

**From the Commission of the European Communities Press Release  
Accompanying the Final Report from the Commission on the Sector Inquiry  
on Retail Banking** Brussels, 31<sup>st</sup> January 2007

**“Competition: Commission sector inquiry finds major competition barriers in retail banking”**

Competition Commissioner Neelie Kroes said: “The inquiry has found widespread competition barriers which unnecessarily raise the cost of retail banking services for European firms and consumers. The Commission will make full use of its powers under competition law to tackle these barriers, in the market for payment cards and elsewhere when they result from anticompetitive behaviour.” Brussels, 31<sup>st</sup> January 2007

**From the Commission of the European Communities Final Report on the Sector  
Inquiry on Retail Banking** Brussels, 31<sup>st</sup> January 2007

¶ 13, p. 4 “The sector inquiry has identified several significant competition issues in the European payment cards market that confirm the need for strong competition law enforcement in close cooperation with national competition authorities.”

¶ 16, p. 5 “Analysis of the inquiry’s market data suggests that card issuing alone (i.e. without interchange fee) generates positive profits in twenty Member States.”

¶ 17, p. 5 “In several Member States, acquiring of Visa and/or MasterCard transactions is done by a monopoly player. Such acquirers act as *joint ventures* of incumbent banks that at the same time issue cards on that market. This situation may enable issuers to exercise significant market power and thus lead to uncompetitive merchant fees.”

¶ 20, p. 7 “*Interchange fees for credit transfer and direct debit*: In Member States where interchange fees are agreed upon, such fees may distort competition between different means of payment and competition to provide payment services to customers. Competition between means of payment may be distorted where banks have an incentive to promote the use of payment means with high interchange fees.”

¶ 39, p. 9 “Antitrust enforcement may be able to address several of the competition issues identified in this sector inquiry.” ¶ 40 “Secondly, enforcement action might be also be appropriate in relation to high interchange fees and merchant fees in some payment card networks.”

¶ 54, p. 11 “The European Commission will not hesitate to exercise its powers of enforcement under Articles 81, 82, and 86 EC, to ensure that the competition rules are respected in retail banking”

**From the Frequently asked questions accompanying Competition: Final report on retail banking inquiry from the European Commission**  
Brussels, 31<sup>st</sup> January 2007

**“What is an interchange fee?”**

The interchange fee is the fee paid by an acquiring institution (also known as acquiring bank or acquirer) to an issuing institution (also known as issuing bank or issuer) for each payment card transaction at a merchant's point of sale. Acquirers then recoup this fee (as well as other costs plus some profit) by charging a fee to the merchant, called merchant service charge. Thus, the interchange fee becomes the floor to the merchant fee, which is then passed on to consumers in the form of higher retail prices, paid not only by card users but also by customers paying in cash.”

**“How does interchange affect competition?”**

The cost of interchange fees ultimately forms part of the retail price paid by consumers. This cost is non-transparent and therefore cannot serve the purpose of a signal to select the most efficient means of payment. Furthermore, all consumers, including those who do not use cards, pay the cost of the interchange fee when it is passed on in the retail price. As a result, we face the problem of so-called 'cross-subsidization': consumers that use other means of payments indirectly subsidize consumers who use costly payment cards.”

**“Are you proposing to abolish interchange fees?”**

No, we do not propose to abolish the interchange fee. We are trying to make sure that the interchange fee is set at a fair level as a result of a competitive outcome and the cost of this fee is sufficiently transparent for market participants.”

**“Some networks claim that decreasing the interchange fee would lead to a commensurate increase in cardholder fees and thus make consumers worse off?”**

There is no economic evidence for such a claim. Firstly, the inquiry's data suggests that in most cases card issuers would remain profitable with very low levels of interchange fees or even without any interchange fees at all. Secondly, the international card networks have failed to substantiate the argument that lower interchange fee would have to be compensated with higher cardholder fees. The evidence gathered during the inquiry rather suggests that the pass-through of higher interchange fees to lower cardholder fees is small.”

“Consumers already pay the cost of the interchange fee without knowing it. This cost is now hidden in the final retail price and is therefore non-transparent. Our objective is to improve transparency, so that consumers know how much and when they are paying for a card.”

**“How does competition work at the retailer level?”**

Several rules and practices imposed by the card networks neutralize competition at the retailer level. When retailers are obliged to accept all cards of the same brand, when retailers have to pay the same charges even if the usage costs are different, when retailers cannot choose their acquirer, when retailers cannot request a surcharge for the more expensive cards, then cardholders have no incentive to use the most efficient payment instrument. This lack of competition at the retailer level explains also why it is possible to maintain such high fees.”