



FEDERATION  
BANCAIRE  
FRANCAISE

# An interbank payment card system for the benefit of all

Most European consumers and merchants make use of a **very efficient payment card system**: the customer's bank card is accepted by the merchant regardless of their respective banks.

This very user-friendly scheme is based on an interbank clearing system and an economic model founded on multilateral interchange fees (MIF), paid between banks or payment institutions. Thanks to these benefits, **the "four-corner" card payment system has been developed all across Europe**. 30 years after being introduced, **bank cards have become the preferred method of payment for the French** and now account for nearly one out of two payments.

## A system adopted by all

The biggest benefit of the bank card is that it is accepted everywhere. Other pluses include:

- A **guarantee** that merchants will be paid;
- **Reliability and security**, with persistently low risk of fraud;
- **Traceability**: a key weapon in the fight against money laundering.

Accepted by all participants, bank card payments offer an attractive cost-to-service ratio, as demonstrated by their continued expansion and selection among many other types of innovative payments (Paypal, Isis, Google Wallet, etc.).

## Pooled remuneration benefiting all participants

Today, the pooled compensation scheme offered by bank cards helps **reduce unit transaction costs**, in an environment open to all merchants regardless of size,

geographic location or distribution channel. **Multilateral interchange fees apply to all transactions**, regardless of the bank used by the consumer or merchant: **MIFs ensure the interoperability and universality of the payment card system**.

## The interbank payment card system challenged by the competition authorities

And yet this method of operation, which is well-known to the public authorities, is now being challenged by the European Commission; from the standpoint of competition rules, the Commission believes that the interbank clearing system lacks transparency. Ongoing discussions on the future of payment instruments in Europe have included proposals for the reduction if not the elimination altogether of multilateral interchange fees.

However, within the Single Euro Payments Area and on a same-scope basis, if the multilateral model were to be replaced by bilateral agreements, **several million agreements** would have to be negotiated, including potentially different contractual clauses and price ranges for each one. Consequently, it is far from certain that changing the economic model would bring greater transparency or fairness of treatment between participants.

## Quick facts

- **96%** of the French have a payment or withdrawal card (*Crédoc Report, 2010*).
- On average, the French make **121 payments** per card each year (*source: ECB Payment Statistics - September 2012*).
- Cards represent **45%** of scriptural payments in France in 2011 (*source: ECB Payment Statistics - September 2012*).

## Inevitable consequences for consumers and merchants

In addition to the complexity of such a sprawling network of agreements, the criticisms levelled at the system in place in France and around Europe could lead to a number of possible changes, potentially occurring all at once:

- **Higher fees on bank card payments**, as banks would seek to recover some of the lost interchange fees from their customers. Banks could be forced to increase annual card fees, or the charges for using the card (payment and/or withdrawal) or even for services such as deferred debits. This is exactly what happened in Spain from 2006 to 2010: a 57% cut in MIFs was followed by a 50% rise in annual card fees over the same period, yet it was not possible to demonstrate that the cost savings for merchants on their bank fees were reflected in consumer prices<sup>1</sup>;

- **Migration to other payment instruments** that are less secure and/or less transparent, such as cash, anonymous prepaid cards, cheques...In France, the predominant use of bank card payments has helped significantly reduce, or at least contain, the use of other payment instruments which are more costly for society as a whole;

- **An impact on innovation and security of card payments**. Technological innovation and combating fraud are the biggest concerns held by financial institutions. Banks are constantly making efforts to **improve payment security**, while testing innovative new technical solutions. A substantial share of their resources is spent on such initiatives. It would be detrimental to deprive them of the means to continue making these crucial investments for the future of payment cards in France.

**Banks must have the means to upkeep the payment card infrastructure.**

---

1. See the article by Enrique Calvet, Economist and Member of the European Economic and Social Committee, published in the 6 December 2012 edition of the AGEFI HEBDO.

## Inevitable consequences for banks

It is thanks to the economic model of retail banking in France that customers enjoy such a broad range of efficient products and services around the country. A key factor of this success is the density of the retail banking network. This model would come under threat if there were less additional charges for banks. Ultimately, it would also mean fewer resources and fewer direct and indirect jobs for economic growth in France.

**Is the end of the interbank payment card model on the horizon?** Eliminating MIFs would bring an end to the interbank cooperation of the Four-Corner system. It would also promote the development of private payment networks and undermine the role of banks as creators and issuers of payment instruments.

**Given the importance of the issues at hand, the banking profession reaffirms its determination...**

- **to exercise its activity on a level playing field** for all participants - banks and non-banks alike - and for all three-corner and four-corner systems offering the same services, with the same rights and duties to ensure fair and open competition on the payment card market;

- **protecting the four-corner model which has paved the way for the widespread use of payment cards:** the sustainability of this model calls for the continued application of MIFs, which alone can guarantee the interoperability and mass distribution of this payment instrument.

**The French banking profession asks that any initiative challenging the economic model of the payment card system be preceded by a comprehensive analysis of the payment instruments market (cash, cheque, payment card, etc.) comparing each payment instrument in terms of direct and indirect costs, security and ease of use in France and abroad.**