

Debit Card Fast Facts: Debit Fee Reforms in Europe to Benefit Consumers

Fact #9: European Competition authorities expect a reduction in Visa debit card rates to 0.2% will benefit consumers because “setting interchange fees at efficient rates will help reduce costs for consumers, including the costs they currently bear without knowing it.”

“In December 2010, The European Commission has made legally binding commitments offered by Visa Europe to significantly cut its multilateral interchange fees (MIFs) for debit card payments. The MIF is a bank-to-bank fee for card payments that is collectively fixed by Visa Europe's member banks, but is ultimately paid by consumers. Under the commitments, the maximum weighted average MIF applicable to debit card cross border transactions and to national debit transactions in those countries where MIFs are set directly by Visa Europe will be cut to 0.2% of the value of the transaction. This represents a reduction of about 60% on average for domestic MIFs.”¹

In response to this decision Commission Vice-President in charge of competition policy Joaquín Almunia commented: *“Lower inter-bank fees will trigger real benefits for merchants and consumers whilst more transparent rules will also improve competition in the cards markets.”*²

In May 2010, the EU Competition Commission said the following regarding the commitment by Visa to lower debit card interchange fees:

“What are the expected benefits for consumers and merchants of Visa Europe's proposed commitments?”

Setting interchange fees at efficient levels will help reduce costs for consumers, including the costs they currently bear without knowing it.

Retailers pass on the merchant service charges, including MIFs, to their customers through higher prices for the goods and services they sell. Therefore, consumers ultimately pay the fees that banks charge merchants. This means that cardholders pay twice for card use: once to their bank and once through increased retail prices. Even consumers that never use a card but pay in cash are bearing these costs, as they are exposed to exactly the same retail prices as cardholders.

In general, shops do not display the fees attached to different means of payment and consumers are therefore often unaware of the true costs. This allows payment card schemes to raise their fees to levels where each card payment becomes more expensive than non-card payments. In that case, a payment made with a card imposes a hidden cost on consumers as compared to a payment without a card.

Currently, consumers do not see what they are paying for. It is therefore important for consumers that MIFs [multi-lateral interchange fees] are set at an efficient level and that customers and merchants know and pay the real cost for using their cards, in order to make an informed decision on which means of payment to use.”³

¹ Antitrust: Commission makes Visa Europe's commitments to cut interbank fees for debit cards legally binding. Brussels, 8 December 2010 <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1684>.

² Ibid.

³ Antitrust: Commission market tests Visa Europe's commitments to cut Multilateral Interchange Fees (MIFs) for debit cards transactions – frequently asked questions. Brussels, 28 May 2010. <http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/10/224&format=HTML&aged=0&language=EN&guiLanguage=en>