

# **Israeli Visa Interchange Case**

**Introduction**

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# Closed system vs. open system

- What is an acquirer?
- What is an issuer?
- What is a closed system?
  - Only one company issues and acquires its credit card
  - Is there a closed system in Israel?
    - Yes: Isracard
      - 2005: Isracard proclaimed as a monopoly
        - Merchants do not see other payment methods as a substitute
        - → Enables the IAA to regulate Isracard's activities

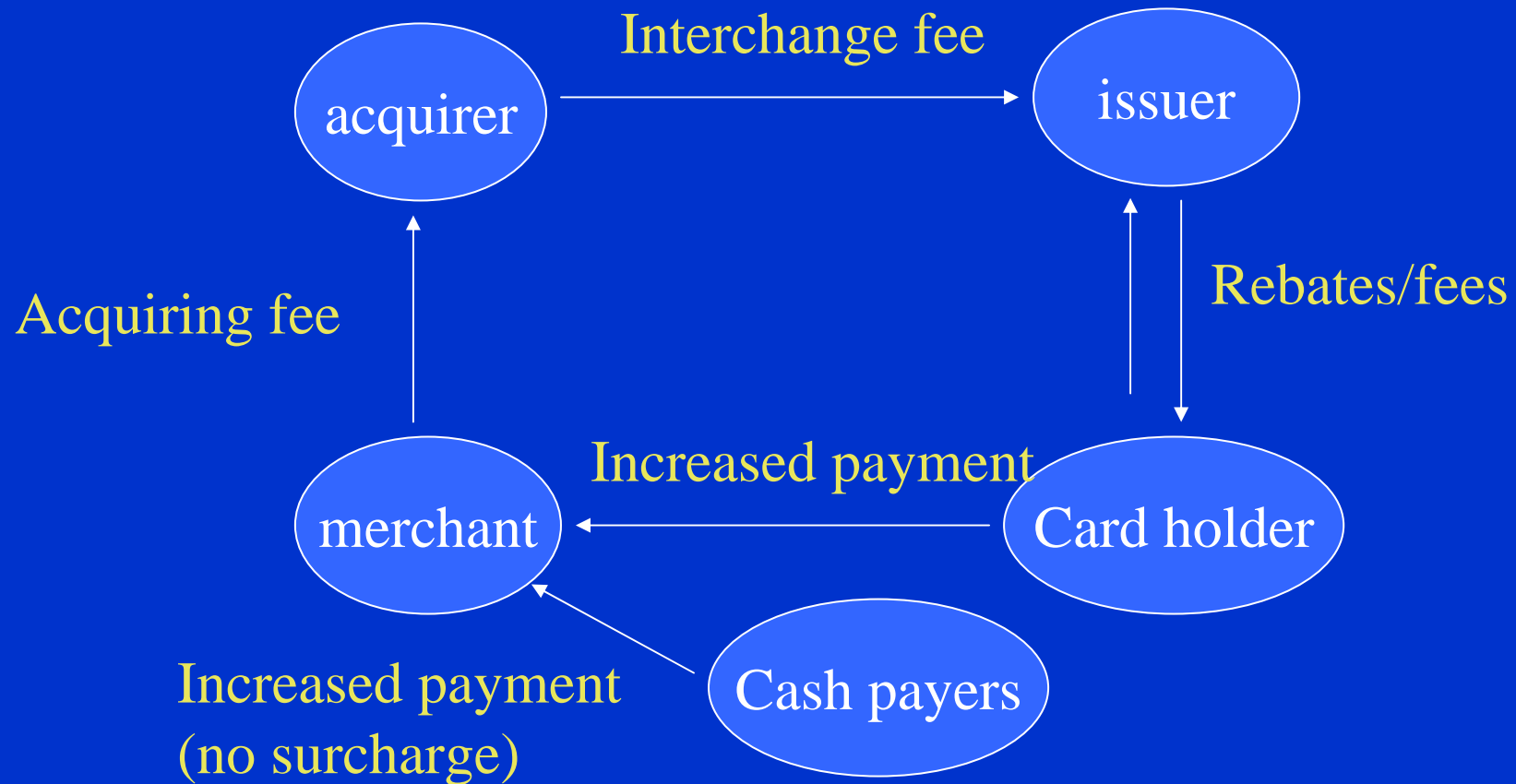
# Closed system vs. open system

- What is an open system?
  - A credit card has more than one acquirer and issuer
  - In Israel- as of 1998: the Visa system
    - C.A.L and (starting 2001) Leumi Card, issue and acquire Visa cards
    - The IAA had a major role in enabling the open system

# What is the interchange fee?

- In an open system:
- If a merchant wishes to honor Visa cards
- He can get acquiring from *either* Leumi or C.A.L
  - → He need not get acquiring from both
- When the card is issued by one and the merchant's acquirer is the other →
  - The acquirer pays the issuer the interchange fee

# What is an interchange fee?



# The interchange fee as a restraint of trade

- Why is setting of the interchange fee a restraint of trade?
  - It sets a floor to the acquiring fee
    - → Leumi and C.A.L can use it to sustain a monopolistic acquiring fee
      - Merchants do not see other payment methods as a substitute
- Restraints of trade can be approved by the Antitrust Tribunal
  - If they benefit the public
    - The public's benefit: the alternative is split acquiring
    - Subject to the acquiring fee not being excessive

# The case before us

- The process started vis a vis the IAA in 1998
- Went to the court in 2001
- 5 merchants joined the litigation:
  - 2 of them submitted expert testimony-
    - Superpharm-the largest drugstore chain
    - Supersol-the largest supermarket chain
- See also Gilo and Spiegel, "*The Credit Card Industry in Israel*," Review of Network Economics, December 2005