

Update on Interchange Determination Project

During 2009 and 2010, the South African Reserve Bank (the Bank) was involved in a process of discussion with the National Treasury (NT), the Department of Trade and Industry and the Competition Commission (CC), in an attempt to find a resolution to the issues raised in the Banking Enquiry Report (the Report)¹ concerning interchange.

As a result of the above-mentioned discussions, the Bank made a proposal on the process going forward, which proposal would entail a Bank-facilitated and overseen revision of interchange rates for all relevant payment streams in South Africa. The proposal was supported by the NT and the CC.

The first phase of the Interchange Determination Project (IDP) was launched by the the Bank in 2011. The specific intent of Phase 1 was to review interchange rates applied in all payment streams to determine whether they were feasible and/or justifiable in the particular stream, were set at realistic and appropriate levels based on acceptable parameters, and to make the components of interchange more transparent.

The Bank engaged the services of Dr Philip Tromp, of Tromp AG, for Phase 1. Dr Tromp delivered his report to the Bank in December 2011. The report concluded that interchange was a necessary part of the incentives to roll out and maintain infrastructure required to provide payment services, thereby creating interoperability and efficiency in the payment system.

The findings from Phase 1 were communicated, to the relevant national payment system stakeholders (stakeholders), by the Bank during the first half of 2012. The Bank also announced that there would be a second phase of the IDP, which was launched recently.

The objective of Phase 2 is to develop a methodology to determine realistic interchange rates based on justifiable costs of providing a service applicable for the various payment streams, and to make the process of determining these interchange

¹ Refer to <http://www.compcom.co.za/enquiry-in-to-banking/>

rates more transparent. This will involve more intensive discussions and interactions with stakeholders, culminating in the determination of benchmark interchange rates, initially for payment streams that have been identified as priority areas. These payment streams include, but are not limited to:

1. Automated Teller Machines (ATMs);
2. Early Debit Orders (EDO) i.e. Authenticated EDO and Non-authenticated EDO;
3. Debit Card at point of sale; and
4. Electronic funds transfer debit and credit.

The interchange rate determination on cash withdrawals/dispensing at ATMs will be piloted first. Once the pilot is complete, interchange rate determination for the other payment streams will commence, which processes may run concurrently.

The Bank has appointed KPMG Services (KPMG) to assist the National Payment System Department (NPSD) with Phase 2 of the project.

The implementation of any revised interchange rates for various payment streams will commence during the course of 2013 on dates to be advised in due course. It is envisaged that Phase 2 of the Interchange Determination Project will be completed in the second half of 2013, and thereafter interchange rates will be reviewed if changing circumstances warrant such a review, but at a minimum of at least every three years. All queries in this regard are to be forwarded to NPSInterchange@resbank.co.za or sarbinterchangeproject@kpmg.co.za.