

Card issuers: 9 ideas to compensate the cap on interchange fees with new value streams

PAYMENT

POSTED ON 12.13.16



European banks are feeling the full impact from the substantial reduction in interchange fees, implemented by the European Commission last year. These fees, paid between banks for the acceptance of card transactions, used to account for up to one-third of revenues for card issuers. With today's limit now capped at 0.3% for credit cards and 0.2% for debit cards, banks are seeking alternative means to compensate for this revenue loss and still keep customers happy. Here are some ideas for optimizing card use which not only brings convenience to the customer, but can also generate new value streams.

Idea #1

Make your card multifunctional. In addition to “just” payment, add other applications to the card, such as transport or ticketing apps.

Idea #2

The data your cards generate can be very valuable if leveraged in cooperation with e.g. merchants

Idea #3

By issuing contactless cards, you increase your chance of replacing cash payments (notably for low-value payments) with card payments.

Idea #4

Facilitate credit and installment offerings to clients. A great example is a Spanish bank that instantly offers credit to its customers through its interactive Host Card Emulation (HCE) solution. Whenever customers pay via mobile phone/HCE, they receive a push message offering credit or installments with a transparent calculation of costs and interest. This can definitely increase the acceptance in the number of credit or installment offers.

Idea #5

US banks are another good example: They are increasingly leveraging “Person to person” (P2P) push payment solutions via cards. This solution enables the card not only to be used when paying merchants, but also serve as the “payment vehicle” when sending money to a family member or the children’s sports team, to reimburse a friend who paid the whole restaurant bill – a promising way to replace payments by cash, check and Payflow ACH (Automated Clearing House) Payment Services. Furthermore, cross-border P2P could potentially replace the US\$431.6 billion remittance market. And last but not least: it is a very convenient way as the payment is carried out from an app in just a few steps.

Idea #6

Ease the use of e/m-commerce payments with the cards you issue by implementing a seamless authentication process for Verified by Visa/MasterCard Secure Code.

Idea #7

Connect your cards with MasterPass eWallet, for example, or encourage your cardholders to connect their cards to VisaCheckOut – both will increase the attractiveness of e/m-commerce payment by making it easier and more convenient.

Idea #8

Launch prepaid cards for young people and unbanked persons as a way to replace cash (these segments typically pay by cash today).

Idea #9

Another huge cash segment that can be replaced by cards is travel. Many people pay by cash when on vacation, especially if they go to a country that has another currency than their own. Motivate your customers to avoid expensive foreign exchange bureaus and load money onto your prepaid card instead. Yes, interchange fees will still be lower – but multiplied by millions of transactions when traveling abroad, this will still pay off!