The Interchange Revenue Landscape

How to Prepare for Change

Combat a potential reduction in interchange by evaluating card payment options and new revenue streams.

Recent events in the U.S., as well as policy changes abroad, have elevated the continued risk of reduced interchange revenue with respect to both credit and debit card programs. Some events with the potential to shift the interchange revenue landscape include:

- A $6.2 billion settlement between Visa/Mastercard and a class of 12 million+ merchants was intended to resolve a 2005 antitrust case. Some merchants, however, may elect to opt out of the settlement and pursue their own lawsuits and negotiations directly. This particular settlement is based only on monetary damages, while another related case is pending that will address Visa/Mastercard business practices and rules.
- Changes in Congress, including new leadership of the House Financial Services Committee.
- Uncertainty surrounding the U.S. Consumer Financial Protection Bureau (CFPB) and the change in heads of the CFPB from Richard Cordray to Mick Mulvaney to Kathy Kraninger over a 12-month period.
- A December 2018 proposal by both Visa and Mastercard to cap interchange on all transactions conducted in 31 countries that are part of the European Economic Area, which is an international agreement that allows for the extension of the European Union's (EU) single market to non-EU member parties.

These events and their effects on interchange revenue in the coming years could have a significant impact across the credit union and payments industries. PSCU, the nation's premier payments credit union

Advisors Plus | PSCU

service organization (CUSO), estimates that a quarter of credit card revenue and more than half of debit revenue is comprised of interchange fees.

In the short-term, credit unions can take several actions to best position themselves to help offset a reduction in interchange. In particular, credit unions should continue to introduce and promote card programs that yield higher interchange, such as premium card products (credit) and business products (credit and debit). In the case of debit, credit unions should carefully evaluate PIN network participation, as each network has unique interchange revenue rates and fees.

Credit unions should also continue to push for earning top-of-card-on-file positions across online and digital channels like Amazon, Netflix, PayPal and various app stores, as well as within mobile wallets. Once a user stores a card as the preferred payment method in these channels, it is highly unlikely he or she will take the time to change it. This then results in interchange income every time a purchase is made through that particular app or mobile wallet.

Long-term, a significant loss of interchange would be material and problematic from a profit and loss (P&L) perspective, but issuers would have the ability to adjust certain levers for credit card programs. For example, issuers may opt to maximize net interest margin, as regulations permit, through higher credit card rates and the lowering of deposit rates to manage funding cost. A drastic reduction in interchange could lead issuers to decrease the value of rewards programs, which is currently a key driver among credit card programs. According to findings from a recent study conducted by PSCU, over 93 percent of survey respondents indicate they receive a reward or benefit when making purchases with their credit card.

About Advisors Plus

Founded in 2004, PSCU's Advisors Plus offers consulting services for credit unions to help fuel growth and achieve financial and business goals. From project analysis to implementation and management, Advisors Plus offers an end-to-end portfolio of consulting services including business strategy, business and affinity cards, credit and debit cards, contact center optimization, risk and collections analysis, branch sales training, marketing services, and B2C campaign execution. Whether your credit union is looking to expand its offerings, build a legacy of community involvement, create the strongest possible capital footing—or all of the above—Advisors Plus consultants bring the strategic vision, deep industry expertise, and proprietary data analytics needed to help credit unions better serve their members and their communities. For more information, visit advisorsplus.com.