Response to HMT Consultation: Interchange Fee Regulation

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

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The Money Charity has previously commented on the potential considerable unintended consequences of interchange fee regulation. These concerns can be found in a joint statement made by us and other consumer bodies in June 2014.

While we recognise that IFR is mandated by the European Commission, the implementation of the regulation should be implemented so as to mitigate the following risks:

1. The consultation suggests that the fee cap will see savings passed on to consumers. There is no evidence that this will be the case and seems to us to be wishful thinking.
2. Evidence from Spain and Australia suggests that consumers will not see the benefits of the fee capping passed on to them. Instead consumers may see increased costs resulting from card providers raising charges to cover the costs of interchange.
3. Interchange fee caps may have the effect of restricting access to cards, particularly if the cap if further reduced, thereby worsening financial exclusion.
4. As credit unions and community finance organisations seek to grow and tackle financial exclusion, the viability of prepaid cards currently available to the most vulnerable and oft-excluded consumers will be damaged by the fee cap.
5. If one provider is exempted, there is significant risk that if consumers holding regulated cards will be attracted to the provider able to offer greater product offerings at lower prices. There seems no good justification for anything other than a level regulatory playing field.
6. One likely outcome of IFR is minimum payments. As we move towards a more cash-free economy where consumers grow accustomed to the increased security and consumer protections of paying by card, we may see this undermined by the IFR.

In order to mitigate these risks, we would ask that the PSR monitors rigorously the amount of cost savings resulting from regulation that is passed on to consumers, as well as the effects of regulation on access, competition and usage.

Given the risks outlined above, we would support further regulation to take account of these, particularly if PSR monitoring shows consumer detriment.

We support the decision not to use the national discretions to impose lower fees than those set at EU level, but believe that the government and PSR ought to do more than that to monitor and counteract any potential consumer detriment.

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