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THE INTERCHANGE FEE IMPACT ON THE DEVELOPMENT OF NON-CASH TRANSACTIONS

Summary

The purpose of the paper is to present the influence of legally regulated interchange fee amount on non-cash turnover. The larger number of point of sale terminals has resulted in the increase in a number and amount of non-cash transactions, what minimally enables banks to compensate for the reductions of revenues due to the above mentioned fee.

Key words: non-cash transactions, interchange fee, payment cards, POS terminals.

Introduction

In the present era of high market competition, a struggle to win customer's attention and reduction of cash transactions costs, non-cash transactions become a strategic solution - a subject of continuous work and improvements leading to the streamlining of operations, speed, access and primarily the security of non-cash transfers. Economic, political, demographic, social, cultural, technical, technological, and legal conditions have considerable influence on the development of cashless transactions. The emphasis is on a fast regulation implementation, referring to the safety of the banking sector as well as the consumers. The risk connected with non-cash turnover becomes more relevant over time to the overall banks activity and soon may become one of the most important risks, next to credit risk. The demand for services linked to the non-cash transactions continues to grow, as well as the social influence on the turnover's participants – a positive feedback loop. With reference

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to Polish market only, it should be noticed that about 66 per cent of Poles owns payment cards, however, about 95 per cent of Poles uses them¹.

Despite the fact, that the dynamics of non-cash card transactions (as one of the non-cash operations channels) continues to grow and delights increasing public confidence, only in the recent years unfavourable card transactions charge has been altered (reduced). The interchange fee for many years has put Poland in the adverse light and place among EU countries. The first actions concerning the fee reduction have been taken by the National Bank of Poland (NBP), and in years 2012-2013 The Polish Bank Association (ZBP) and card organisations joined. Though, lack of compromise indicated the need to start work on the law regulating and reducing the amount of the interchange fee². The work resulted in Resolution from 20 September 2013 amending the Act on payment services. Initiated by the Act activities finally resulted in 1 July 2014 turn, indicating the moment of reducing unfavourable from merchants' point of view and Polish image, the interchange fee³.

1. The development of non-cash transactions, including card payments

The beginning of the card market development in Poland most often is associated with the appearance of the first cash machine. Whereas among card instruments at the beginning of the 60s that were mostly used by the foreigners, Diners Club cards were prevailing. They were accepted in about 500 sites in Poland, especially in hotels, restaurants, and also in selected shops. In the 1980s of Bank Pekao was the forerunner in terms of payment cards issuing. Increased demand for the types of instruments as well as a rising number of performed operations with the use of the instruments resulted in isolating in 1990 out of Orbis company

¹Tomasz Koźliński, *Zwyczajne płatnicze Polaków*, the National Bank of Poland Department of Payment System, Warsaw, May 2013.

² Binda J., *Interchange fee for non-cash transactions on Polish and European market*, 12th International Scientific Conference Under The Auspices Of Ministry Of Finance Of The Slovak Republic Globalization And Its Socio-Economic Consequences 2012, Department Of Economics The Faculty Of Operation And Economics Of Transport And Communications University Of Žilina, ISSN 1336-5878, Rajecke Teplice 10-11.10.2012

³ Binda J., *Wpływ opłaty interchange na rozwój operacji bezgotówkowych w Polsce*, Scientific Journal of Bielsko-Biała School of Finance and Law, ISSN 2084-1809, pp. 7-25, no 1/2012.

a department dealing with payment cards acceptance, forming Polcard company. Banks competition for forming customers' market of the card instruments caused the issuing of the first Visa card⁴ by BIG S.A. (Business Initiatives Bank) in 1991. Ipso facto, Poland has quickly become up to date with the latest technologies and modern bank instruments.

Polish legislation in a precise way defines the term of a payment card as: 'a card identifying the issuer and an authorized holder, entitling to cash withdrawal or cash payment, and in case of the card issued by a bank or an institution legally authorized to credit granting- also to cash withdrawal or payment by credit use'⁵. In the Act on electronic payment instruments⁶, the legislator indicates inter alia: the rules connected with issuing and use of the electronic payment instruments, including the rules linked to the issuing of e-money instruments. It notices not only the holder's rights concerning the instruments, but also parties' responsibilities regarding contracts of electronic payment instruments⁷.

A payment card is one of the most common e-instruments of payment, allowing for fast access to money collected in a bank account. It enables to make non-cash payments for goods and services and transactions in a cash machine, as well as by electronic funds transfer. Considerably, it shortens and enables monitoring of the clearing cycle unlike other payment transactions. The Act also precisely specifies non-cash turnover due date, understood as clearing based on non-cash or electronic payment.⁸ Transactions made by the mentioned above payments are recorded as book entries of the bank accounts.

Non-cash payments for goods and services, cash machine transactions, ICT network payments, become more common in Poland. Non-cash turnover may influence faster money circulation, hence reducing payment delays. The advantage of non-cash turnover may also

⁴Bankier.pl Bank; *Millenium: 20-lecie wydania pierwszej w Polsce karty płatniczej* (pol.), 30.04.2016. Source: press reports.

⁵The Banking Act of 29 August 1997 (Journal of Laws from 2015, item 128, consolidated text).

⁶ Journal of Laws from 2002 no 169, item 1385, as amended text, effective date 12 October 2003.

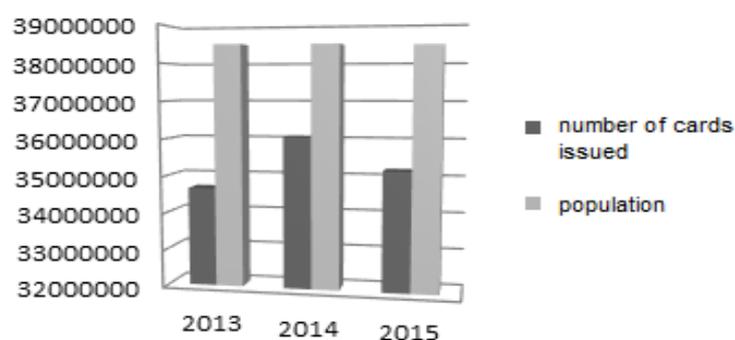
⁷ The Act on electronic payment instruments from 12 September 2002 (Journal of Laws from 2002 no item. 1385, as amended).

⁸ Żukowska H., Żukowski M., *Obrót bezgotówkowy w Polsce*, Wydawnictwo KUL Lublin 2013 <https://www.kul.pl/files/1225/public/obrot.pdf> 08.04.2016.

be its security⁹, linked to the payment guarantee, no need for cash transport and relatively low level of fraud (mainly connected with formal transaction completion)¹⁰.

Every year, the number of card payment holders increases, Chart 1.

Chart 1. The number of payment cards issued in relation to the number of population in Poland in years 2013-2015



Source: own description based on the National Bank of Poland data¹¹ (referred to as NBP) and Central Statistical Office of Poland data¹².

Popularisation of card instruments may have an impact on the consumers themselves, as well as prompt them to spend more than using cash (the access to all cash and other pecuniary assets in the budget account or access to credit), Chart 2¹³.

⁹ However recently, a lot of attention has been paid to limiting criminal activities concerning e-payment and the instruments enabling realisation of non-cash transactions

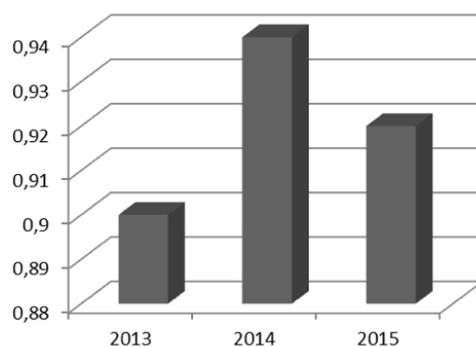
¹⁰M. Żukowski, *Pieniądz i system bankowy* [in:] *Ekonomia: zarys wykładu*, Wydawnictwo Uniwersytetu Marii Curie-Skłodowskiej, Lublin 2007, pp. 214-215.

¹¹ http://www.nbp.pl/home.aspx?f=/systemplatniczy/karty_platnicze.html

¹² <http://stat.gov.pl/podstawowe-dane/>

¹³ op.cit H. Żukowska, M. Żukowski, *Obrót bezgotówkowy ...*

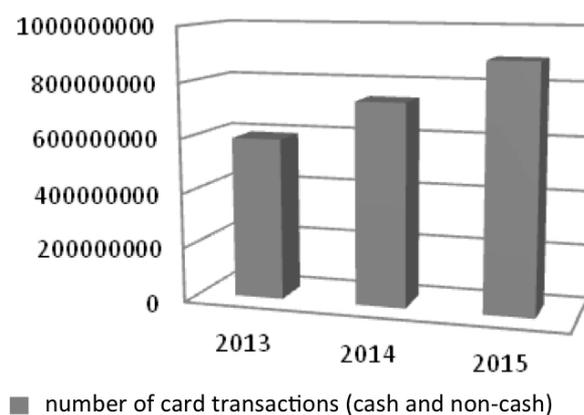
Chart 2. The average number of issued payment cards per person in Poland in years 2013-2015



Source: own description based on NBP data¹⁴

In 2014 the increase of issued cards was recorded by 1 410 k y/y, reaching the value of 36 068, 8 k. However, the drop in the number of cards was observed in 2015 (35 209 k), what could have been linked to the appearance of the new access channels to banking, that is for example, mobile banking and reduction of funding incurred by banks to promote the payment cards Chart 3.

Chart 3. The number of card transactions in years 2013-2015 (cash and non-cash)

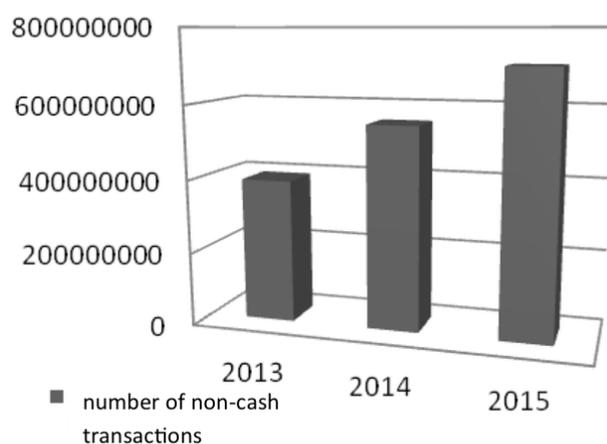


Source: own description based on NBP data¹⁵

¹⁴ http://www.nbp.pl/home.aspx?f=/systemplatniczy/karty_platnicze.html

The end of the year 2015 resulted in the further increase in the number of card transactions both cash and non-cash. The following quarters of the year 2015 caused the periodic increase in transactions to reach quantity of 893611768 cash and non-cash transactions altogether in IVQ. The increase in the number of transactions at the end of 2015 however was lower than in the same period of the preceding year and was equal to 21% y/y, Chart 4.

Chart 4. The number of non-cash transactions in years 2013-2015



Source: own description based on NBP data¹⁶

The number of non-cash transactions in 2014 increased by about 41% y/y, whereas further growth was observed in 2015 (28% y/y).

Together with the growing popularity of the ATM cards, the problem of regulating fee amount appeared, connected with the use, mostly incurred by the commercial and retail sites. The main burden of costs linked to the use of the mentioned above card instruments was incurred by the acquirer. The interchange fee, compared to other EU countries was regarded as one of the highest and was equal to about 1,5–1,6% of the transaction amount¹⁷ in years 2011-2012.

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ *Analiza skutków obniżenia opłaty interchange w Polsce*, the National Bank of Poland August 2015.

The first action aimed at reducing the interchange fee was taken by the National Bank of Poland, and in years 2012-2013 also by the Polish Bank Association and card organisations. However lack of compromise pointed to the need of work on the act regulating and reducing the mentioned fee. It resulted in the act indicating steps connected with the diminution process of the interchange fee amount (1 July 2014). The above process determined the fact that from 29 January 2015 in Poland, the interchange fee amount may not be higher than 0,2% of the national unit transaction value for debit cards, and 0,3% for credit cards.

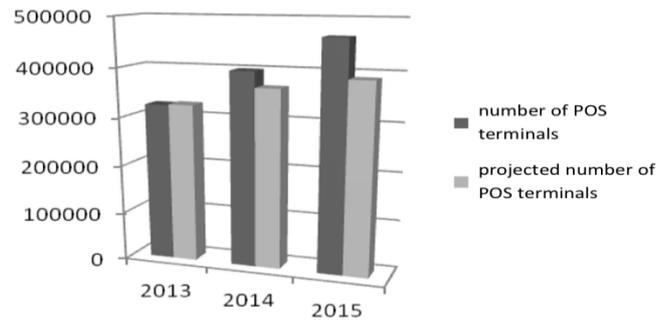
The actions taken have considerably changed Poland's international position, from the country where the interchange fee was one of the highest in Europe and higher than the average one in EU countries to the leading country position with one of the lowest fees.

2. The benefits for the entities' groups resulting from the interchange fee reduction concerning payment cards

The introduction of the regulatory indication concerning threshold interchange fee amount had an enormous impact on the shape of the non-cash turnover by means of the payment cards. From 29 January 2015 in Poland the interchange fee may not be higher than 0,2% of the transaction value for debit cards, and 0,3% for credit cards.¹⁸ The main objective of the interchange fee reduction was reduction of the high acquirers' payment cards costs, what resulted in the increase of the total number of non-cash acquirers of the card transactions, as well as small and medium retail outlets handling payment cards, without worrying about high transaction costs, Chart 5.

¹⁸ Binda J. *Amendments to the law of payment services impact to the development of the non-cash transactions*, Zylińska 2015.

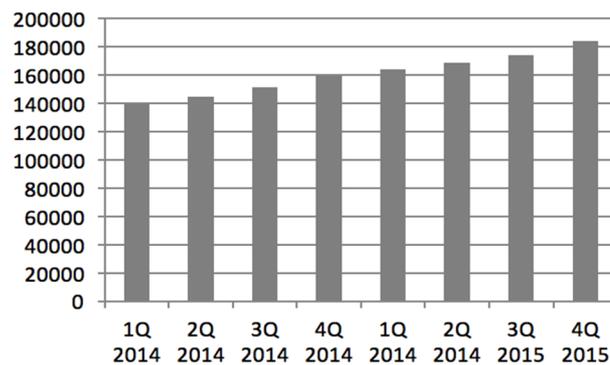
Chart 5. The number of the acquirers owing POS terminals in years 2013-2015 and projected number of POS terminals.



Source: own description based on NBP data¹⁹

In 2014 a substantial increase of the acquirers was noticed by about 16,33% y/y, while in 2015 the increase at the level of about 15,27% y/y was observed. The growing trend is still maintained, therefore it can be stated that the interchange fee reduction have had an impact on the growing number of the acquirers owing POS terminals. The quarterly analysis of the acquirers number increase who own POS terminals in years 2014 and 2015 seems to confirm the above argument, Chart 6.

Chart 6. The number of the acquirers owing POS terminals broken down by quarter

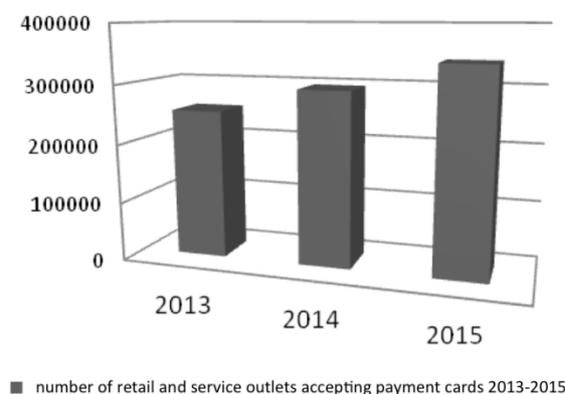


Source: own description based on NBP data²⁰

¹⁹https://www.nbp.pl/systemplatniczy/obrot_bezgotowkowy/prognoza2014-2020.pdf

The National Bank of Poland acquirers' data show that the largest percentage of the acquirers' increase was observed in II Q 2015, hence in the period of the reduced level of the interchange fee validity, Chart 7.

Chart 7. The number of the retail and service outlets accepting payment cards in years 2013-2015

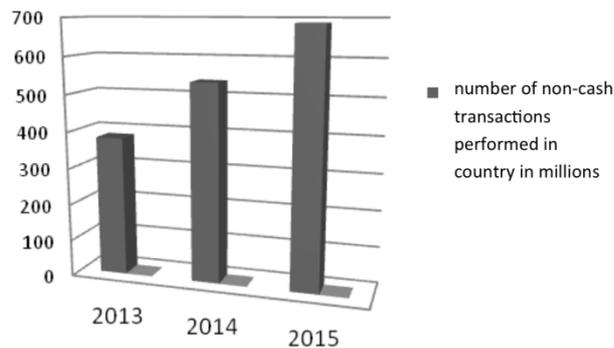


Source: own description based on NBP data

Reducing the interchange fee for the payment cards in Poland was successful and a periodical increase of the retail and service sites accepting the payment cards may be observed. In 2013 the number of the sites was equal to 253,6 k, and 295,4 k in the subsequent year, to reach astonishing 342 k in 2015 (the increase by about 35% in the period of 2013-2015), Chart 8.

²⁰ Ibid.

Chart 8. The number of POS terminals 2013-2015



Source: own description based on NBP data²¹

The forecast from ETS model is characterized by the linear trend and anticipates the increase of the POS terminals number by the end of the 2020 up to about 500 k devices²². As charts number 8, 6 and 7 illustrate the number of POS terminals is still growing, moreover it exceeds predicted threshold values. From year to year, the non-cash turnover rises (regarding transactions number and values). More and more users settle liabilities by means of terminals due to speed, low cost (unlike ATM machines that frequently charge commissions from users) and safety compared to cash. Whereas the acquirers gain profits as increased turnover, since a card holder has no need to verify the amount of cash in a wallet.

The spread of the payment cards has been connected with overcoming social and psychological barriers, resulting from long-term cash use. The consumers got used to the new payment instrument and mainly treat it as the instrument enabling an easy access to a bank account cash. E-money may play a significant role in the development of specific consumer payment habits.

²¹M. Kozakiewicz, M. Kwas, *Prognoza wybranych wskaźników rozwoju obrotu bezgotówkowego na lata 2014–2020*, work commissioned by the National Bank of Poland, 18 December 2014. https://www.nbp.pl/systemplacniczy/obrot_bezgotowkowy/prognoza2014-2020.pdf 28.04.2016.

²² Ibid.

3. The interchange fee impact on individual non-cash turnover participants

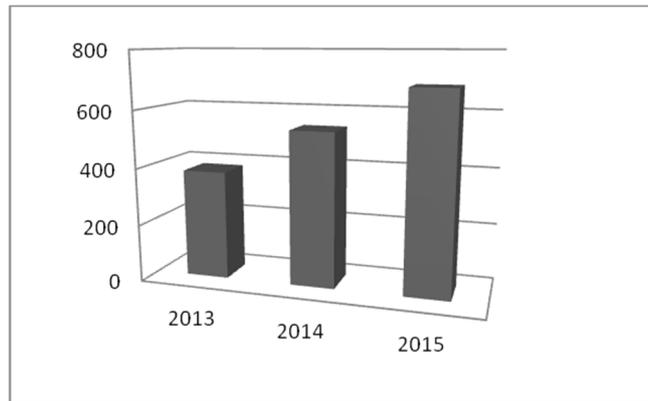
The reduction of the interchange fee was supposed to benefit to the payment cards holders by reducing the goods and services prices. The reducing was also suppose to cause the money to be kept by the acquirer rather than the issuer's bank. The acquirer was to share the money with the consumers by means of the goods and services price reduction.²³ However, taking into consideration the prices formation on the Polish market after the introduction of the interchange fee reducing regulation, it can be seen that the above situation had no occurrence. The fee was used as a mechanism to disseminate the non-cash POS transactions²⁴. Resulting from the fact benefits can be analysed at various levels. For a consumer, it particularly results in lower prices of goods and services, the possibility of making all transactions by a card, simpler and faster access to funds collected in a bank account. As far as banks are concerned, the interchange fee transition resulted in IIIQ 2015 (the end of quarter) in deterioration of about 2 587 m zlotys y/y of banking activity result.²⁵ So far the advantages provided to banks by the interchange fee have been primarily transferred to the acquirers. The increase in both number and value of the non-cash transactions at sites owing POS terminals, is also the effect of the interchange fee reduction, Chart 10.

²³*Analiza skutków obniżenia opłaty interchange w Polsce*, the National Bank of Poland, August 2015.

²⁴Meeting of the Finance Commission from 17 April 2013 <http://orka.sejm.gov.pl/Zapisy7.nsf/wgsknrn/FPB-162> 28.04.2016.

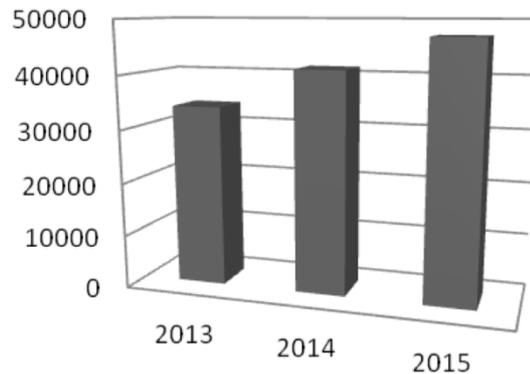
²⁵Kotowicz A., *Informacja o sytuacji banków w okresie I-IX 2015*, UKNF Warszawa 2015. https://www.knf.gov.pl/Images/RAPORT_O_SYTUACJI_BANKOW_III_2015_tcm75-43906.pdf 28.04.2016.

Chart 9. The number of the non-cash transactions performed in the country in years 2013-2015 (in millions)



Source: own description based on National Bank of Poland data.

Chart 10. Non-cash transaction value in Poland in years 2013-2015 (m)



Source: own description based on NBP data.

The increase of the transaction value in 2014 by 22% y/y. and in 2015 at the level of 14% y/y. confirms a considerable social acceptance for non-cash financial transactions and new banking instruments. The rise in the number and transaction value has allowed banks to compensate at some extent for the revenues reduction resulting from lowering of the interchange fee.

Conclusions

The introduction of the regulation concerning the interchange fee amount considerably influenced the number of non-cash transactions as the amount restrictions above which a card transaction could have been performed has disappeared. The acquirers receive the largest benefits of the reduced interchange fee, who have not lowered the prices of goods and services, contrary to the legislative expectations. While banks have noticed a dramatic fall in the revenues due to the interchange fee. The rise in the number and value of non-cash transactions at some extent has enabled the compensation of the losses of the non-cash settlements. The actions taken by the legislator, the National Bank of Poland, the Polish Bank Association regarding further regulation as well as the expansion of the instruments and non-cash transactions are convergent with the actions taken in the EU with the reference to the elimination of the financial settlements of the black economy and non-cash transactions costs reduction.

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