

Banking Automation **BULLETIN**



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Country profile: Germany



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A world with lower POS interchange fees

Until recently interchange fees were rarely discussed, and viewed by those involved in setting them as highly secretive – this is not that surprising as they are set collectively by competitors, and in

the case of POS interchange fees they represent a massive flow of funds from acquirers to issuers, and in reality from merchants to banks.

Despite the merits of POS interchange fees, particularly in less developed markets where high interchange fees encourage growth of the payment cards network, they are coming under ever increasing scrutiny by competition and regulatory authorities around the world.

A new report from RBR analyses the recent investigations into these fees, examines the latest trends in interchange rates and makes predictions of how the interchange fees debate will pan out (see pages 2-4).

The report describes how POS interchange fee revenues more than doubled worldwide between 2000 and 2006, to \$63.8 billion, despite this increasing scrutiny. Much of this increase is due to phenomenal growth in cardholding and spending, but in some countries, most notably the USA, interchange rates have continued to rise.

In Australia and much of Europe, interchange rates have been falling however, and RBR's new report predicts that this trend will expand to markets which have until now experienced static or rising interchange rates.

Falling POS interchange rates will have major implications for industry stakeholders. Issuers in particular will have to decide how to adapt to lower interchange fee income. Ultimately there will be a direct impact on cardholders – less profitable customers will find it more difficult to obtain cards, and those that remain will almost certainly encounter an increase in card-related fees. The good news for cardholders is that they should benefit from more competitive pricing at merchants.

Ironically, the biggest winners will be consumers who pay in cash – who will also benefit from lower retail prices and will avoid the increases in card fees.

Dominic Hirsch, Editor

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Editor Dominic Hirsch

Managing Editor Morten Jorgensen

Assistant Editors Tomomi Kimura, Rob Walker

Contributors Romina Capaldo, Rowan Berridge, Robert Chaundy, Richard Cummings, Daniel Dawson, Sarah Jones, Felix Kronabetter

Subscriptions Manager Susie Lens

Advertising Manager Felix Kronabetter

For all editorial and advertising enquiries:

Telephone: +44 20 8940 1398

Fax: +44 20 8940 1527

Email: bulletin@rbrlondon.com

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Retail Banking Research Ltd
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