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MasterCard International to Appeal OFT Ruling



MasterCard International today expressed strong disagreement with the conclusions of the Office of Fair Trading (OFT) that an agreement between MasterCard's UK members on the default interchange fees charged on transactions made in the UK with MasterCard credit and charge cards infringed the Competition Act 1998 and Article 81 of the EC Treaty.

John Bushby, General Manager, MasterCard Northern Europe, commented: "We're very disappointed by the OFT's decision after five and a half years of deliberations and all the detailed evidence we have provided to explain the need for MasterCard's default interchange fees in the UK."

Bushby continued: "We have consistently shown not only that default interchange fees have paved the way for a large number of new entrants into the UK credit card business over the past decade, but also that the UK payment system is one of the most competitive in the world.1 The OFT complained that the interchange includes funds to cover the interest free period – these funds are referred to by the OFT as "extraneous" costs. The interest free period is in fact integral to the credit card system and it is highly valued both by retailers and cardholders".

"For the OFT to claim that the interchange fee agreement either reduced competition or disadvantaged consumers or retailers is simply wrong.

Consumers benefit from greater choice as more retailers accept credit cards, and retailers of all sizes benefit as card usage expands. As such, today's OFT ruling is bad news for both healthy competition and the economy."

"Today's ruling also fails to recognise that interchange fees have contributed to significant expansion in use of new technology and a considerably more sophisticated and secure means of payment, tightening up the way in which transactions are recorded, preventing fraud, and helping to place the UK at the forefront of the e-commerce drive. These vital benefits seem not to have been properly taken into consideration by the OFT."

"We also disagree with the OFT's suggestion that default interchange fees represent a 'tax' on consumers. Every cost that a retailer has could likewise be called a 'tax'. It's another example of the hazards of trying to analyse the issue of interchange fees in isolation. Cards are a more efficient, more secure and more convenient means of payment than cash for both consumers and retailers, something today's ruling fails to recognise.

MasterCard has always argued that reducing interchange fees, whether by way of specific regulatory intervention (such as was done several years ago in Australia) or by way of the misapplication of competition

law (as the OFT seeks to do), will not make the costs of running the system disappear. Indeed, the UK's 30 million MasterCard cardholders would, under the circumstances the OFT seeks to impose, be compelled to pay a greater proportion of the costs of the system, to the ultimate detriment of cardholders and retailers.

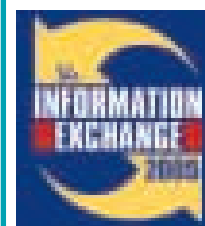
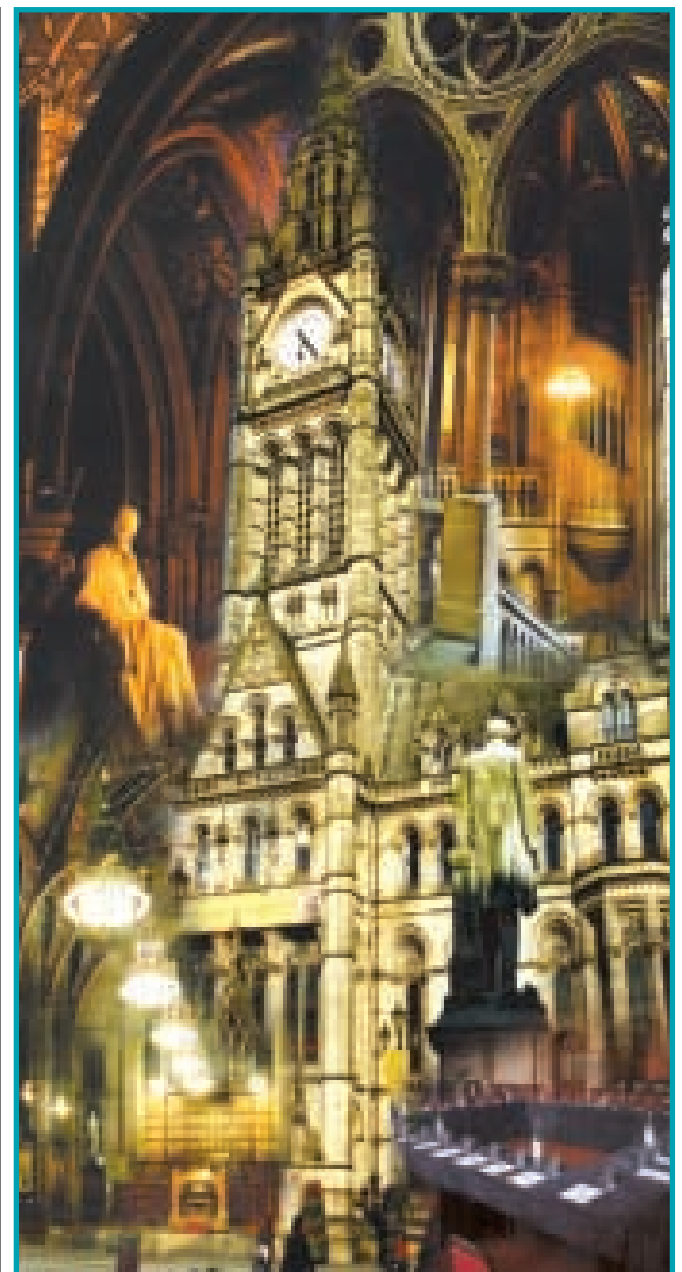
"Consider what happened when the Reserve Bank of Australia forced MasterCard and other four-party payment systems to reduce interchange fees by nearly 50%: cardholder fees increased, card benefits (such as loyalty programs) were reduced, and retailers, so far as anyone can tell, pocketed the savings rather than passing them along to consumers in the form of lower prices. Worst of all, less efficient and more expensive three-party systems (such as American Express) have been able to increase their share of the business, since the Reserve Bank chose not to regulate them. MasterCard observes that the OFT's decision today would, likewise, give three-party systems an unfair competitive advantage", concluded Bushby.

MasterCard believes that the OFT decision, in addition to jeopardising competition will, if allowed to stand, lead to reduced services to cardholders and to an increase in cardholder fees and charges, and may even make it difficult for many consumers to get credit cards.

MasterCard notes that, in the long run, even retailers will suffer from today's decision. Retailers are the primary beneficiaries of a healthy credit card industry, given the importance of credit cards in facilitating millions of consumer purchases and in increasing retailers' sales. Anything that undermines the credit card business will, eventually, harm retailers. MasterCard plans to appeal the OFT's decision and will continue to work to defend the interests of its cardholders, retailers and members. MasterCard is confident that the OFT's decision will ultimately be reversed.

As the OFT decision recognises, MasterCard last year took over from its UK members the responsibility for setting default interchange fees. If the OFT challenges the current arrangements, MasterCard is equally confident that those arrangements would ultimately be vindicated.

When a credit card is used, a small percentage of the purchase price is paid by the merchant to its bank. The merchant's bank then pays a fee (the interchange fee) to the cardholder's bank. The interchange fee is the mechanism by which operators of the MasterCard system are able to balance the costs and revenues between the cardholder's bank and the merchant's bank. In particular, it allows the cardholder's bank to recover a portion of its costs from the merchant, who is one of the principal beneficiaries of credit cards.



**The e-Commerce
& Electronic
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**Manchester Town Hall
Wednesday 2nd
November 2005**