

Joint statement by consumer bodies expressing concerns about European Commission proposal to regulate interchange on card transactions

The use of debit and credit cards in the UK is far more prevalent than in any other EU country. As UK consumer bodies we have serious concerns that there may be considerable unintended consequences and significant detrimental effects of proposed changes in interchange regulations on card transactions.

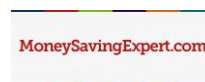
Whilst we support the Commission's wish to protect consumer interests with respect to card payments, we are concerned that these reforms will in fact have the opposite effect. The Commission have not presented any evidence that these consequences will not occur and should do so as a matter of urgency. It is the responsibility of the UK and other EU countries to hold the Commission to account so that there is a check on the intended and unintended consequences.

As groups representing consumers in the UK, we are concerned that the Commission's proposals will result in less competition in the market, thereby punishing both 'savvy shoppers' and more vulnerable consumers through restricting access to credit, limiting its flexibility and increasing its cost.

We are highly sceptical that the gains for retailers (of perhaps as much as £2 billion) will be passed on to consumers in lower prices. This has not happened elsewhere and, given current complaints from retailers that they are paying too much and that other costs of doing business are increasing, we cannot understand why it would be expected that they would voluntarily pass on this benefit to consumers:

- In the United States, legislation in 2010 implemented a reduction in interchange fees of nearly 50%, saving retailers an estimated \$8 billion a year, yet consumers found that they were paying more for the same products whilst paying higher charges for traditional banking services and enjoying reduced rewards.
- In Spain, a 2005 reduction in interchange of almost 60% resulted in a 50% increase in card fees.
- In 2002, the Reserve Bank of Australia reduced interchange fees by some 50%, saving retailers AU\$850 million a year. Unfortunately, this has meant consumers are paying some AU\$500 million more in additional card use fees to cover the shortfall while the benefits have declined. This has translated into 22% more in annual fees for standard credit cards and 77% more for reward cards.

The imbalance in market power between consumers and big retailers in particular, suggests intuitively that much of the gain will be retained by these retailers. The Commission have produced no evidence that retailers will pass their savings from interchange capping onto cardholders and consumers and the evidence that does exist suggests the opposite.



If, as we expect, consumers will have to meet the shortfall, we are concerned that this could happen in a number of ways. The credit card market in the UK caters for a wide range of consumers, which could be affected differently:

- For savvy and confident shoppers some credit cards offer rewards, such as cash back or air miles. Removing access to rewards will only act to punish the engaged consumer. We believe this will limit competition in the market, and therefore discourage product switching, rather than encourage new players to enter the financial services industry.
- If consumers are discouraged from using credit cards because of increased charges or interest rates or withdrawal of rewards as a result of these proposals they will lose the additional legal protection afforded by section 75 of the consumer credit act which states a credit card provider is equally liable if something goes wrong with a purchase costing more than £100.
- All consumers could be affected by the introduction of account charges and/or the removal of rewards schemes.
- It is also possible that fees for management of current accounts and other retail banking services will increase. As such, the transfer of costs from retailers to consumers will not be transparent.
- Given the current pricing structure for credit cards in the UK, it is more likely that credit card issuers will increase interest rates in order to recover lost revenues arising from the Commission's proposals. It should be noted that the payment of interest on credit card balances only occurs where these are not cleared within the interest free period. Therefore, the greatest burden will fall on those who are least able to bear it. The impact will be especially felt by consumers who make only the minimum payments on their cards on a long-term basis.
- Finally, we are also concerned that the proposals will negatively impact on the development of the UK's pre-paid card market. In recent years, these cards have developed to provide a real alternative to bank accounts for people on lower incomes – offering a variety of transactional functions, including the ability to have wages and other payments made directly into the account by third parties, and supporting bill payments. The cost of pre-paid cards is, however, a major issue for people on low incomes, and the Commission's proposals are likely to increase these. This threatens to prevent what was becoming a real alternative to bank accounts from taking further root in the UK.

Retailers benefit from the use of credit cards through higher sales, lower costs of cash transportation and for securing cash on the premises, fewer losses from the use of cash, more efficient income management and a guarantee that they will receive payment. It seems unfair that the burden of paying for this service should be shifted from retailers to consumers.

In the absence of any evidence to support the Commission's assertions, these proposals could result in serious consumer detriment. We call on the UK and other EU countries to ensure that poorly-developed legislation does not result in harm to consumers, as appears to have been the case where these measures have been implemented in other countries.