

Letter To The Editor: Let Open Market Decide the Fate Of Interchange

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To the Editor:

In "Free-Market Defense of Free Ride Is Nonsense" [March 10, page 11] the estimable Duncan MacDonald stirs the pot with characteristic gusto. Merchant plaintiffs must argue a theory under which they were injured by interchange being higher than it would have been absent the alleged MasterCard and Visa bank conspiracies.

Enormous damage numbers have been bandied about. Though Timothy Muris said the interchange lawsuit risk could easily approach \$1 trillion, not "trillions," this amount would still be catastrophic and is as MacDonald says "preposterous." (See correction, opposite page)

That said, it is in the plaintiffs' interest to cow MasterCard and Visa into juicy settlements with a doomsday damage theory. But how does one credibly posit that interchange should have been lower? In the general-purpose U.S. card market, Amex's implicit interchange is higher and Discover's lower.

Soon there will be an even more relevant benchmark: a public, for-profit MasterCard. Under the most tortured reasoning it could not be a conspiracy restricting competition under the Sherman Antitrust Act.

In two-sided payments markets, consumers, not merchants, are king. An independent MasterCard will therefore be motivated, where practicable, to increase interchange to spur additional issuance and utilization of its payment products, thereby increasing the network's value. MasterCard's raising interchange rates post-IPO would pose a dilemma for merchant plaintiffs who must demonstrate historical injury caused by supracompetitive prices imposed by the bank consortiums.

MacDonald doesn't approve of interchange-funded grace periods. Neither do European regulators such as the OFT, which wants to vet costs recoverable via interchange, treating the payment networks as public utilities. The OFT describes grace periods as an "extraneous" cost. In the free market, Discover, Amex, and most private-label credit-card programs also offer grace periods, among a slew of cardholder benefits.

In the NaBanco decision, Judge Hoeveler endorsed the bank card JV Visa's distributing costs through interchange. If interchange is viewed as a cost-recovery system, who is to say what payment networks can recoup?

Why not grace periods, cash back programs, and frequent flier programs, all of which encourage issuance and utilization? Why not let customers, with their payment

choices, decide?

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