Position paper

National Payment System Department

South African Reserve Bank

Position paper on interchange in South Africa

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1. Definitions and clarifications

1.1 Unless the context indicates otherwise, any word or expression to which a meaning has been assigned in the National Payment System Act 78 of 1998, as amended (NPS Act), has that meaning.

1.2 **Account holder:** A person who has an account with a participant, to whom a participant pays funds to or transfers funds from.

1.3 **Acquiring:** A process whereby a participant acquires or accepts a payment instrument issued by an issuing participant.

1.4 **Beneficiary participant:** A participant that receives a payment instruction from the paying participant and makes the funds associated with the payment instruction available to the account holder or the beneficiary.

1.5 **Card:** A payment instrument issued by a participant to a person to effect a payment, withdraw cash or transfer funds.

1.6 **Cardholder:** A person or entity that enters into an agreement with an issuing participant to obtain a card.

1.7 **Cardholder fee:** A fee that an issuing participant charges a cardholder for issuing the card. This is typically charged on a monthly basis and may be accompanied by interest charges and/or transaction fees.

1.8 **Card scheme:** A card scheme entails a card payment network to which an eligible institution may become a licensed member.[1] A card scheme facilitates the functioning of the card payment system through rules and standards for clearing payment instructions between issuing and acquiring participants.

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[1] See the *National Payment System Framework and Strategy – Vision 2025,* available at https://www.resbank.co.za/content/dam/sarb/what-we-do/payments-and-settlements/Vision%202025.pdf.

1.9 **Chargeback:** A transaction performed by an issuing participant to refund the cardholder in the event that a cardholder and merchant are unable to agree on a reversal or refund transaction.

1.10 **Co-branding:** The inclusion of at least one payment brand (card scheme) and at least one non-payment brand on the same card-based payment instrument.

1.11 **Credit push payment:** A payment transaction whereby the payer initiates a payment instruction to his/her participant to pay directly by forwarding the payment instruction and the funds on to the beneficiary participant for payment into the beneficiary's account.

1.12 **Debit pull payment:** A payment transaction whereby the payer gives the beneficiary the mandate to pull funds from the payer's account by submitting the payment instruction to his/her own participant for submission of the payment instruction onto the payer's participant, which then transfers the funds requested back to the beneficiary participant.

1.13 **Electronic money (e-money):** A monetary value represented by a claim on the issuer. This money, stored electronically and issued on receipt of funds, is generally accepted as a means of payment by persons other than the issuer and is redeemable for physical cash or a deposit into a bank account on demand.

1.14 **Faster payments:** A low value credit-push payment service in which both the transmission of the payment message and the availability of funds to the payee/beneficiary occur in real time or near real time, on a basis that the service is available 24 hours a day, 7 days a week (24/7).

1.15 **Four-party card scheme:** An open card scheme that enables multiple issuing and acquiring participants to connect to the same card network. A four-party card scheme has no direct relationship with the merchant or cardholder. The issuing participant has a contractual relationship with the cardholder while the acquiring participant contracts with the merchant. Examples include Mastercard and Visa.

1.16 **Interchange:** A transfer made between participants whereby, in the context of a payment made by the customer of one participant to the customer of another participant, one of the two participants contributes a part of its revenue to the other participant.

1.17 **Interchange fee:** A fee payable by a participant as an incentive and compensation to another participant for providing a payment instrument and/or infrastructure to enable its customers to transact with another participant. An interchange fee can be set as a percentage of a transaction. It can also be referred to as an ‘interchange rate’.

1.18 **Interoperability:** The ability of different types of computers, networks, operating systems, applications and other infrastructure of different participants and relevant stakeholders to interlink and work in partnership effectively without interruption, and explicit communication or translation prior to each event in order to enhance the efficiency of the payment system.

1.19 **Issuing:** A process whereby an issuing participant issues a payment instrument to its customers to effect payment, withdraw cash or transfer funds.

1.20 **Merchant service fee (MSF):** A fee that a merchant pays to the card-acquiring participant for providing and maintaining the infrastructure to process payment instructions.

1.21 **Multilateral interchange fee (MIF):** An interchange fee set by the four-party card schemes or collectively by participants.

1.22 **Participant:** A clearing system participant, as defined in the NPS Act.

1.23 **Paying participant:** A participant that transfers funds, upon receiving a payment instruction, on behalf of the account holder or the payer.

1.24 **Payment instrument:** A tool or a set of procedures enabling the transfer of money from a payer to a payee/beneficiary.

1.25 **Point-of-sale (POS) device:** An electronic device used to process card payment instructions.

1.26 **Scheme fee:** A scheme membership fee that the card-issuing participant and acquiring participant pay to a card scheme to reap the benefits that a card scheme provides through the facilitation of clearing payment instructions.

1.27 **Three-party card scheme:** This is also known as a 'closed card scheme'. The card scheme acts as both the issuing participant and the acquiring participant, and contracts with both the cardholder and the merchant.

1.28 **Two-sided market:** A market with interdependencies, where intermediation services bring together the two parties of a transaction (i.e. payer and beneficiary). Interdependencies mean that the demand from one group of customers depends on the demand from the other group, and possibly vice versa.

2. Introduction

2.1 In terms of section 10(1)(c) of the South African Reserve Bank Act 90 of 1989, as amended (SARB Act), the South African Reserve Bank (SARB) is required to perform such functions, implement such rules and procedures, and, in general, take such steps as may be necessary to establish, conduct, monitor, regulate and supervise payment, clearing or settlement systems. Furthermore the NPS Act provides for the management, administration, operation, regulation and supervision of payment, clearing and settlement systems in the Republic of South Africa, and for connected matters.

2.2 The national payment system (NPS) encompasses the entire payment process, from payer to beneficiary, and includes settlement between banks. The process includes all the tools, systems, mechanisms, institutions, agreements, procedures, rules and/or laws applied or utilised to effect payment. The NPS enables the circulation of money (i.e. it enables transacting parties to exchange value). The NPS further contributes to the economy and financial stability in South Africa.

2.3 As indicated in Rochet and Tirole, the payments market is a two-sided market, with intermediation services facilitating the transfer of value between two parties to a transaction (i.e. payer and beneficiary).[2] As a result, the payment life cycle is interdependent on the behaviour on both sides of the market (i.e. the paying and the beneficiary side of the market).

2.4 Interchange is applied on payment instructions attributed to some payment methods and instruments, as a coordination mechanism to align the incentives of the two sides of the market. For example, in the cards market (credit cards, debit cards and prepaid cards), the incentives can be explained as the indirect benefits afforded to merchants for accepting card payments, as they result in improved convenience and guaranteed payments, and provide higher security in stores. Card acceptance attracts customers as it brings convenience (i.e. access to liquidity and faster payment at POS and may result in increased sales for merchants. On the card-issuing side, the widespread use of cards provides benefits in the form of increased adoption, revenue and competition for market share.

2.5 These incentives are often associated with costs, hence the need for interchange. The card-issuing participants incur costs for issuing cards to customers (including card scheme fees) and processing card transactions, while acquiring participants incur card scheme fees, the cost of providing and

[2] J Rochet and J Tirole, 'Two-Sided Markets: A Progress Report', *The Rand Journal of Economics* 37(3), 2006, pp. 645-667.

maintaining payment infrastructure, and interchange fees. Merchants pay MSFs and consumers pay cardholder fees.

2.6 Interchange incentivises a participant for providing payment instruments that enable its customers to transact with another participant. Interchange also allows a participant that enjoys the incentives to compensate the other participant for the cost of providing and maintaining the infrastructure to service their non-customers. In this regard, interchange is an important part of the NPS as it helps provide a balancing mechanism for the two sides of the market, ultimately supporting interoperability. Interoperability is an important driver of network effects in the payment system by facilitating growth in electronic payment infrastructure, which supports economic activity. In particular, interchange facilitates transactions that may not have occurred otherwise (e.g. facilitating the withdrawals of cash at an ATM using a card that is not issued by the participant that owns the ATM).

2.7 Interchange fees in the two-sided market can be skewed if determined by the market, as it considers incentives between two parties. For example, Garces and Lutes argue that in the cards market, merchants may have low price sensitivity/elasticity to the interchange fee (which is included in the MSF), with the expectation of reaping benefits from accepting card transactions.[3] In an uncompetitive acquiring environment, this may result in merchants accepting MSFs (which include interchange fees) that are higher than optimal. On the issuing side, card-issuing participants may offer customers zero-rated card transactions and additional rewards through rewards programmes in order to increase card adoption as customers may have high price sensitivity/elasticity.

2.8 Over the years, the determination of interchange fees across jurisdictions has been scrutinised by regulatory and competition authorities, largely due to potentially uncompetitive behaviour of participants and card schemes.

[3] E Garces and B Lutes, *Regulatory Intervention in Card Payment Systems: An analysis of regulatory goals and impact*, The Brattle Group, Inc, 2019.

According to the Competition Commission, the uncompetitive nature of the multilateral interchange fee (MIF) determination[4] and the inefficient nature of bilateral determination have been found to contribute to the inefficient levels of interchange fees.[5] In South Africa, for example, the Competition Commission found in 2008 that an interchange fee should not be left to be set privately by those actually or potentially benefitting from it.[6]

2.9 Regulatory approaches and interventions on interchange determination indicate heterogeneity across jurisdictions. Some jurisdictions have adopted the approach of central banks setting caps on interchange fees on card transactions while others have left interchange fee determination to the market. In several jurisdictions, card transactions and ATM transactions attract interchange fees, while transactions made using other payment instruments and payment methods, such as electronic funds transfers (EFTs), do not attract interchange fees.

3. Purpose and scope

3.1 The purpose of this paper is to state the SARB's policy position on interchange fee determination in the NPS.

3.2 The scope of this position paper covers all payment streams, including payment streams that fall under the following categories:

- cards;
- electronic payments (both credit push and debit pull transactions, including payment through e-money, faster payments etc); and
- cash outlets or infrastructures (e.g. ATMs and cash-back at POS devices).

[4] Competition Commission, *Interchange determination: An assessment of the regulation of interchange in South African in light of international developments*, 2014. http://www.compcom.co.za/wp-content/uploads/2014/09/Interchange-determination.pdf
[5] European Central Bank, *Interchange in card payments*, Occasional paper series No. 131, 2011. https://www.ecb.europa.eu/pub/pdf/scpops/ecbocp131.pdf?d588133bdfb8099445e16c9473233833
[6] Competition Commission, 'Payment cards and interchange', *Banking Enquiry Report*, 2008. https://www.compcom.co.za/wp-content/uploads/2017/11/6-Payment-cards-and-interchange_non-confidential1.pdf

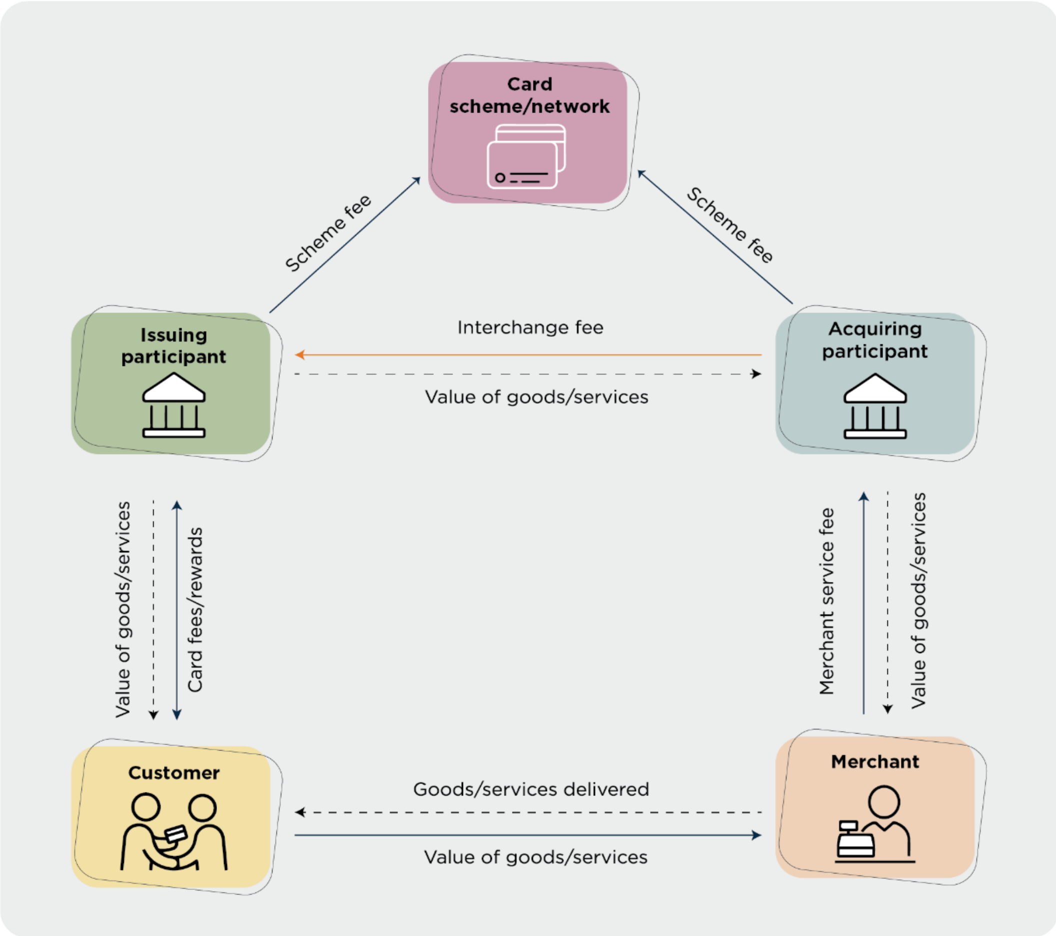
4. Interchange in practice

4.1 Interchange fees can be determined in three ways. Firstly, participants (usually banks) may determine interchange fees bilaterally. However, this method can be onerous, inefficient and unsustainable. Secondly, in card payments, the card schemes (e.g. Mastercard or Visa) or a community of participants may determine interchange fees, also known as multilateral interchange fees (MIF). Thirdly, interchange fees may be determined by a regulator through a set regulatory process.

4.2 Interchange can be illustrated using the following examples:

4.2.1 In card transactions at point of sale, an interchange fee refers to the fee paid by the participant acquiring the transaction to the participant that issued the card each time a cardholder uses a card to make a purchase. Figure 1 below illustrates the flow of interchange fees and other fees when a customer purchases goods or services using a card in a four-party card scheme (e.g. Mastercard and Visa).

Figure 1: Interchange on card transactions at point of sale



4.2.2 The rate structure of card interchange is typically based on several factors, including the type of card (credit or debit), the security features of the card (e.g. Europay, Mastercard and Visa (EMV)[7] or Three-Domain (3D) Secure[8]), and the type of transaction (e.g. card present or card not present). Card schemes have liability shift rules for card payments, whereby the acquiring participant becomes liable for fraudulent EMV and/or 3D-Secure card transactions if it is proved that the security breach occurred from the acquiring participant's infrastructures.

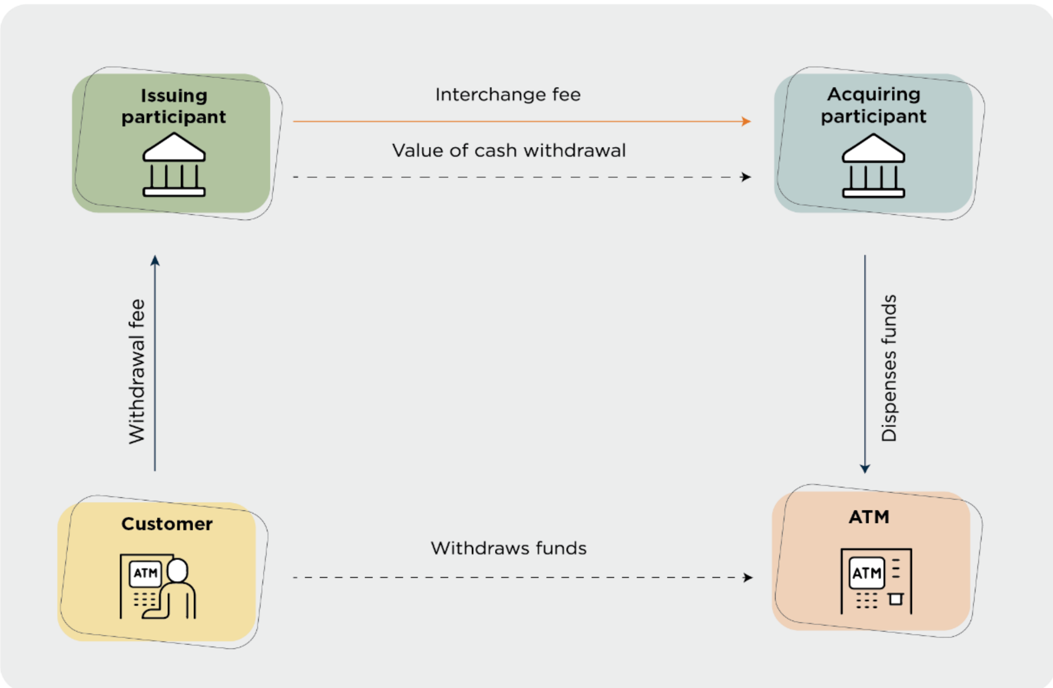
[7] EMV is a standard managed by EMVCo, a global technical body comprising American Express, Discover, JCB, Mastercard, UnionPay and Visa. EMV ensures that a credit or debit card is embedded with a microchip, a personal identity number (PIN) and associated technology designed to enable secure payment at compatible POS devices.

[8] 3D Secure is a messaging protocol developed by EMVCo to enable consumers to authenticate themselves with their card issuer when making card-not-present e-commerce purchases.

4.2.3 The reason for varying interchange fees is that the benefits and risks of using these cards vary significantly across the types of card or transaction. The riskier the transaction or card type, the higher the interchange fee. Credit cards generally attract higher interchange fees than debit cards because interchange on credit cards includes the cost of providing a payment guarantee (even if the cardholder defaults on the credit card or the transaction happened to be fraudulent). Furthermore, in credit card payments, the issuing participant assumes the cost of any time difference between payment to the acquiring participant and the debiting of funds from the cardholder's current account. In contrast, debit cards operate from the available balance on the current account.

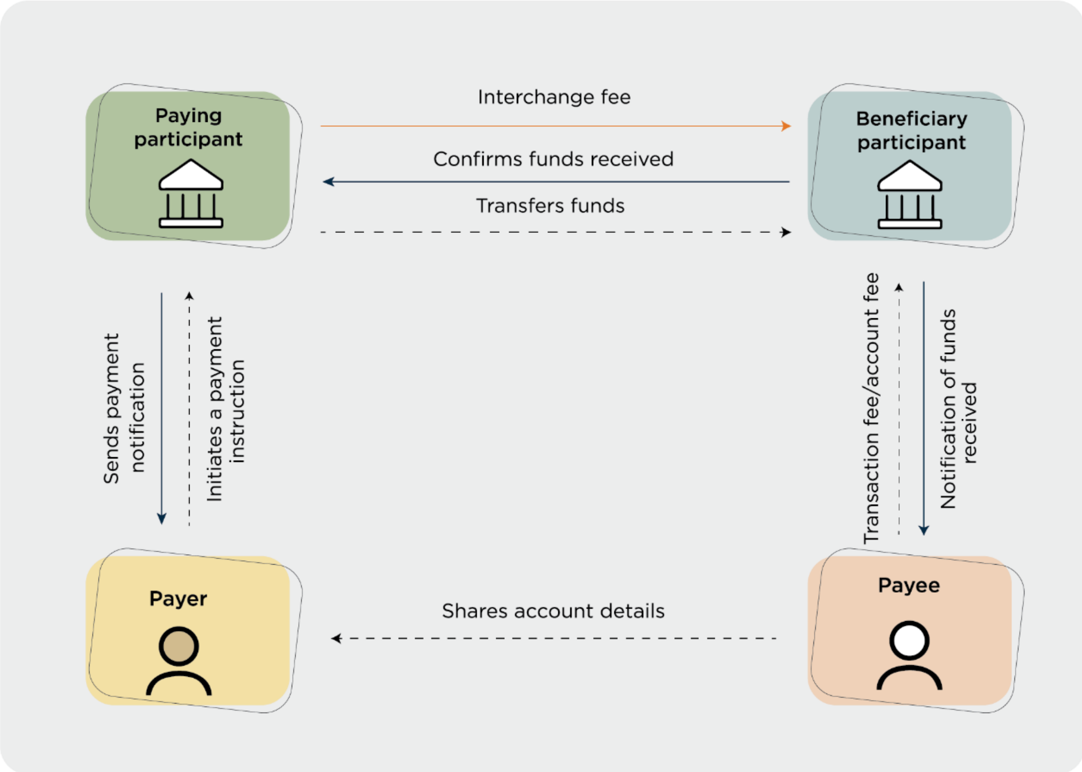
4.2.4 In automated teller machine (ATM) transactions, when an issuing participant has issued a card to a customer that uses the ATM of another participant (acquiring participant), an interchange fee is payable by the issuing participant to the acquiring participant (the participant providing the ATM infrastructure) (see Figure 2).

Figure 2: Interchange on ATM transactions



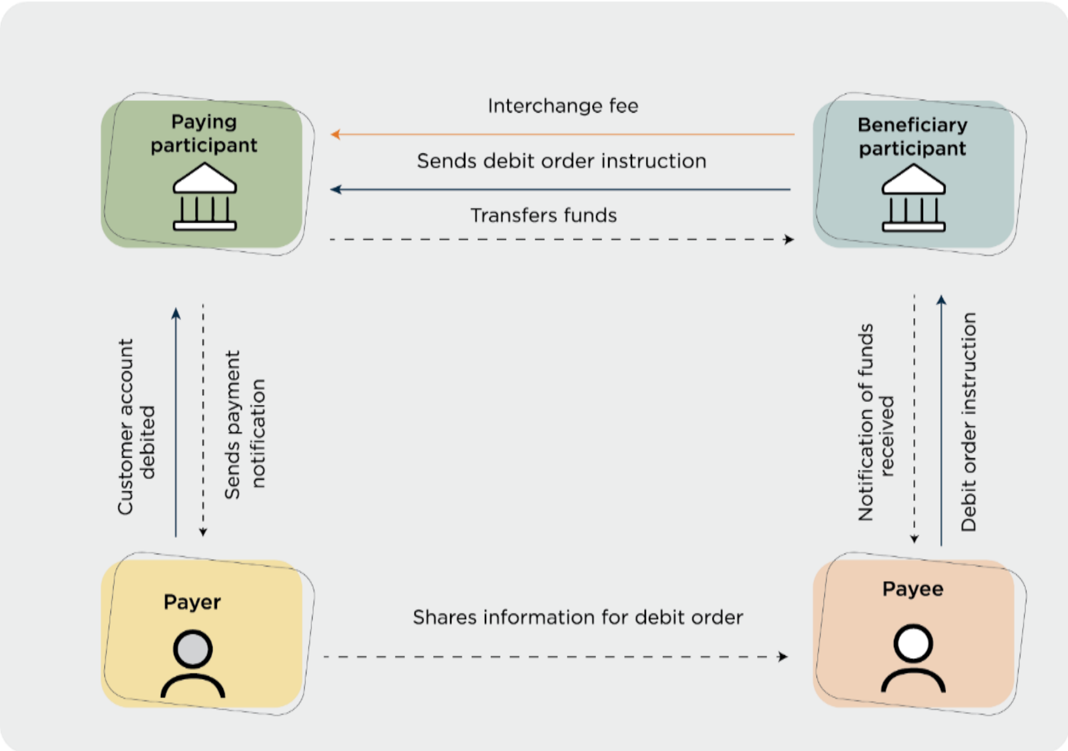
4.2.5 In EFT credit transactions, where a payer transfers funds electronically to a beneficiary, the payer's participant pays an interchange fee to the beneficiary participant to process the transaction (see Figure 3).

Figure 3: Interchange on EFT credit transactions



4.2.6 In EFT debit transactions, the beneficiary participant who initiates an EFT debit instruction pays an interchange fee to the paying participant (see Figure 4 below).

Figure 4: Interchange on EFT debit transactions



5. Policy objectives

The policy objectives are to:

5.1 **Provide a policy and regulatory certainty on the SARB's position on interchange determination.** Given the important role that interchange plays in the NPS, it is essential that interchange determination is governed by a clear position by the SARB. This will also help create certainty on how interchange would apply to new payment services, irrespective of whether they are provided by incumbents or new participants.

5.2 **Promote cost-efficiency in the NPS.** Interchange should be fairly determined to promote efficient use of payment instruments and efficient allocation of resources. Interchange can drive investments by participants in the market infrastructure, which enables faster and more cost-effective payment methods. Interchange determination facilitated by the SARB aims to minimise the potential for interchange to be abused to the detriment of end users (according to the Competition Commission this could potentially arise through high fees and prices[9]), which could result in inefficient use of payment instruments and infrastructures.

5.3 **Promote a wide adoption of secure electronic payments in the NPS.** Interchange can play a major role in expanding the adoption and use of electronic payments in the NPS, which may enhance interoperability when transacting, and may increase the velocity of transactions and economic activity. Furthermore, electronic payments offer consumers a secure method of transacting and other value-added benefits (e.g. protection against lost or stolen cards and the unauthorised use thereof).

5.4 **Promote interoperability in the NPS.** Interchange facilitates transactions between multiple heterogeneous providers of services in the market or off-us transactions, for example withdrawing cash from an ATM that does not belong to the participant that issued the card. The objective setting of interchange helps to provide appropriate incentives for participants to integrate their systems, allowing all consumers to transact, irrespective of the participant to which they are contracted.

5.5 **Promote competition and innovation in the NPS.** The SARB's position on interchange aims to promote competition and innovation by enabling new providers of services, such as non-bank participants, to access the NPS. Fair and consistent facilitation of interchange determination by the SARB can encourage competition and innovation in the NPS. Increased competition and innovation in the NPS would potentially result in lower fees for merchants and cheaper payment instruments or methods of payment as well as improved customer experience.

5.5.1 **Support financial inclusion.** Fair and consistent interchange determination encourages the participation of non-bank participants in the NPS, supporting financial inclusion as non-banks have the potential to provide financial

[9] According to the Competition Commission, as interchange fees are a component of MSFs they form part of the merchant's cost strategy and should enter invisibly into consumer prices. This was confirmed by one of the retailers during the Banking Enquiry.

services to consumers who do not have traditional bank accounts and could increase market reach to the underserved population.

5.6 **Increase transparency of interchange determination.** Transparency in the approach and long-term strategy of interchange determination assists the payments industry in aligning its strategies to how interchange is determined. In addition, transparency of interchange determination by the SARB can contribute to consumer protection through the elimination of potential abuse where the process is left to the market. This aspect should support the Financial Sector Conduct Authority (FSCA) on its market conduct and consumer protection mandate.

6. The current interchange landscape in South Africa

6.1 In 2011, the SARB initiated and facilitated the interchange determination project (IDP), with the objective of addressing the shortcomings of the practice of determining interchange rates, as identified by the SARB and the payment industry, and as outlined in the *Banking Enquiry: Report to the Competition Commissioner by the Enquiry Panel*[10].

6.2 As part of addressing the shortcomings, the IDP aimed to promote, among other things, transparency, fairness and consistency in determining interchange rates, the sustainability of interchange rates, and the efficiency and interoperability in the NPS.

6.3 **Payment streams:** Tables 1 and 2 below indicate the payment streams in which interchange currently applies, who determines the interchange rate, and the direction of the interchange fee.

[10] In 2008, the Competition Commission finalised the *Banking Enquiry Report* on, among other things, aspects related to the payment system in South Africa and bank fees/charges. https://www.compcom.co.za/2018/11/27/banking-inquiry/

Table 1: Payment streams with interchange rates determined by the SARB

Payment stream	Direction of interchange fee	Rationale and qualifying statement
ATM	The issuing participant pays the acquiring participant.	The interchange fee provides an incentive to ATM providers to roll out and maintain the ATM infrastructure, thereby creating interoperability and efficiency within the payment system.
Cash-back at POS	The issuing participant pays the acquiring participant.	Interchange on cash-back at POS aims to incentivise all parties in the transaction in the interest of supporting financial inclusion.
Debit card and credit card	The acquiring participant pays the issuing participant.	To compensate the issuing participant for providing a payment instrument that enables its customers to transact with another participant as well as to compensate the issuing participant for providing and maintaining the infrastructure to facilitate and process the transaction.
Authenticated collections (including the Registered Mandate Service[11])	The beneficiary participant pays the paying participant.	To compensate the paying participant for the exposure to fraud risk by enabling these transactions and for facilitating the payment using their processing infrastructure.

Table 2: Payment streams with interchange rates determined by the market

Payment stream	Direction of interchange fee	Bilaterally or collectively?	Rationale and qualifying statement
EFTs (credit push transactions)	The paying participant pays the beneficiary participant.	Bilaterally determined	To compensate the beneficiary participant for providing and maintaining the infrastructure to process the payment instruction from the paying participant.
EFTs (debit pull transactions)	The beneficiary participant pays the paying participant.	Bilaterally determined	To compensate the paying participant for providing a payment instrument that enables its customers to transact with the beneficiary participant and to compensate the paying participant for the exposure to fraud risk by enabling these transactions and for facilitating the payment using their processing infrastructure.
Real-time clearing (RTC)	The paying participant pays the beneficiary participant.	Bilaterally determined	To compensate the beneficiary participant for providing and maintaining the infrastructure to receive the payment instruction from the paying participant.

[11] The Registered Mandate Service is an interim measure intended to bridge the gap between technical and business success while assisting users and consumers in the authenticated collections (AC) journey.

Payment stream	Direction of interchange fee	Bilaterally or collectively?	Rationale and qualifying statement
Card credit payment instruction (CCPI)	The acquiring participant pays the issuing participant.[12]	Set in consultation with market participants	To compensate the issuing participant for providing and maintaining the infrastructure to process the payment instruction.

6.4 **Methodology:** Currently, the SARB applies a cost-based methodology on all applicable payment streams to determine the interchange rates.[13] Data on transactional values and volumes, the costs of providing payment services and other qualitative information is collected from the participants to be used to determine interchange rates and for other regulatory reporting purposes.

6.5 **Frequency of interchange determination by the SARB:** The interchange rates are reviewed on an annual basis to determine whether they are still relevant and, if not, they are adjusted accordingly.

7. Principles applicable to interchange determination

7.1 The SARB applies the following principles in its interchange determination:

7.1.1 **Fairness and consistency:** Interchange determination should not be biased towards or against any participant and should be consistently applied or equally applicable to all stakeholders. Fair and consistent determination and application of interchange rates in the different payment streams are important in bringing public accountability and confidence for the NPS.

Interchange rates should be applied equally for the same payment type and should not discriminate whether the participant is a bank or non-bank participant, including those that use financial technology (fintech).

[12] Where the payer transacts with a card, a card interchange rate applies, meaning that the acquiring participant pays the card interchange fee to the payer's issuing participant and the CCPI interchange fee to the payee's issuing participant.

[13] At the time of writing this paper, the SARB determined interchange rates for transactions emanating from ATMs, debit and credit cards as well as cash-back at POS devices.

7.1.2 **Being simple, clear and understandable:** The structure of interchange rates in the card stream should be as simple as possible to drive innovation and sufficiently balance the two-sided market considering the type of transactions (e.g. card present and card not present) and the security features of the payment type.

The interchange rate structure should be based on the security and risk nature of the transaction (e.g. EMV, 3D Secure, a card-present transaction or a card-not-present transaction) rather than on product type or card brand. Different interchange rates for different types of card products (e.g. a gold card, a platinum card or a private clients card) would bring complexity to the rate structure.

Considering the ever-increasing payment methods that are technology-driven (e.g. Quick Response, Tap and Go, tokenisation and so forth), the number of interchange rates per payment stream should be kept at a minimum in order to ensure that they are simple, clear and understandable to consumers, merchants and other participants.

7.1.3 **Data collection and use:** The collection and use of interchange-related data should align to best practice standards to assist with data accuracy, integrity, consistency and completeness.

7.1.4 **Incorporating broader market factors:** Interchange determination should include the use of quantitative data and take into account qualitative considerations in the determination of interchange rates from both an interchange and a broader market context.

7.1.5 **Interoperability:** Interchange rate structure and the application thereof should encourage interoperability in the market to prevent fragmentation and should lead to a more harmonised and competitive payment ecosystem. Interchange should facilitate interoperability in innovative payment systems such as faster payments, e-money and other electronic money systems.

7.1.6 **Flexibility and adaptability:** The interchange determination process should be sufficiently agile to respond adequately and timeously to ever-changing market dynamics. In this regard, the SARB should have the power to determine interchange rates for relevant existing or future payment streams or any means of payment, whenever it is satisfied that interchange in that payment stream is in the interest of the NPS, including participants and consumers. Furthermore, the SARB should continuously monitor the markets, the applicability of interchange in other payment streams as well as the principles in order to maintain consistency and relevance of its interchange determination.

7.1.7 **Sustainability:** The interchange determination process should result in interchange rates that are sustainable (i.e. interchange rates should be relevant and appropriate for a reasonable period).

8. Position of the South African Reserve Bank

8.1.1 **Responsible authority:** The SARB is the responsible authority to determine, approve, regulate and supervise the implementation of interchange rates in South Africa as the lead regulator, supervisor and overseer of the NPS.

8.1.2 **Payment streams:** The SARB has the power to determine interchange rates in the following payment streams:

a. **Card (credit card, debit card and CCPI):** Interchange is necessary in card payment streams to promote transparency and efficiency and to compensate the issuing participant for providing and maintaining the infrastructure to issue the instrument (card) and process the payment instruction.

b. **ATM:** Interchange on ATMs supports interoperability by facilitating off-us transactions through the withdrawal of cash at an ATM using a payment card that is not issued by the participant that owns/provides the ATM infrastructure.

c. **Cash-back at POS:** An appropriate interchange for cash-back at POS plays an important role in driving adoption of this payment method as an alternative to ATMs, particularly in areas where ATM distribution is inadequate. It thus promotes financial inclusion and increased access to financial services.

d. **Electronic transfer payments (credit transfers, including faster payments, e-money and so forth):** In determining interchange rates in these payment streams, the SARB will bring transparency and reduce the inefficiencies of bilateral interchange rate determination. To allow for flexibility, this payment stream includes other methods of payment, such as faster payments, e-money and any other related future payment streams that could be introduced in the market. The SARB reserves the right to zero-rate interchange on this payment stream (including other methods of payment in this category) if it deems it appropriate to promote adoption and in the interest of the parties in the two sides of the market.

e. **Electronic transfer payments (debit pull payments):** Similarly to the electronic payment systems (credit transfers), the SARB will determine the level of interchange rates in these payment streams, including authenticated collections (ACs) and any other payment stream of a similar nature. The benefits to this approach also include transparency and improved efficiency. The SARB reserves the right to zero-rate interchange in this payment stream if it deems it appropriate and to the benefit of the parties in the two sides of the market.

f. **Interchange in new payment streams:** The SARB will establish the feasibility and applicability of interchange on new and evolving payment streams, considering the relevance and necessary factors such as adoption and market maturity. In this process, the SARB will consult all relevant regulators and stakeholders when undertaking a process to introduce interchange in a new or existing payment stream.

8.1.3 **Methodology used to determine interchange rates**: The SARB will apply a methodology that considers international best practice and is suitable to the South African payments environment. In selecting the appropriate methodology and supporting factors, the SARB will consider all the relevant stakeholders' interests in deciding on the methodology and considering the supporting factors.

The methodology will be reviewed every five years, or as and when necessary, to ensure continued alignment with the evolving payments landscape. The SARB will reserve the right to adjust the interchange methodology if it believes that it would be in the interest of the safety and efficiency of the NPS.

8.1.4 **Disclosure:** The SARB will disclose the interchange determination methodology adopted and used, and the process and the level of interchange rates to the public once determined through the publication thereof on the SARB's website. The publication of interchange rates on the SARB website will enable participants, merchants and the public to make informed choices on the suitability of payment methods or instruments.

Participants are required to disclose to the public the interchange rates for each category of payment instrument and method so that customers and merchants may make comparisons and informed decisions about the cost-effectiveness of the various payment instruments and methods.

8.1.5 **Three-party schemes:** When a consumer transacts with a card that is issued within a traditional three-party scheme, the transaction does not attract an explicit interchange fee as the card scheme issues the card directly to cardholders and enters into an acquiring relationship with merchants. Therefore, interchange does not apply to three-party schemes, except where a three-party scheme licenses a participant to issue or acquire cards, or issues cards with a co-branding partner or through an agent. If a three-party scheme appoints a participant to issue or acquire cards, or to co-brand or distribute its cards, there is a bilateral fee (similar to interchange or implicit interchange) flowing between the card scheme and the participant or the co-branding partner or the agent. However, where a licencee acts as both the issuer and the acquirer, or the co-branding partner or an agent is not a participant, interchange will not apply.

In this regard, a three-party card scheme should not unfairly benefit from falling outside of the scope of interchange rate determination as the bilateral fees/implicit interchange fee flowing between the card scheme and the participant or the co-branding partner or the agent has the same effect as the traditional interchange fee in a four-party scheme by balancing the two sides of the market.

The SARB will monitor and assess three-party schemes with licensing arrangements akin to four-party schemes in order to understand their rationale and the direction of fees or transfer of revenue between the three-party schemes and their licensing partners. This would assist the SARB in ensuring that three-party schemes with licensing arrangements similar to those of four-party schemes do not fall outside of the interchange determination.

8.1.6 **Frequency/timing of interchange fee determination:** The SARB will determine and review interchange rates annually, or as and when appropriate, using the approved methodology.

8.1.7 **Enforcement and monitoring of interchange rates:** Interchange rates determined by the SARB are binding on the parties in the transaction. The SARB has the responsibility to oversee and monitor compliance with the application of interchange rates. The SARB will issue a directive or standard[14] to enforce the application of interchange rates on all participants.

[14] In terms of the current NPS Act, the SARB can issue directives, and standards will be issued once the current proposed NPS Act amendments have been enacted into law.

The SARB will monitor the interchange rate application through the collection of interchange fee data, among other things. Participants are required to submit returns on absolute interchange revenue and expenditure as well as the volumes and values of transactions associated with interchange in a manner that the SARB may determine.

9. Conclusion

9.1 Interchange plays an important role in the NPS as it provides incentives for participants to provide and maintain the infrastructure as well as payment instruments through which consumers and merchants transact. Furthermore, interchange ensures interoperability between payment systems and competition between participants. Increased interoperability and competition can drive innovation, which contributes to improving customer experience.

9.2 The SARB's position on the determination of interchange follows some of the international practices as well as suitability to the South African payments environment. The decision to facilitate interchange determination in all the relevant payment streams is in the best interest of the NPS. The evolving payments environment and the increasing role of non-bank providers of services impose a responsibility on the SARB to continuously assess the feasibility, sustainability, applicability and methodology of determining interchange in order to maintain the safety and efficiency of the NPS.

10. Enquiries and clarifications

10.1 Any enquiry relating to this position paper should be addressed to the Head: National Payment System Department at npsdirectives@resbank.co.za.

Abbreviations

AC	authenticated collection
ATM	automated teller machine
CCPI	card credit payment instruction
EDO	early debit order
EFT	electronic funds transfer
fintech	financial technology
FSCA	Financial Sector Conduct Authority
IDP	interchange determination project
MIF	multilateral interchange fee
MSF	merchant service fee
NPS	national payment system
NPS Act	National Payment System Act 78 of 1998, as amended
PIN	personal identification number
POS	point of sale
RTC	real-time clearing
SARB	South African Reserve Bank
SARB Act	South African Reserve Bank Act 90 of 1989, as amended