FACTSHEET Multilateral Interchange Fees

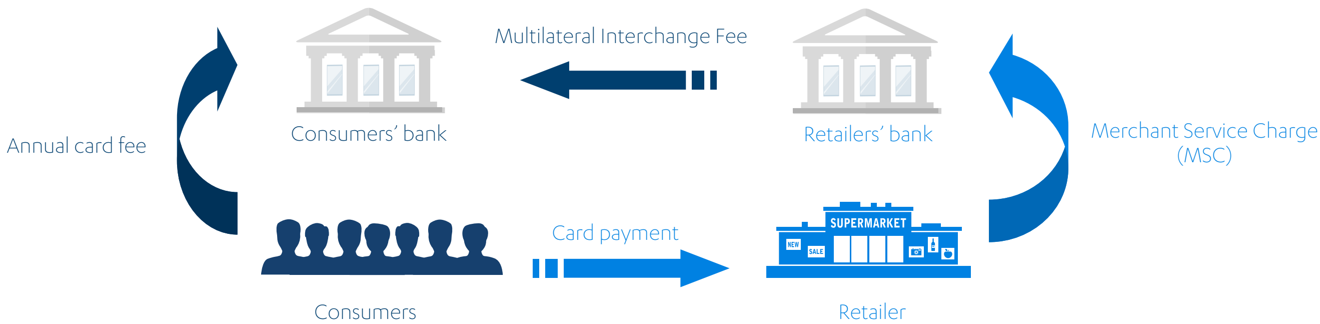
What is a MIF?

A *multilateral interchange fee* (MIF) is a fee a retailer's bank must pay to a consumer's bank for each card payment.

MIFs typically involve 4 parties:

- 2 banks
- A consumer (the cardholder)
- A retailer (merchant accepting a card payment)

For every individual card payment the retailer pays a charge to its bank called a Merchant Service Charge (MSC), most of which the retailer's bank passes on to the consumer's bank under the name of a MIF. As a result, the final amount received by the retailer is *less* than the amount paid by the consumer.



Usually, consumers also pay an annual fee to their bank for using the card – the cardholder fee.

A profitable source of income for banks

By way of MIFs, card companies essentially reward consumer banks for offering their cards to bank customers. Every transaction generates income for the consumer's bank.

Over the years, international card companies have created a multitude of different MIFs and their rates – and the bank income they generate – remain high in many EU Member States, particularly for credit cards. Despite the increasing use of cards and thus a reduction of the card payment infrastructure costs there is no sign of a decrease of fees.

A business model which distorts competition

MIFs are centrally fixed by card companies, i.e. MIF levels are not subject to competition.

Card companies use MIFs to increase their market share: by offering higher MIFs to the consumer banks than their competitors – and so more income for the banks promoting their cards. When a bank decides to move from one brand to another it basically 'obliges' its clients to do the same.

[1] http://www.visaeurope.com/en/about_us/our_business/fees_and_interchange.aspx / http://www.mastercard.com/us/company/en/whatwedo/interchange/Country.html and http://www.mastercard.com/us/company/en/whatwedo/interchange/Country.html

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As consumer banks want to maintain their high MIF-related income, they are reluctant to allow new players to enter the market. Being the gatekeeper to their customers' accounts, banks are able to prevent new card companies from operating a MIF-free or lower MIF business model. It is almost impossible for alternative payment service providers to offer cheaper card services to account holders (in the last ten years several MIF-free national schemes have ended, but not been replaced). MIFs also prevent the emergence of innovative payment service providers offering non-card payment solutions to consumers

A third anti-competitive element is that banks are obliged (by VISA and MasterCard) to apply the MIF of the country where the card transaction or purchase of good or services takes place. This prevents retailers from investigating better deal options and services from foreign banks with lower MIFs than those in their own country.

Court rulings confirm problem

A 2012 ruling by the General Court – a jurisdictional instance of the EUs Court of Justice – confirmed a European Commission decision which stipulated that MasterCard MIFs breach competition law. By setting a floor under the costs charged to retailers, these retailers were unable to "exert greater competitive pressure on the amount of the costs they are charged for the use of their cards". Echoing arguments that MIFs in fact constitute an unjustified source of income, the Court concluded that MIFs "tended to overestimate the costs borne by the financial institutions on issuing payment cards".

Consumers pay the price

Due to the fees they have to pay and in particular MIFs, the income retailers receive from their bank is less than the price of the good they have sold to consumers. To compensate for this loss, businesses include this card-related fee in the price of their goods and services – in effect making them more expensive. This results in higher consumer prices for all shoppers – even those consumers who pay with cash or do not even possess a card. In the end, all consumers are hit to pay for a scheme which ultimately rewards the bank which issued the card and the card company.

An additional headache are surcharges levied when consumers pay with certain types of credit or debit cards. In 2007, the Payment Services Directive allowed Member States to authorise surcharges to incentivise the use of means of payments which are cheaper for the retailer (i.e. cards with lower or no MIFs or cash). Surcharges have evolved to become a stand-alone source of income for many sectors (e.g. airlines) and make most card payments even more expensive.

Action needed

EU legislative proposals is currently on the table of EU legislators. Some of the proposed measures to address the negative consequences of MIFs include:

- Interchange fees on credit card transactions will be capped at 0.3% of the transaction amount. The cap for debit cards will be 0.2% or a maximum of €0.07.
- The majority of consumer card surcharges e.g. when buying travel tickets online will be banned.

BEUC supports these measures but demands that member states are allowed to set lower fees to suit local markets. The yardstick of any action must be that additional costs for consumers are avoided. No one wants to see the scenario of reduced MIFs leading to a rise in cardholder fees paid directly to a consumer's bank just because card companies and banks do not want to reduce their high profit margins.

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