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New EU rules 'could mean the END of free banking'

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New EU rules 'could mean the end of free banking'

Bank customers could also be charged to use cash machines and hold current accounts if the plans are given the nod in November.

The rules would see charges made by banks to retailers each time they take a payment capped to 0.3 per cent for credit cards and 0.2 per cent for debit cards.

Currently banks charge retailers much more every time a customer pays by card, the EU hopes a limit will encourage shops to pass savings on to customers.

However when similar changes to the so-called interchange system were imposed in other European countries, such as Spain, and in Australia customers lost out.

Shops did not pass their savings on and banks and card issuers recouped their losses through rising credit and debit card charges.

The proposed caps will lead to an overall loss to the banks of of £785 million a year, according to a new report, with experts warning this will be passed on to card users.

The rules, approved by the European Parliament in February, are likely to get the final go-ahead by the European Council on November 7.

The report from research group Europe Economics claims debit and credit card holders could end up paying around £11 a year in bank fees to make up the loss.



These rules mean Britons could face a charge for using their debit cards

Director and report author Andrew Lilico said: "The impact of similar legislation around the world provides a clear warning of the need for further scrutiny of the proposed regulations.

"The experience in Spain, Australia and the United States has been that consumers have so far paid more in banking fees, but not seen a reduction in prices at the shops.

"Large retailers appear to gain the most, while small businesses might not enjoy the same reductions in fees, but could pay more for their banking services.

Financial expert Richard Wagner, chief executive of Advanced Payment Solutions, said: "There is absolutely no question that banks are earning a substantial amount from interchange fees and a cap will be a lose lose situation.

"I do not believe retailers will pass savings on to the consumer, instead I think it is more likely charges will be passed on to customers as we have seen when the same thing happened in Australia.

"The capping of interchange fees is one element which will bring a reduction or elimination of free banking."

Jonathan Isaby, chief executive of the TaxPayers' Alliance, said: "The proposed capping of interchange fees is yet another example of big government regulation that hits consumers the hardest.



Similar changes were imposed in other European countries, such as Spain and Australia

"While big retailers will enjoy billions of pounds of savings, consumers will be squeezed with more costs with no prospect of a reduction in prices." Jonathan Davis, managing director of Jonathan Davis Wealth Management, said it is unlikely retailers will pass on savings through lower shop prices.

He said: "This is potentially the last nail in the coffin for free banking.

"Banks treat every aspect of their business as profit centres and they will view any profit or loss accordingly, if they lose they will make up that loss somewhere else.

"Ultimately the banks will not be inclined to take this on the chin, they will probably see it as an 'imposed cost' and will pass it on to somewhere else, potentially the customer."

Mr Lilico said if the plans are given the thumbs up next month customers could start seeing extra charges creeping in "quite quickly".

He said: "The banks could decide they want to start making up for the loss straight away, and customers could start seeing higher interest charges quite quickly.

"We are looking at a range of things they will probably do to recoup this loss including annual charges for holding a credit card, charges to use an ATM and charges to hold current accounts.

"People could also start seeing fewer benefits offered with their cards".