



Competition Commission of Mauritius
10th Floor, Hennessy Court
Cnr. Suffren Rd. & Pope Hennessy Street
Port – Louis
Tel. No. 211-2005
Fax No. 211-3107
Email: info@ccm.mu

MEDIA RELEASE

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VISA AND MASTERCARD ORDERED TO REDUCE INTERCHANGE FEES FOR DEBIT AND CREDIT CARD PAYMENTS

The Commissioners have concluded that VISA and MasterCard have abused their dominance by setting a high interchange fee (at 1%) charged between banks for debit/credit card payments. The interchange fee can constitute up to 79% of the cost incurred by banks for supplying merchants (retailers) with facilities for accepting card payments. At 1%, the interchange fee is restricting competition among banks/financial institutions by preventing some of them, especially smaller ones, from providing merchants with card-acceptance facilities at lower prices. To remedy the situation, the Commission has ordered VISA and MasterCard to limit their interchange fee to a maximum of 0.5% for debit/credit card transactions.

The Competition Commission's investigation follows a complaint into fees charged to merchants for accepting debit/credit card payments.

The Competition Commission received a complaint alleging that the commission charged by banks to merchants when accepting payment by cards was too high. This led to the investigation on the interchange fee set by VISA and MasterCard for debit/credit card transactions in Mauritius.

VISA and MasterCard, as card-network operators, provide their respective networks to banks. This enables banks to issue debit and credit cards to consumers and provide facilities to merchants for accepting payments by cards. For every debit/credit card payment that a merchant accepts, the latter must pay a commission (known as the merchant service commission) to his bank. This commission comprises different elements, of which the major one is the interchange fee. In fact, the interchange fee can account for up to 79% of the merchant service commission. When a consumer makes a payment by card to a merchant, the merchant's bank (known as the acquiring bank) pays the interchange fee to the consumer's bank (known as the issuing bank). The level of commission charged to the merchant is largely determined by the interchange fee, that is, the higher the interchange fee, the higher the merchant service commission.

The investigation found that VISA and MasterCard set interchange fees between issuing and acquiring banks through agreements.

The investigation found that the level of interchange fee is set by VISA and MasterCard through agreements that they respectively sign with the banks for using their networks. VISA and MasterCard have set the interchange fee for local debit/credit card transactions at around 1%, and merchants were in turn paying up to 3% as merchant commission to their banks. There are 13 banking/non-banking financial institutions which issue VISA and MasterCard cards but only 4 of them provide facilities to merchants for accepting payments by cards.

The Commission reviewed VISA's and MasterCard's agreements since the 1% interchange fee level prevented smaller banks/financial institutions from offering lower commission rates to merchants.

The interchange fee is usually set at a level that encourages (issuing) banks to issue debit/credit cards to consumers and (acquiring) banks to supply merchants with card-acceptance facilities. Of the four acquiring institutions in Mauritius, The Mauritius Commercial Bank Ltd (MCB) and SBM (Mauritius) Ltd (SBM) are the largest players in terms of both the number of cards issued and merchants. Most of the transactions that merchants acquire are made on the cards issued by these two banks. As a result, these banks retain most of the interchange fees from the merchant service commission.

By contrast, the two smaller acquiring institutions (CIM Finance Ltd and Barclays Bank Mauritius Ltd) are mostly paying out, from their merchant service commission, interchange fees to MCB and SBM. To these acquirers, a 1% interchange fee level represents an important business cost for providing card facilities to merchants and restricts their ability to offer competitive commission rates to merchants. With the exception for the petrol and government segment, where both VISA and MasterCard have set a lower interchange fee of 0.5%-0.6%, the smaller acquiring institutions are constrained in setting the commission rates below 1.0%. The current interchange fee level of 1% set by VISA and MasterCard inflates the costs of smaller acquiring institutions for providing card acceptance facilities and thus limits their ability to compete effectively by offering lower merchant service commission.

Merchants on their parts are left with a limited choice of banks providing them with card-acceptance facilities and are in a weaker position to bargain for lower commission rates. The higher costs for accepting debit/credit cards by some merchants could be reflected in the final prices to consumers. Another consequence of a high interchange fee is that many merchants do not provide card-acceptance facilities to consumers and some card-accepting merchants are reluctant to accept debit/credit cards; depriving consumers of the convenience of using their debit/credits as payment means.

The Commissioners have concluded that the current interchange fees restricted competition among banks and ordered a reduction in the interchange fee level.

After reviewing the Report of investigation and hearing parties, the Commissioners have found the competition concerns, as identified in the investigation, to be verified. In their decision, the Commissioners have concluded that the interchange fee of 1% set by VISA and MasterCard restricts competition in the acquiring market. While reaching their decision, the Commissioners have also considered local market conditions in which banks operate. Given existing market features, the current interchange fee was found to inflate the cost of smaller acquirers and to limit their ability to better compete with MCB and SBM by offering merchant service commission rates. In addition to raising existing

banks' costs of offering card-facilities to merchants, interchange fees also raised the costs of potential entrants and may thus discourage local banks from offering competing services to merchants.

In order to address the competition concerns, VISA and MasterCard have been ordered to limit their interchange fee level for debit/credit card transactions to a maximum of 0.5%. VISA and MasterCard have been given six (6) months, starting from the date the Commissioners' Decision is notified to them, to implement the Commission's directions. The 0.5% maximum rate takes into consideration the positive effects resulting from VISA's and MasterCard's introduction of a 0.5% interchange fee for debit/credit card payments at petrol stations. At this level, the smaller acquirers were able to offer lower commission rates (0.87%) to petrol stations than those offered by MCB and SBM.

Mr Deshmuk Kowlessur, the Executive Director of the Competition Commission, said:

"The decision of the Commission requiring VISA and MasterCard to limit the interchange fees to a maximum of 0.5% is likely to reshape the competition landscape in the local payment card market. The reduction of the interchange fees will open-up the market for existing and potential banking and other financial institutions to offer acquiring services to merchants. At the same time, the two dominant banks will have to compete more rigorously. A new dynamism in the local payment card market is likely to encourage existing competitors and new entrants to offer innovative services. The resulting lower merchant service commission will encourage card-acceptance by merchants and thus offer card users the convenience, security and lower costs of settling their transactions. It can also be expected that consumers can benefit from lower prices of goods and services, as merchants' cost of transaction will be reduced with lower merchant service commission. At the end, the reduction in the interchange fee will bring more competition in the payment card market and positively impact on trade, commerce and economic development.

I am pleased that the determination of the Commission in this matter support the findings of the investigation. The reduction will intensify the rivalry among the various players in the local payment cards markets for the greater benefit of cardholders, merchants, banks and the economy at large.

The parties have exercised their right of appeal and the Commission will put up its case to the Supreme Court for the latter to decide on the matter."

[End of Media release]

Background

The Competition Commission was set up in 2009 and it enforces the Competition Act 2007. It has the function and powers to investigate and review or prohibit certain conducts on the part of enterprises, which adversely affect competition on the market and in so doing, harms consumers. Such practices are referred to as 'restrictive business practices' under the law and they include: cartels; abuse of a strong market position in such a way as to exclude competitors or exploit consumers; and mergers that have the potential to harm the competitive process.

The Competition Commission is mandated to review agreements which restrict competition (by exploiting consumers or excluding competition), including agreements between non-competing businesses (referred to as vertical agreements). The agreements between VISA and MasterCard and banks are vertical agreements. Their agreements were reviewable since Visa/MasterCard were setting the interchange fees for debit/credit card transactions and they also are the two main providers of card networks in Mauritius. Of the 1.7 million debit/credit cards in circulation in Mauritius, more than 70% carry the VISA and MasterCard brand.

The Executive Director of the Competition Commission completed his investigation on the matter in December 2016; finding that Visa and MasterCard have infringed the Act and accordingly, recommended a reduction in the existing interchange fee level.

A public hearing was convened on 25 July 2018 in order to provide VISA and MasterCard and other interested parties with an opportunity to submit their views before the Commissioners. On 14 June 2019, the Commissioners issued their decision on the matter (CCM/DS/0024).

VISA and MasterCard have respectively appealed the Commissioners' Decision before the Supreme Court of Mauritius.

More information, including the non-confidential version of the [Investigation Report / and Decision], is available on the Commission's competition [website](#) under the case number [INV-020](#).

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