

## **FSUG Support for Commission Initiative and Latest Interchange Fees Regulatory Developments in Romania**

Distinguished Members of the European Parliament,

Dear colleagues from Spain and other European countries,

Ladies and gentlemen,

It is a great honor for me to be here today and to express my view regarding this important issue. Let me first congratulate Eurofinuse and ADICAE for their initiative to organize this event. It is a very good opportunity for all of us to hear other experiences and to discover new ideas about how to deal with this issue for the benefit of consumers.

### **FSUG**

As Guillaume just told you, I am member of Financial Services User Group (FSUG), an expert group set up by the Commission in 2010 to represent the interests of financial services users. Last summer, FSUG sent a letter to Commissioner Barnier to express its support for this legislative initiative, in order to improve competition in the payments sector and increase consumers' choice. In the same time, FSUG asked the Commission to take the necessary measures to avoid that market players use their dominant position to increase costs for consumers.

The data collected in different EU Member States showed that the level of MIFs was not the main aspect that affected the evolution of the annual fee paid by card holders to their bank. The level of annual card fees depends on the tariff policy and on the business model of each bank and the current crisis has led some of them to increase this stable source of income, relying on consumers' inertia as most of them do not switch to another bank.

FSUG was on the opinion that the Commission should reform the current business model for card payments as it has proven to be anticompetitive. The new business model must stop distorting competition and allow alternative PSPs to enter the market. One key measure to achieve this objective could be the decrease the level of MIFs. But the yardstick of any action must be that additional costs for consumers are avoided. No one wants the scenario of reduced MIFs leading to a rise in cardholder fees paid to the bank, just because card companies and banks don't want to reduce their high profit margins.

FSUG proposed some measures to prevent increased costs for consumers:

1. Monitoring on a regular basis the annual fees paid by card holders to their banks and the evolution of prices of goods and services in shops where consumers mainly make card payment transactions (e.g. supermarkets, gas stations, airline companies), in order to check that lower MIFs lead to lower prices for consumers.
2. Encouraging the reduction of all fees and interest rates which slow down the emergence of alternative cards and all other electronic payments. This could be done by improving the transparency of all payment account fees that should include all debit and credit transaction fees including MIFs, but also through the revision of the PSD.
3. Promoting the interests of consumers in the payments area by inviting them, via information campaigns, to use cheap, safe and efficient payment services and giving full and effective participation in the observatories, forums and other national and European institutions dealing with payments.
4. Sanctioning those who do not comply with competition rules, including the retailers who do not pass on the reduction of MIFs to consumers.

Other recent study also suggests potential benefits for consumers. “The economic effects of recent regulation of debit card interchange fees” in United States, provided by dr. Robert J. Shapiro showed that capping MIFs have had significant effects. The total amount saved by merchants and consumers was estimated at 8.5 billion USD in 2012. Shapiro estimated that 5.9 billion USD was passed along to consumers in lower prices and merchants retained 2.6 billion.

## **Romania**

In Romania, the Competition Authority finalized last year a sector inquiry on banking payment. And one of the findings was that the interchange fees are among the highest in Europe. Thus, in Romania, the interchange fees exceeded 1%. The analysis carried out by the Competition Council showed that the average level of fees paid by merchants to acquiring banks is between 1.78% and 2.4% out of the transaction value. Thus, the interchange fee charged by banks influences in a large proportion the level of fees charged to merchants and implicitly the end price of products or services.

The profitability analysis conducted by the Competition Council also showed that the average profit rate recorded by card issuance activity between 2009-2011 was between 62% and 101% for half of the banks surveyed. The study also revealed that revenues from the interchange fees of the issuing bank are between 8% and 11% out of the total income from card issuance activity. And over 50% of the banks surveyed recorded profitability between 49% and 79% if the revenues from interchange fees were extracted out of the total revenues. As a result, the card issuance activity is very

profitable for a significant number of issuers, even in the absence of interchange fees.

The study also found that between 2009 and 2011, when the interchange fees remained unchanged, the level of fees paid by consumers to their bank have increased. Moreover, in 2012, after one of the major card scheme decided to increase the level of interchange fees at national level, the issuing banks have also increased the level of fees for card holders.

At the end of January, the Romanian Ministry of Finance launches a public debate about a package of measures for reducing the use of cash as means of payment. One of the proposals included into the package was the capping on MIFs for debit cards at 0.2% and for credit cards at 0.3%. The new levels will be applied also for contracts in force. Unfortunately, after just a week the Government changed his mind to promote this package under the emergency procedure, and it will be promoted through a law, in Parliament.

Romanian Association of Financial Services Users is strongly involved into the future form of this regulation. We welcomed the initiative, but in the same time we asked for introducing some safeguards for consumers. We want to be sure that consumers will profit from a decrease in prices of goods and services and on the other side we don't want to see an increase in fees for card holders. Our proposal was to strongly involve into the process National Bank of Romania, Competition Council and National Authority for Consumer Protection to monitor card fees before and after the adoption of the new regulation and also the level of prices for goods and services.

In the same time, we are concerned about the wording of the proposal. There are only mentions about the cap of the MIFs and transparency of the level of fees in contracts between merchants and acquiring banks, but no word about the necessary reduction of fees, explicit at least for merchants. In this respect, we will be involved in the whole legislative process and hope to come back with good news as soon as possible.