

Foreword

In many countries around the world, consumers are embracing credit, especially debit cards, as the preferred “non-cash” form of payment. For example, a recent study by the Federal Reserve System confirmed that in the United States the number of retail payments transactions completed in electronic form exceeded checks for the first time.

Interchange fees, indirectly paid by merchants to card issuers, are an integral part of the pricing structure in the card payment industry and, in particular, a critical component of the “four-party” card network model used by credit and debit card systems. From the perspective of the card payment networks and card issuers, interchange fees appropriately reflect the value of the services provided to both cardholders and merchants. With interchange fees generally rising and the number of card-initiated retail payments transactions increasing, merchants bear an increased expense for clearing payments and argue that the level of these fees is not the result of a smooth functioning market. As a result, these fees have been subject to increasing scrutiny by competition authorities or, in some instances, central banks around the globe.

As card payments have become a key part of the U.S. payments system, the Federal Reserve Bank of Kansas City’s Payments System Research Department has placed a particular emphasis on understanding these markets—the factors that influence market behavior and the related policy implications. To enhance the understanding of interchange and related issues, we sponsored an international payments conference titled, “Interchange Fees in Credit and Debit Card Industries: What Role for Public Authorities?” Held in Santa Fe, New Mexico, May 4-6, 2005, the conference brought together for the first time the four principal audiences—industry executives, legal authorities, central bankers, and academics—for an exchange of views and ideas. Participants shared diverse and compelling arguments on topics, including the functions of interchange fees, factors that should be considered in evaluating credit and

debit card pricing mechanisms, and conditions that might warrant regulatory actions and the role, if any, central banks might play in these markets.

We believe the conference and these proceedings will enhance the understanding and insight of policymakers on these very complex and important markets and will stimulate the collaborative research and study needed to make continued progress in addressing these important payments issues in the months and years to come. I am grateful for the contributions of all of the participants at the conference and want to especially acknowledge the staff in our Payments System Research and Public Affairs departments whose efforts were critical to the program's success.

A handwritten signature in black ink, reading "Thomas M. Hoenig". The signature is written in a cursive style with a large, sweeping initial "T" and a distinct "H".

Thomas M. Hoenig
President and Chief Executive Officer
Federal Reserve Bank of Kansas City