FOUNDATION FOR ECONOMIC & INDUSTRIAL RESEARCH

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PRESS RELEASE

"The impact of proposed EU regulation on payment card systems: The perception of Greek cardholders"

The Foundation for Economic & Industrial Research (IOBE) is a private, non-profit, public-benefit research organization. It was established in 1975 with the dual purpose of promoting research on current problems and prospects of the Greek economy and its sectors and of generating reliable information, analysis and proposals for action that are non produced elsewhere and can thus be of high value to policy makers in the context of economic policy making. In that sense, IOBE holds a unique position in Greek society: it is the only politically independent, non-partisan body dealing with major issues of the economy, and it aspires to being pro-active, that is, it seeks to identify, at an early stage, economic issues that can become crucial in the future and to propose timely solutions for these.

According to a study titled: *"The impact of proposed EU regulation on payment card systems: The perception of Greek cardholders" conducted by the Foundation for Economic & Industrial Research (IOBE),* with the support of MasterCard, most card holders express their concern about the proposed regulatory changes as suggested by the European Commission. A large number of cardholders estimate that the proposed regulatory changes will not result in lower end-prices for the consumer at the point of sale, while they fear that any potential loss on bank revenues will be transferred on the cardholders. This could lead card holders to cancel their cards or limit their use. Similar results have been recorded during the relevant EU debates with consumer associations across Europe.

More specifically, the main regulatory changes, as suggested by the European Commission[1], include:

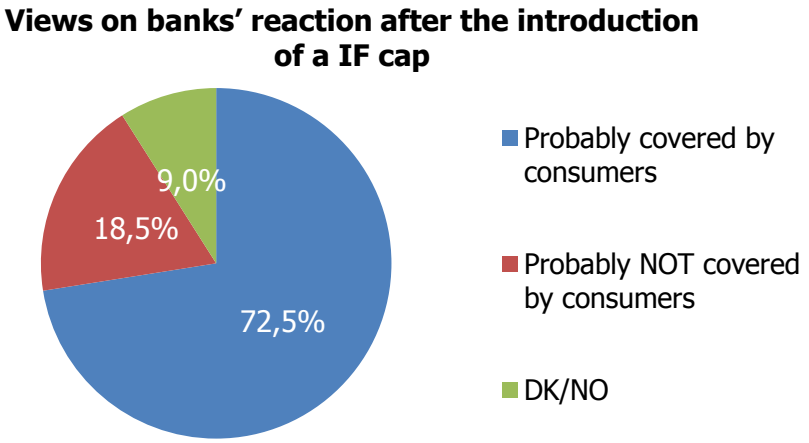
- The introduction of a pricing cap in Multilateral Interchange Fees (MIFs) for all payment cards and for all EU countries,
- The right to include multiple brands (Visa, Mastercard etc.) on the same card, and
- The right of the merchants to choose which cards to accept and which to reject, even for cards of the same brand, contrary to the current status of the Honor All Cards Rule (HACR).

In order to identify possible reactions to the proposed changes IOBE performed a study in collaboration with the research agency Public Issue SA, which was based on 1.000 telephone interviews with cardholders across Greece, asked to answer a pre-defined questionnaire.

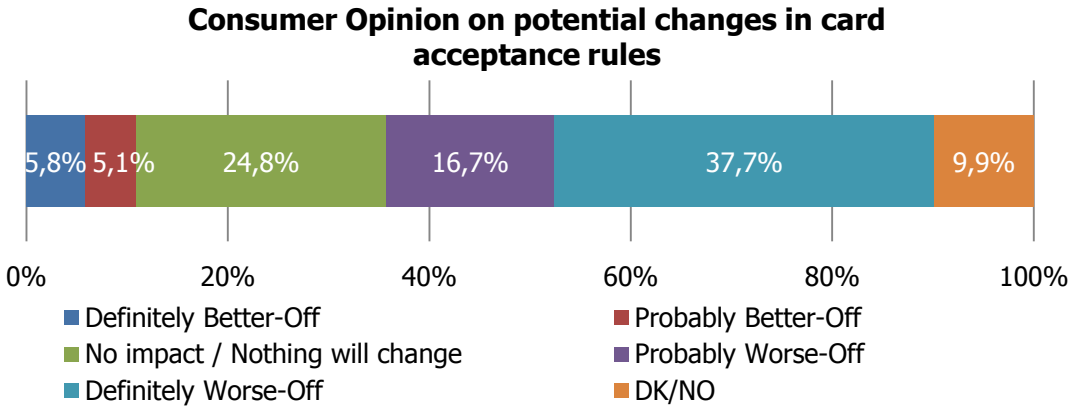
The study reveals that Greek consumers do not use their cards very frequently. Only 12% of the respondents use their card on a daily/weekly basis. In a similar survey in Portugal, 54% of the respondents said that they use their debit card every day and another 30% up said they use it once or twice a week. Interestingly enough, only 9% of Greek cardholders have ever encountered an issue with a card transaction and from this percentage, 1/3 indicated that the problem was related to the acceptance of his/her card. Still however, card usage remains low in Greece with 1 out of 3 not using his/her card or spending less than 50€, while the average monthly card spending reaches a mere 104€.

According to the study, 75% of the card holders believe that the proposed changes will not result in lower prices at the point of sale, while a similar percentage believes that any potential loss on bank revenues will be transferred to cardholders. In case the card cost increases, half of the cardholders say that they will prefer to cancel their cards and approximately 1/3 says they will use their cards less frequently.

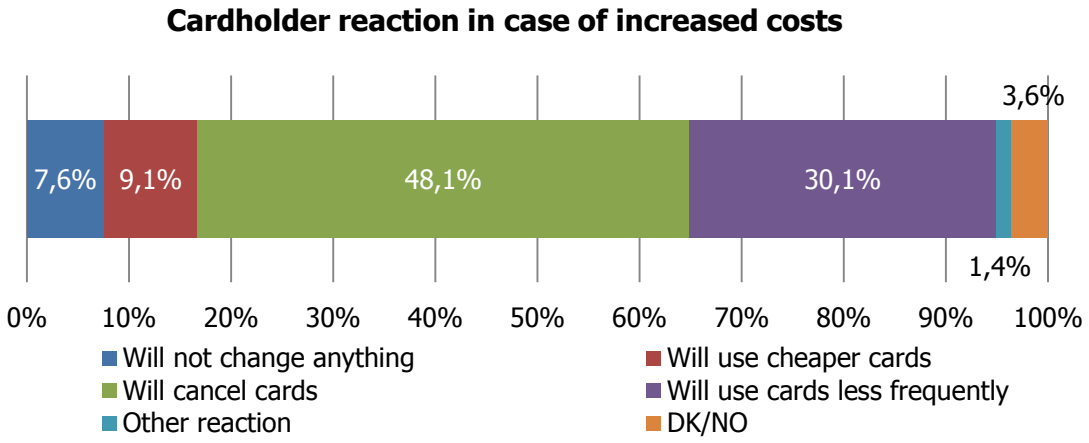
[1] 2013/0265 (COD): European Parliament and European Commission Proposal - Regulation on interchange fees for card-based payment transactions.



When asked regarding the HACR, the right of the merchants to choose which cards to accept and which to reject, even for cards of the same brand, half of the respondents said that any change in the current status will be perceived negatively by the cardholders, while the addition of multiple brands (logos) on the same card will create uncertainty in case of lost or stolen cards, according to 45%, in case of dispute with the merchant, according to 55%, and in case of fraudulent use or money returns, according to 60% of the respondents.



All in all, the key findings of the study show that the proposed changes seem to "scare" consumers off, whole most of them believe that the objective of the European Commission, that is lower end-product prices, will not be met. In addition, cardholders believe that this intervention will probably result in higher card fees, which will most probably lead to less frequent use or even cancellation of their payment cards. Their already low use in Greece might be driven to even lower levels, if the cardholders are asked to pay more for merely owning a payment card. It is worth pointing out that e-transactions are one of the most effective means against tax evasion and help reduce informal economic transactions and underground economy.



In conclusion, the study demonstrates that the proposed changes in the payment cards regulation could impact the current consumer behavior; it is, therefore, clear that the impact of the proposed regulatory intervention in Greece depends highly on the way Greek consumers will react towards these changes. A possible lower usage of payment cards will have a significant negative impact on the business models of both merchants and banking institutions, while any change in consumer behavior that favors cash transactions might have an adverse effect on the efforts to curb tax evasion and informal economy. All these aspects should be taken into account during the making of policy on payment cards and tax evasion.