Israeli Credit Cards Interchange Case

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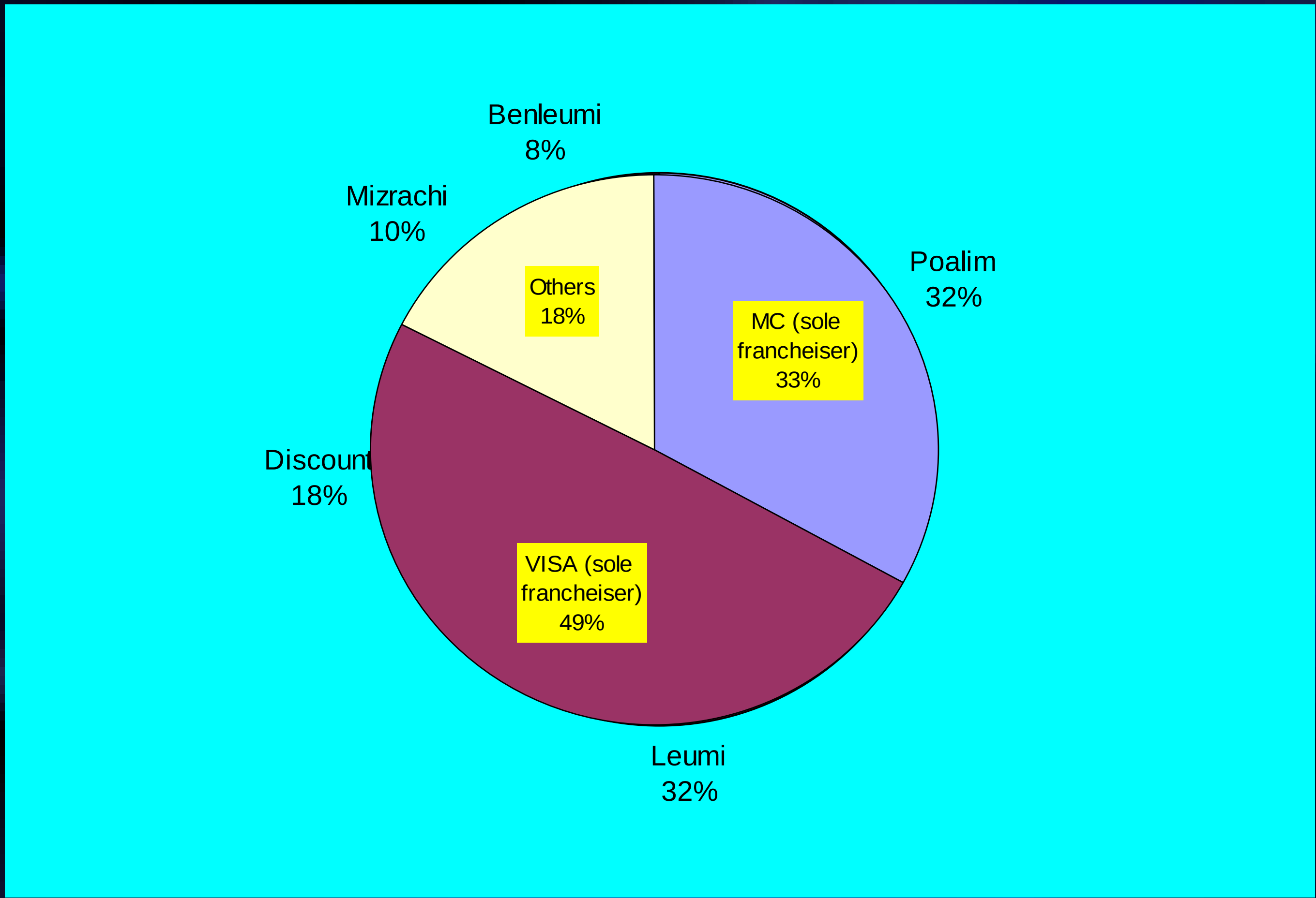
Banking Sector



Until 1998

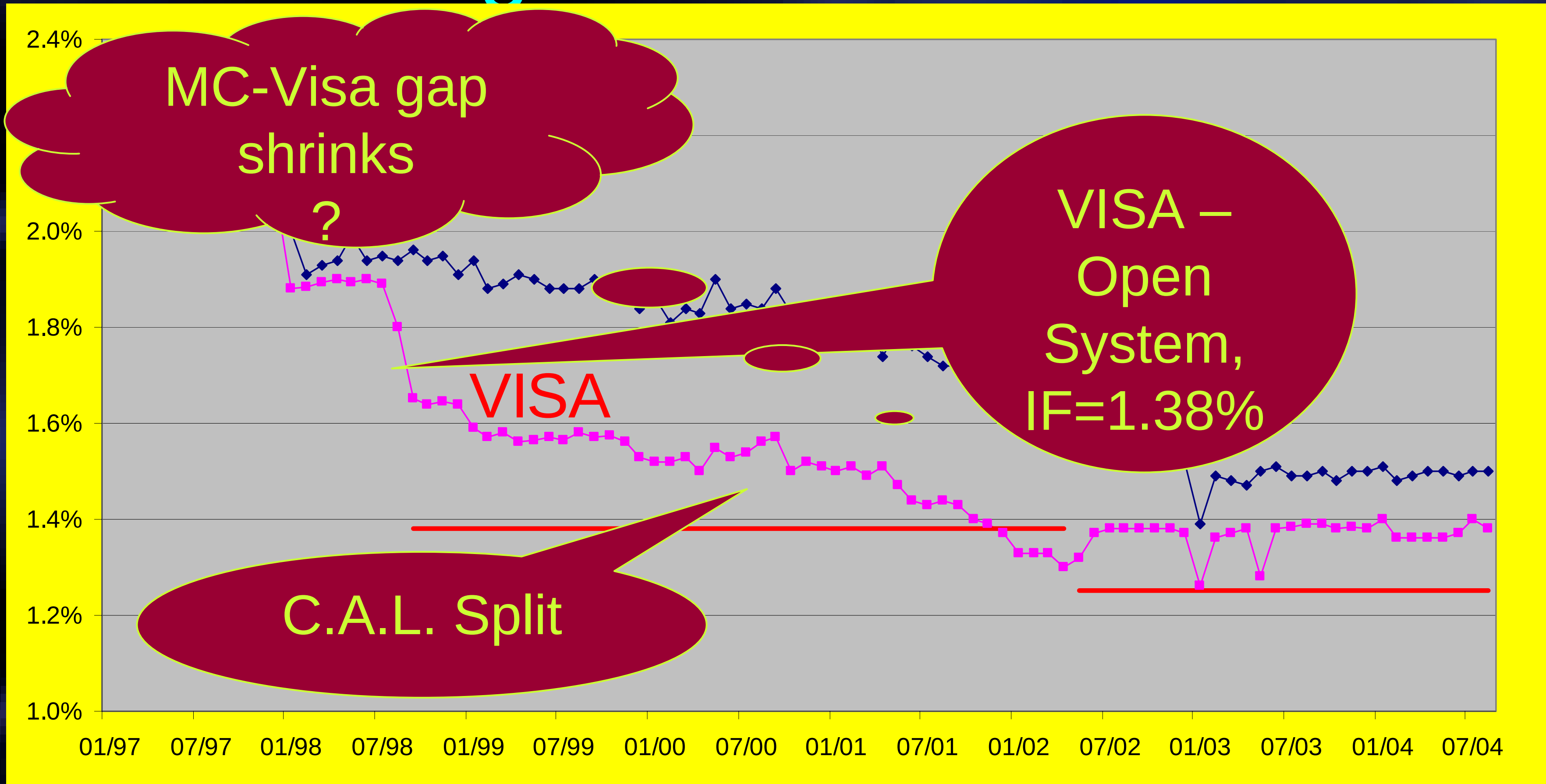
- **A noncompetitive duopoly: each of two large bank groups issuing one major credit card (Visa/MasterCard), each processing one major credit card, only one processor per card, typically one type of card actively used by each customer**

- **The result: high and discriminating acquiring fee, cards expensive for card holders.**

Mile stones

- July 1998 – Alpha Cards, Visa – an open system, IF=1.38%, Visa International will prepare “cost study”
- 2000 – C.A.L. break up, Visa International Submits “cost study”
- 2000 – Alpha assets sold to Bank Leumi
- 2001 – IAA rejects the “cost study”, case go to court
- 5/2002 – IF=1.25%
- 2006 – Antitrust tribunal ruling

merchant commissions and Interchange fee



1998 lesson

- **Lower acquiring fee, lower or no annual fee and better credit terms for cardholders.**

Why IAA rejected the “cost study”

- **“Black box”**
- **Vague and not empirical based “balancing” arguments**

IAA

- Other payments methods are not good substitutes.
- Inter network competition is not sufficient- A noncompetitive duopoly or each network is separate acquiring market.
- IF should be based on cost.
- Relevant cost – payment guaranty.
- Long adjustment period

Antitrust tribunal ruling

- Rejected VISA expert opinion (IF should cover total cost less "willing to pay" of card holders).
- IF = payment guaranty cost.
- No price discrimination in IF.
- Adjustment should be gradual.

IAA – Banks agreement

- **Average IF will decline to 0.75% (from current 1.25%) in <u>6 years</u> (At 2012).**
- **IF Price discrimination continue until 2010.**
- **ALL three companies will issue and acquire VISA and MC (but not the local card and not AMEX and DINERS).**

Israeli Credit Cards

Interchange Case

The End