CHAMBERS IRELAND

IN BUSINESS FOR BUSINESS

Submission to the Department of Finance on Interchange Fees for Card-based Payment Transactions

10 June 2015

Introduction

Chambers Ireland is the largest business network in the State. With members in every geographic region and economic sector in Ireland, we are well positioned to understand the concerns of businesses from all areas in the country and represent their views.

We welcome the opportunity to feed into this consultation and look forward to further engagement with the Department on this matter.

Chambers Ireland's position

Chambers Ireland welcomes the European Commission and Parliament's commitment to reducing Multilateral Interchange Fees (MIFs), increasing the transparency of these fees and ultimately reducing costs for the merchants and consumers that make card-based transactions. We believe that a reduction in MIFs will allow new and innovative service providers to enter this highly concentrated market, increase the competitiveness of Irish merchants and encourage use of card and ePayments amongst consumers.

The initiative to cap MIFs is of particular relevance for the Irish economy which has an extremely low rate of usage of ePayments such as credit and debit card payments, and a relatively high usage of cash and cheques. Irish consumers make approximately half the amount of ePayments, and use twice as many cash and cheque payments as our European counterparts. The growing concern laid out in the National Payment Plan is that Ireland is at risk of falling behind the rest of Europe if efforts are not made to fully embrace the rapidly changing world of ePayments and eCommerce. Given Ireland's focus on a knowledge economy and our positioning of ourselves as a high tech, innovative location for commerce, we should be at the forefront of this movement towards more efficient and innovative payment methods. Similarly, Ireland's reputation as a primary location for FDI, particularly for companies in the areas of technology, software and financial services should make it incumbent on us to ensure that we support an innovative and cost effective ePayments infrastructure nationally.

High transactions costs are a major barrier to the uptake of ePayment methods, both for merchants and consumers, and a reduction in MIFs will help address one component of these costs. It is worth noting that there are fiscal implications for Ireland's failure to increase usage of ePayment methods. The cost of maintaining a highly cash and cheque based economy is substantial, and Ireland's cost competitiveness could be greatly improved by payment reform. The cost of Ireland's payment system is estimated at 1.4% of GNP, which is at the higher end for European countries. The most efficient countries in Europe are closer to 0.6% and this should be the target. If Ireland were to match best practices in Europe annual savings of up to €1 billion could be realised.

There are a number of other benefits that would arise from an increase in ePayments, such as a reduction in the shadow economy. An estimate from the National Irish Bank states that a 5% increase in ePayments could decrease the size of the shadow economy by 2-3%. An increase in ePayments would also reduce the risk that comes with cash security and decrease the number of late payments that are made because of cheque usage.

Additionally, an increased capacity for ePayments will increase the number of people who may participate in online commerce. A survey taken in the past few years reveals that only one in six SMEs in Ireland believe that investing in eCommerce is vital for growth. This figure is small compared to businesses in the UK of whom about one in three believe in investing in eCommerce capabilities. This is disappointing considering how many Irish businesses rely on external markets and how eCommerce will be the platform to greater local and international market access. Reduced charges must form part of the strategy to encourage Irish businesses, particularly SMEs, to engage with eCommerce.

There should also be a direct benefit to the consumer from reduced MIFs. As costs to merchants are decreased from lower MIFs, increased competition will put further downward pressure on rates. This will mean reduced end user costs for consumers, both in stores and online. It is likely that a virtuous cycle could be effected whereby increasing consumers' capacity for ePayments would broaden the market and increase the potential returns for merchants considering participating in eCommerce and incentivise more of them to do so.

Given the various economic benefits associated with reducing costs and other barriers to adoption of eCommerce by merchants and consumers, Chambers Ireland recommends that:

Three party payment schemes should not be exempted from the full application of the Regulation. We do not see any strong rationale to distinguish between schemes given the motivations behind the introduction of the regulations. Similarly, in the interests of equitable and effective legislation, we believe that the application should be as comprehensive and broad as possible.

The discretionary cap proposed for MIFs is 0.2% for debit cards and 0.3% credit cards. In relation to both domestic debit and credit card transactions the aim should be to set these rates to as low a level as is feasible. Taking this opportunity to establish minimal charges will have the largest impact on cost reduction for merchants and consumers and increased ePayments in Ireland.

Should it be found that an immediate reduction to zero-rates has negative impacts that outweigh the benefits in the short term, an option that could be considered would be to reduce the rate of MIFs to below the cap immediately and then set out a timeline to ratchet down the rate over the coming years until a zero rate is reached.