

Average Debit Card Interchange Fee by Payment Card Network

The Board's Regulation II provides that an issuer subject to the interchange fee standard (a non-exempt issuer) may not receive an interchange fee that exceeds 21 cents plus 0.05 percent multiplied by the value of the transaction, plus a 1-cent fraud-prevention adjustment, if eligible.¹ The interchange fee standard became effective on October 1, 2011. As part of the rulemaking process, the Board collected 2009 data from payment card networks. The aggregate data provided by the networks indicated that the average interchange fee for all issuers was 43 cents.² Data collected after the rule took effect show that the average interchange fee per transaction received by non-exempt issuers in the fourth quarter of 2011 declined 45 percent from the 2009 level, from 43 cents in 2009 to 24 cents. The average interchange fee received by exempt issuers remained at the 2009 level of 43 cents.³

The magnitude of the change in interchange fees from 2009 to late 2011 differs materially for signature debit and PIN debit transactions.⁴ The average interchange fee per signature debit transaction declined substantially (57 percent) for non-exempt issuers and more modestly (8 percent) for exempt issuers. The signature debit interchange fee as a percentage of the average transaction value declined 58 percent for non-exempt issuers and 4 percent for exempt issuers. In contrast, the average interchange fee per PIN debit transaction declined slightly (less than 1 percent) for non-exempt issuers but rose significantly (32 percent) for exempt issuers. The PIN debit interchange fee as a percentage of the average transaction value declined 5 percent for non-exempt issuers and increased 23 percent for exempt issuers.

¹ Non-exempt issuers may receive an interchange fee that is higher than the standard for certain prepaid card transactions.

² The 2009 level of 43 cents differs from the 44 cents cited in the Federal Reserve Board's "2009 Interchange Revenue, Covered Issuer Cost, and Covered Issuer and Merchant Fraud Loss Related to Debit Card Transactions" report (http://www.federalreserve.gov/paymentsystems/files/debitfees_costs.pdf). In this data release, total interchange fees were divided by the number or value of purchase transactions, while in the earlier report they were divided by the number or value of purchase transactions less returns.

³ The 2009 data represent aggregate information provided by the payment card networks for all issuers and cannot be disaggregated by exempt and non-exempt issuers.

⁴ The 2009 signature and PIN statistics exclude prepaid transactions because the Board did not collect statistics for prepaid transactions classified by authorization method for 2009. All 2011 statistics include prepaid transactions.

The large disparity that existed in 2009 between the average signature debit and PIN debit interchange fees has narrowed substantially. In 2009, the interchange fee per signature debit transaction was, on average, about 2.4 times that for a PIN debit transaction (2.6 times if calculated using the interchange fee as a percentage of the average transaction value). In the fourth quarter of 2011, the difference between the average signature debit and average PIN debit interchange fees received by non-exempt issuers had largely disappeared; the average interchange fee per signature debit transaction was only 2 percent higher than that for PIN debit and 13 percent higher if calculated using the interchange fee as a percentage of the average transaction value. The difference between signature debit and PIN debit interchange fees was larger for exempt issuers but still much smaller than in 2009. The average interchange fee per signature debit transaction for exempt issuers in the fourth quarter of 2011 was 66 percent higher than the average interchange fee per PIN debit transaction (and 100 percent higher if calculated using the interchange fee as a percentage of the average transaction value).

Of the payment card networks whose interchange fees are reported in the attached table, all signature networks and all but one PIN network provided exempt issuers a higher average interchange fee than non-exempt issuers in the fourth quarter of 2011. The average interchange fee per signature debit transaction for exempt issuers was 114 percent higher than the average for non-exempt issuers and 129 percent higher if calculated using the interchange fee as a percentage of the average transaction value. The difference for PIN networks was smaller. The average interchange fee per PIN debit transaction for exempt issuers was 32 percent higher than that for non-exempt issuers (and 30 percent higher if calculated using the interchange fee as a percentage of the average transaction value).

In addition to interchange revenue, some payment card networks provide incentive payments to issuers for reasons such as reaching specified volume thresholds, funding marketing activities that promote the network's brand, and adding the network on the issuer's debit cards. Payment card networks generally negotiate these incentive payments individually with issuers. In the fourth quarter of 2011, signature-based networks provided issuers incentive payments that averaged about 2 cents per transaction,

down from about 3 cents per transaction in 2009. PIN-based networks provided incentive payments that averaged less than 1 cent per transaction. The average fourth-quarter 2011 incentive payments per transaction were about the same for exempt and non-exempt issuers, in the case of both signature-based and PIN-based networks.

Issuers also pay fees to payment card networks. These fees include, for example, switch fees that are assessed on each transaction and license and connectivity fees that are fixed over a particular period. In the fourth quarter of 2011, exempt and non-exempt issuers paid signature-based networks fees that averaged 8 cents and 4 cents per transaction, respectively (compared to 8 cents in 2009). Exempt and non-exempt issuers paid PIN-based networks fees that averaged 3 cents and 1 cent per transaction, respectively (compared to 2 cents in 2009).

There were approximately 46.7 billion debit card transactions in 2011, with a value of more than \$1.8 trillion. This was a 24 percent increase from the number of transactions in 2009 (37.6 billion) and a 27 percent increase from the value of transactions in 2009 (\$1.4 trillion). Signature debit transactions represented about 63 percent of transaction volume and 61 percent of transaction value in 2011; the remainder were PIN debit transactions.

As the Board announced in conjunction with the issuance of the final rule on Regulation II, the Board plans to collect and publish this information annually. The information may be useful to issuers (both exempt and non-exempt) and merchants in assessing payment card networks in which to participate and to policymakers in assessing the effect of the Board's Regulation II on the level of interchange fees received by exempt and nonexempt issuers over time.