) to promote innovation and chances of adoption of new payment technologies and 3) to manage the security of payments. Capping the interchange rate at €0.02 risks potential downsides with no prospect of potential benefits for the payments market in Netherlands.

1. The right level of interchange guarantees the functioning of the card payment system

Payment card systems are two-sided markets and exhibit positive usage externalities. Interchanges help to maximise the combined welfare of cardholders and merchants by equalising the costs to merchants of accepting cash and card payment (cf. Rochet and Tirole, 2002). Interchange fees are passed through to cardholders while, simultaneously, they are passed through by acquirers to merchants in the form of merchant service charges (MSCs). By reducing the cost consumers face when using their cards, interchange fees act to increase usage although, at some point, if interchange fees are too high, they will act to reduce usage by reducing merchant acceptance of payment cards. Therefore, the right level is crucial to create positive externalities associated with the economics of a card payment scheme.

2. An appropriate level of interchanges is needed for its stakeholders to invest into innovation

Experience shows that when interchanges are set too low, issuers often prove incapable to fund the cost of technological improvements, such as the introduction of Chip and PIN or contactless. Examples include the Finnish Pankkikortti scheme or the Luxembourg-based Bancomat scheme. But even in cases where domestic schemes have successfully introduced new technologies, it is often only through co-badging with international schemes. Hence, interchanges are needed for the development and introduction of new payment technologies.

3. The right level of interchange incentivises the optimal allocation of risk within a payment scheme.

Interchange fees help to promote the optimal sharing of risk across different parties while incentivising issuers to strike the right balance between detecting and preventing fraud and making payments (and particularly online payments) as frictionless as possible. Overly-stringent regulation of interchange fees would put these efficiencies at risk. For instance, if interchange fees are set too low, their net revenue falls leading them to reassess the economics of the current payment guarantee model.

In conclusion, for most countries, the appropriate level of interchange is much higher than €0.02 to effectively promote innovation, security and to balance the issuance and acceptance of payment cards in the four-party model. For the long term, a capped rate of €0.02 is likely to be too low.