



2024

# THE COST OF RETAIL PAYMENTS



It is the role of the Central Bank of Iceland to promote a safe and effective financial system, including domestic and cross-border payment intermediation. An element in this is collecting data on various payment instruments and assessing the cost associated with their use.

*The Cost of Retail Payments* presents the results of the Central Bank's estimate of the private and social costs of retail payment intermediation. This information provides support for policy-making and decision-making by the Central Bank and can also be of use to other participants in payment intermediation. It makes it possible to, among other things, determine, whether it is more economical to use one payment instrument than another and whether fees accurately reflect the cost of operating payment instruments and payment services.

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# Service charges for retail payments in a nutshell



The service charges paid by households for use of payment instruments fall into two categories: direct fees paid to issuers and service providers and indirect fees paid to acquirers for payment card use at physical outlets. Households in Iceland paid an estimated 12.3 b.kr. in direct service charges in 2022, including 6.5 b.kr. for use of domestic payment instruments in Iceland and 5.8 b.kr. for use of domestic payment instruments abroad. In real terms, the fees increased 4.7% year-on-year. Households also paid 14.4 m.kr. in indirect service charges, which are fees paid by merchants directly to acquirers for payment card use. Merchants recoup these fees through their product prices.



In real terms, direct service charges increased by 13% for debit cards and 8% for credit cards, owing to the rise in the general price level and increased overseas consumption. The per-transaction cost of using debit cards versus credit cards differs greatly, as has come to light in earlier Central Bank analyses of the cost of retail payments. Each transaction using a domestic debit card within Iceland costs households an average of 20 kr., as compared with 118 kr. for use of a domestic debit card abroad. Each transaction using a domestic credit card within Iceland costs an average of 51 kr., as compared with 177 kr. for use abroad. Households' fees for use of cash rose between years, while fees for payment services were virtually unchanged.



The vast majority of fees for overseas use of domestic payment cards takes the form of an exchange rate premium. Households paid an estimated 4.4 b.kr. in such premia in 2022, or an average of 138 kr. per transaction.



Fees paid by merchants to payment service providers rose markedly between 2021 and 2022, or around 23.5% in real terms, owing mainly to growth in credit card turnover and an increase in the number of foreign payment card transactions. Each debit card transaction costs merchants 50 kr. and each credit card transaction around 142 kr.



In 2022, payment service providers earned an estimated 32.6 b.kr. in net revenues, an increase of 37% year-on-year in real terms, mainly from payment card service charges.

# Introduction



One of the Central Bank of Iceland's roles is to promote a safe and effective financial system, including domestic and cross-border payment intermediation. An element in this is collecting data on various payment instruments and assessing the cost associated with their use. This information supports the Bank's policy-making and decision-making and is important for society as a whole, as payment intermediation plays a key role in economic interactions between members of society. Awareness of the costs associated with retail payment intermediation makes it possible, among other things, to determine whether it is more economical to use one payment instrument than another and whether fees accurately reflect the cost of operating payment instruments and payment services. The analysis presented here should therefore give a better overview of the costs involved, and whether the per-transaction cost of retail payments is rising or falling.

Users should be able to choose from among different payment instruments, but a lack of transparency about fees makes it difficult for them to determine which method is most beneficial at any given time. It is considered best that users who choose more expensive payment instruments for convenience, perks and benefits, or other reasons should pay more than users who choose cheaper options. Otherwise, there is the possibility that the latter group will end up subsidising costs for the former.

The Central Bank of Iceland publishes information on the cost of retail payments on a regular basis. Each year, information is compiled on service expenses (external costs) and revenues levied on payment instruments in Iceland. Every two or three years, an assessment is made of the social cost (internal cost),

which is the production cost of payment instruments. This report contains the results of the Central Bank's assessment of service expenses (the external cost) and revenues due to payment intermediation.

As is noted above, the estimated cost of retail payment intermediation discussed here does not take into consideration the societal costs and benefits of using payment instruments; i.e., it does not examine the extent to which payment instruments meet the needs of users and society more broadly. When a comprehensive appraisal of the efficiency of payment instruments is carried out, it takes into consideration both the benefits and the costs. Such an appraisal can reveal that a payment instrument assessed as more costly than an alternative may provide greater societal benefit, thereby justifying the higher cost to both users and society as a whole.

# Data compilation



In 2023, data were collected on the service charges paid by households in 2022 for payment services provided by the following entities: the commercial banks, savings banks, Teya (previously SaltPay) Rapyd/Valitor, Síminn Pei, Handpoint, Western Union, Netgíró, Aur (owned by Kvika banki), and Kass (part of Íslandsbanki). The Bank also obtained information from these parties on transaction numbers, although this information was also gathered directly from the Bank's data utilities.

In this report, data on year-2022 expenses and revenues are compared with those from 2021, which were published in the Bank's May 2023 report.<sup>1</sup> In that report, the cost per transaction was calculated from private costs, which are the sum of internal and external costs. In the present report, however, the cost per transaction is calculated solely on the basis of external costs and then compared with external costs for the prior year. Year-on-year changes in fees are deflated with the CPI excluding housing with a reference date of 1 January 2021.

In 2022, the retail payments market was unchanged relative to 2021, in that no new payment instrument was introduced in the market. One new payment service provider, Indó savings bank, commenced operation. As before, during the year, the vast majority of payments made at merchants' physical outlets were made with a payment instrument based on the conventional payment card system.

In 2023, Landsbankinn and Straumur, a subsidiary of Kvika banki, commenced payment card acquiring

operations.<sup>2</sup> The company Fjárflæði also commenced operation as an intermediary for acquiring activities early that year. Because the cost estimates in this report are based on year-2022 figures, transactions processed by these parties are not included in the analysis. They will be represented in the next cost assessment.

1. See: [https://www.sedlabanki.is/library/Skraarsafn/Skjol-fyrir-forsidufrettir/Kostnadur%20vid%20smagreidslumidlun%202023\\_17mai2023.pdf](https://www.sedlabanki.is/library/Skraarsafn/Skjol-fyrir-forsidufrettir/Kostnadur%20vid%20smagreidslumidlun%202023_17mai2023.pdf)

2. In 2022, Kvika banki acquired a share of Valitor's acquiring contracts when the latter company was sold to Rapyd.

# Payment instruments



Payment instruments fall into three broad categories: cash, payment cards (debit and credit cards), and payment services. The last of these includes account-to-account transfers carried out either digitally or with the assistance of a bank cashier, and buy-now-pay-later (BNPL) solutions involving payment via online bank or bank app.

## Cash (banknotes and coin)

Cash is a payment instrument that needs no specialised equipment. Cash can be used as payment for goods and services at a physical outlet, as a gift, and as savings. In this report, the word *cash* denotes banknotes and coin denominated in Icelandic krónur and, when applicable, in foreign currency. Households can access cash via a bank cashier or ATM. They can also transfer cash between countries by providing Icelandic banknotes to a domestic payment intermediary, whereupon the recipient abroad receives cash in local currency. Merchants also need to deposit and withdraw cash in order to make change when transacting business with retail customers. All commercial and savings bank operate ATMs and branches where users can obtain cash.<sup>3</sup>

## Debit and credit cards

A payment card is a piece of equipment used to access a bank balance. With a card, the customer can receive approval for payment for goods and services, no mat-

ter whether the card is in tangible form (a plastic card) or in intangible form (configured in a smart device). The fees are the same, irrespective of whether payment is made with a tangible or intangible card. The fees for domestic and foreign use are not the same, however. Households use payment cards at physical outlets in Iceland and overseas, either via foreign websites or while travelling abroad.

Two domestic acquirers that act as intermediaries for payment card use were in operation in Iceland in 2022: Teya (previously SaltPay) and Rapyd.<sup>4</sup>

## Payment services

Households can use payment services in several ways: by transferring funds to another household or individual via online bank or a banking app in a smart device, by transferring funds with the assistance of a cashier, by using a smart device app such as Aur or Kass to effect a person-to-person transfer. Households also make cross-border transfers via online bank and smart device app.

All of Iceland's commercial and savings banks offer digital payment services. Two service providers (Netgíró and Pei) offered BNPL services in the Icelandic market in 2022. BNPL accounts for a very small proportion of Icelandic retail payment intermediation. In this analysis, it is classified as a payment service rather than a separate payment instrument. This is appropriate, as BNPL payments are routed through the RB claim system, which is considered a type of payment service. In

3. Entities other than commercial and savings banks – such as Euronet – also operate ATMs but are not included in this analysis.

4. A share of Valitor's acquiring contracts were sold to Rapyd during the year.

other words, when BNPL is used to pay for goods and services, a claim is made via the payer's online bank or banking app through RB's centralised digital claim system, which is used for claims and invoices. Merchants also use payment services to receive digital payments from households; for instance, by leasing a point-of-sale (POS) terminal from an acquirer.



# Payment channels



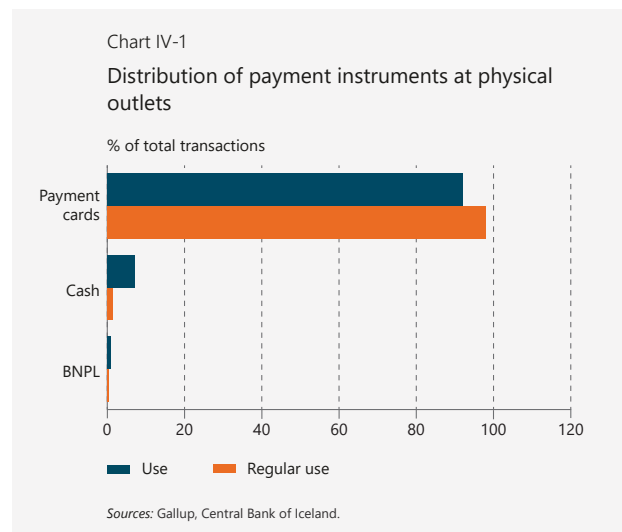
The term *payment channel* refers to the manner in which payments are transferred between payer and recipient and which users are involved. Examples of payment channels include payment made at a physical outlet, payment made online, and payment of claims and electronic invoices. The user in question could be an individual, merchant, company, or public entity. It is not possible to use all payment instruments for all payment channels. For example, cash cannot be used for online transactions, and payment cards are generally not used for person-to-person payments. This report contains an assessment of person-to-person (P2P) payments and person-to-business (P2B) payments. The cost of online transactions (e-commerce) is considered part of the cost of transactions at physical outlets, as it was not possible to separate the two.

Table IV-1 Payment channels and payment instruments

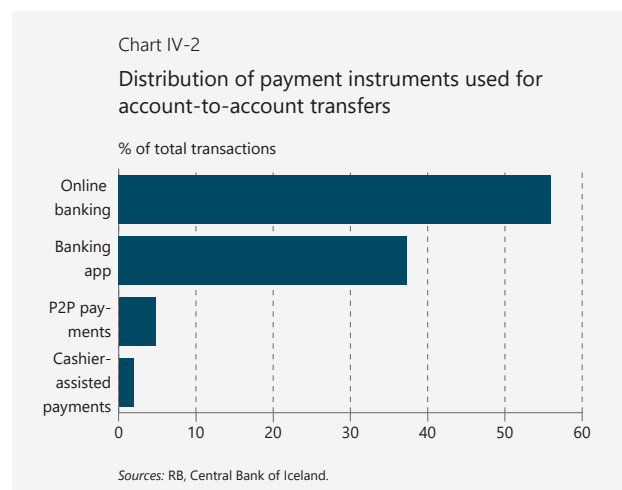
| Payment channels:                                      | Payment channels:   |
|--|---|
| Individual-to-merchant (P2B) at physical outlet        | Cash, debit card, credit card                               |
| Individual-to-merchant (P2B), online transaction       | Debit card, credit card, Netgíró Pei, online bank, bank app |
| Individual-to-merchant (P2B), invoice, RB claim system | Netgíró, Pei  |
| Merchant-to-merchant (B2B)                             | Cash, payment card, online bank, bank app                   |
| Merchant-to-individual (B2P)                           | Cash, online bank, bank app                                 |

Source: Central bank of Iceland.

Most households use payment cards to pay for goods and services at physical outlets – either directly or indirectly, using a smart device. In Iceland, about 92% of domestic retail payment transactions took place in this manner in 2022. An estimated 7% were cash trans-



actions, and 1% were buy-now-pay-later (BNPL) transactions. Payment cards were used for 98% of regular periodical transactions; i.e., for shopping done weekly or more often.



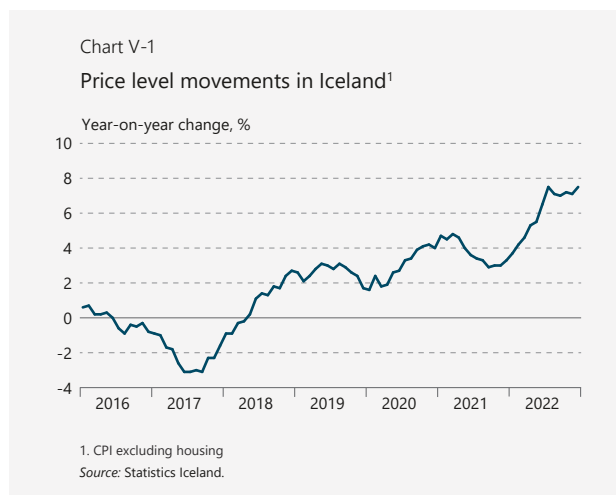
Nearly all households use online banking or banking apps to transfer funds to another individual. In 2022, over 93% of all domestic transfers were made in this way. Just under 5% of households used Aur and Kass, and fewer than 2% used bank cashiers to transfer funds.

# Payment cards – fees and revenue generation

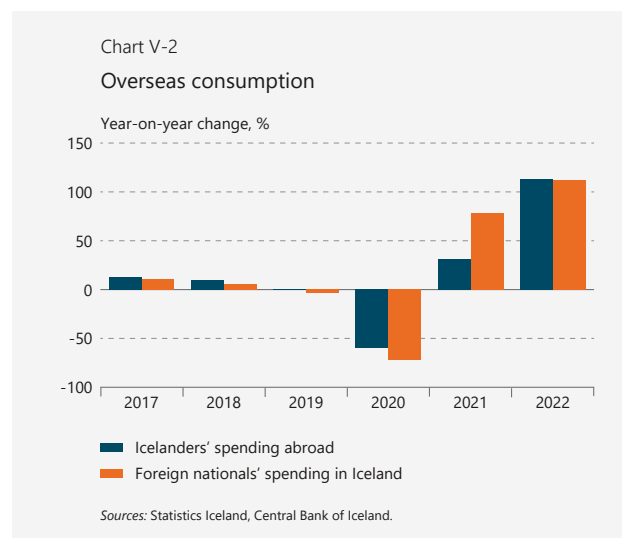


When merchants increase their goods and services prices, they pay higher fees for payment cards, as payment service providers charge a percentage of the value of each transaction. Payment service providers' revenues therefore rise accordingly, whereas the fees they charge for payment intermediation inputs are also likely to rise with the general price level. The CPI has been climbing in recent years, rising by nearly 8% between 2021 and 2022, for instance. Other factors also affect service charges and revenue generation. Payment service providers' revenues increase when households spend more on goods and services, through per-transaction fees paid by merchants and through the per-transaction fee on their debit cards.

Payment service providers' revenues also increase if households use their cards more overseas than in Iceland, as cross-border transactions are more expensive, on average, than domestic transactions. Furthermore, revenues increase when more debit and credit cards are issued and when tourists who use payment cards in Iceland increase in number.



In payment intermediation, fixed costs generally account for a large share of total costs, particularly in the case of electronic payment instruments such



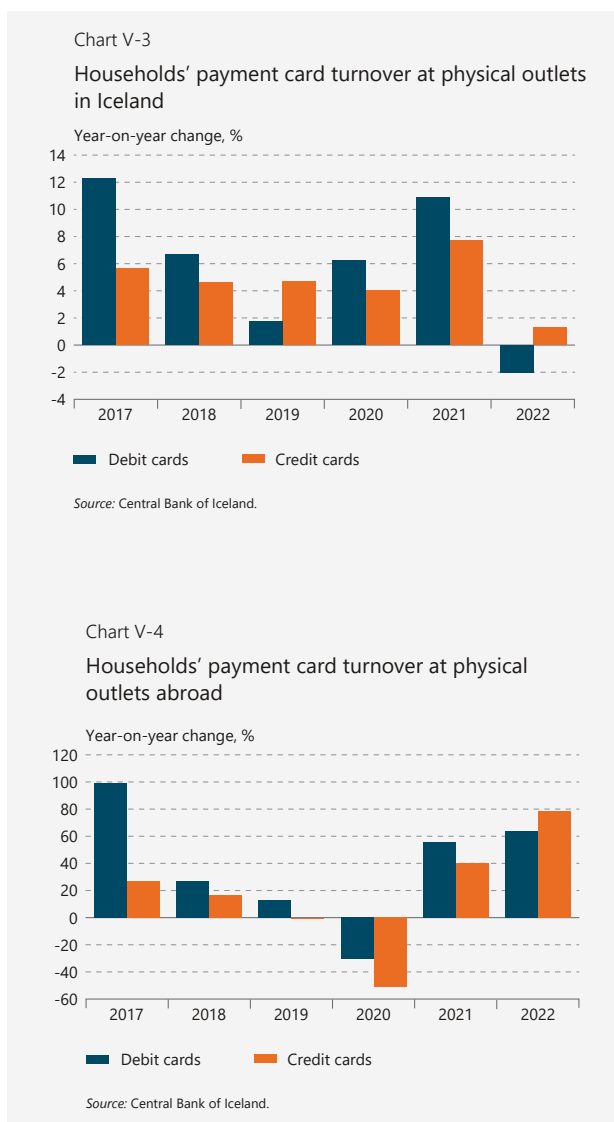
as payment cards. Because of this, the cost of each transaction falls as the number of transactions rises. Transaction volumes rise as a given payment instrument gains in popularity, and they also rise with increased private consumption growth. Both of these factors affect the unit cost, which falls as the number of transactions rises. This decline delivers increased profits for payment service providers unless they share the benefits with users in some way. Unlike payment cards, cash is more strongly affected by variable costs, which depend more on the volume of banknotes and coin in circulation, the distribution of the cash, the processing of cash withdrawals, and the receipt of cash payments.<sup>5</sup>

5. Further information on fixed and variable costs in payment intermediation can be found here: [https://www.sedlabanki.is/library/Skraarsafn/Skjol-fyrir-forsidufrettir/Kostnadur%20vid%20smagreidslumidlun%202023\\_17mai2023.pdf](https://www.sedlabanki.is/library/Skraarsafn/Skjol-fyrir-forsidufrettir/Kostnadur%20vid%20smagreidslumidlun%202023_17mai2023.pdf).

## Household consumption

Households' domestic payment card turnover totalled 921 b.kr. in 2022, as compared with 870 b.kr. in 2021. In real terms, domestic turnover declined by 0.4% due to reduced debit card turnover, while credit card turnover increased marginally during the year. Icelanders' consumption abroad jumped in 2022, owing to an increase in both overseas travel and cross-border e-commerce. In real terms it increased by 72% year-on-year, driven by pent-up need to travel after the restrictions imposed during the COVID-19 pandemic. Households' foreign payment card turnover came to 225 b.kr. in nominal terms in 2022, up from 134 b.kr. in 2021.

ATMs using domestic payment cards shrank in real terms by 3% year-on-year, while cash withdrawals from ATMs abroad using domestic payment cards surged by 64%, to just under 16 b.kr. in 2022. Withdrawals from Icelandic ATMs using foreign payment cards also increased significantly, by 22% in real terms.



Cash in circulation declined by 1.65% between 2021 and 2022, but seasonally adjusted demand for cash was broadly unchanged. Use of cash at physical outlets continued to contract, however, by an estimated 0.5% between 2021 and 2022. Cash withdrawals from

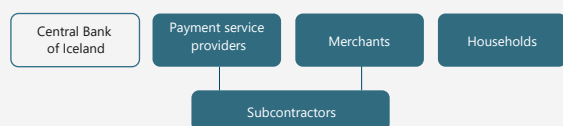
# Retail payments – revenues and expenses



The results of the analysis of service expenses and revenues for 2022 extend to households' use of domestic payment instruments in Iceland, use of domestic payment instruments abroad, and use of foreign payment instruments in Iceland.

Participants pay fees to other participants for processing and use of payment instruments. These fees create revenues for payment service providers. They are categorised according to which participant in the payment intermediation value chain pays them. Direct participants are households, merchants, and payment service providers. The Central Bank is also a participant due to its operation of the interbank payment system and its issuance of cash, but it does not charge households for these services and is therefore not included in the analysis. Both payment service providers and merchants pay fees to subcontractors, which are not considered direct participants in payment intermediation.<sup>6</sup>

Chart VI-1  
Participants in the payment intermediation value chain



Source: Central Bank of Iceland.

6. Further information on participants in payment intermediation can be found here: [https://www.sedlabanki.is/library/Skraarsafn/Skjol-fyrir-forsidufrettir/Kostnadir%20vid%20smagreidslumidlun%202023\\_17mai2023.pdf](https://www.sedlabanki.is/library/Skraarsafn/Skjol-fyrir-forsidufrettir/Kostnadir%20vid%20smagreidslumidlun%202023_17mai2023.pdf).

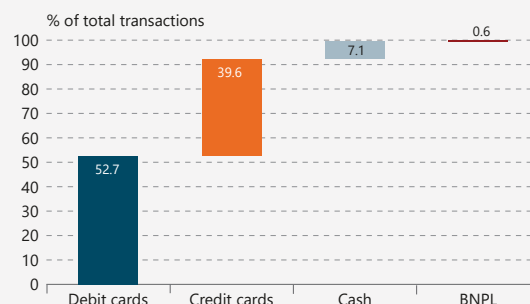
## Households' service charges

In 2022, households paid an estimated 12.3 b.kr. in direct fees for the use of payment instruments in Iceland and abroad, an increase of 4.7% year-on-year in real terms. These fees represent some 254 million transactions, an increase of 4.9% relative to 2021. The largest increase was in payment card use abroad, which totalled an estimated 10 b.kr. – 3.6 b.kr. for debit cards and 6.4 b.kr. for credit cards. In real terms, fees increased by 13% for debit card use and 8% for credit card use. Each debit card transaction cost households an average of 35 kr. and each credit card transaction around 76 kr.

### Use of domestic payment instruments in Iceland

Most households use payment cards to pay for goods and services at physical outlets in the domestic retail market – either directly or indirectly, using a smart device to which a payment card has been linked. Debit

Chart VI-2  
Number of transactions using domestic payment instruments at physical outlets in Iceland



Sources: Gallup, Central Bank of Iceland.

cards were the most widely used payment instrument in 2022, with nearly 89 million transactions, or 53% of the total for the year (see Chart VI-2).

In 2022, households paid an estimated 6.5 b.kr. in fees for the use of payment instruments in Iceland. These costs include annual fees, per-transaction fees, charges for statements of activity, and other related charges. The fees declined by 14% year-on-year in real terms. All commercial and savings banks charged these fees in 2022 except for Indó savings bank, which offers debit cards to customers.<sup>7</sup> Below is a more detailed discussion of the fees associated with each type of payment instrument.

Table VI-1 Households' service charges for domestic use of payment instruments

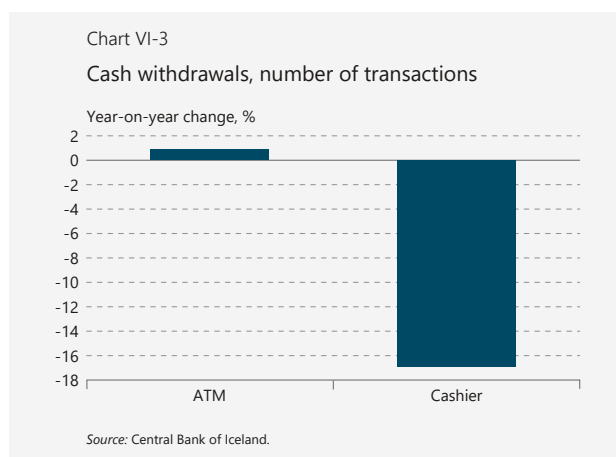
| Payment instrument:           | Expenses, ma.kr. | Change 2021-2022 (%) | Per transaction, kr. | Change 2021-2022 (%) |
|-------------------------------|------------------|----------------------|----------------------|----------------------|
| Cash                          | 0.6              | 11.1                 | 236.8                | 23.3                 |
| Payment cards                 | 5.2              | -17.6                | 33.5                 | -13.9                |
| debit cards                   | 1.8              | 5.0                  | 20.1                 | 11.0                 |
| credit cards                  | 3.4              | -26.0                | 51.4                 | -23.7                |
| Payment services <sup>1</sup> | 0.7              | -1.6                 | 0.9                  | 11.2                 |
| Total                         | 6.5              | -14.1                | 27.5                 | -14.2                |

1. Account-to-account transfers, Netgíró, Pei, Aur, Kass, statements of activity, and related services.

Source: Central Bank of Iceland.

## Cash

Households are estimated to have paid roughly 600 m.kr. in fees for use of cash in 2022, an increase of 11% year-on-year in real terms. Each cash transaction cost an average of 237 kr., some 23% more than in 2021. There are two reasons for the increase: households generally withdrew larger amounts from ATMs, and commercial and savings banks raised their fees for use



7. In 2023, Aur (owned by Kvika banki) began offering its customers cards without an annual fee.

of cash. At the same time, the number of cash withdrawals from both ATMs and bank cashiers declined from the prior year.

## Fees for use of cash

Households do not pay fees when they use cash at physical outlets, but they may be charged fees for withdrawing cash from their bank accounts. Most commonly, they withdraw cash from an ATM using a payment card or electronic ID. Another option is to withdraw cash from a bank account with the assistance of a bank cashier or by using a payment card. The portion of the fee that accrues when cash is withdrawn is classified as use of cash, no matter what type of equipment is used for the transaction. No fees are charged if the bank account and ATM are with the same bank; however, fees are commonly charged when credit cards are used. Households also withdraw cash via bank cashier, but these transactions are declining in number every year, in tandem with increased use of digital payment instruments and the reduced number of bank branches in operation.

## Payment cards

Households paid a total of 5.2 b.kr. in fees for payment card use in Iceland in 2022. The charges in question consist of annual card fees and transaction fees for debit card use at physical outlets. The cost is the same, no matter whether a plastic card or a smart device is used. The fees declined by 17.6% year-on-year in real terms.

**Debit cards:** Total fees for debit card use in 2022 are estimated at 1.8 b.kr., an increase of 5% year-on-year in real terms. The rise in debit card fees is due to an increase in the number of cards in circulation between 2021 and 2022, as well as an increase in average debit card fees. Each transaction cost an average of 20 kr. (transaction fee plus annual fee), as opposed to 18 kr. in 2021, an increase of 11%.

## Service charges for domestic use of debit cards

Charges for debit cards consist of an annual fee and a per-transaction fee. The annual fee is much lower than for credit cards, and there are no perks or benefits associated with debit cards. In 2022, each user of an active debit card paid an average annual fee of 934 kr. Households also pay a fixed transaction fee averaging 19 kr. for each debit card transaction.

**Credit cards:** Households paid an estimated 3.4 b.kr. in fees for the use of credit cards in Iceland in 2022. This is a year-on-year reduction of 26% in real terms. Fees declined for several reasons: commercial and savings banks did not raise their annual fees to accord with the increase in the general price level, there was little change in the number of cards in circulation, and more consumers sought out less expensive credit cards. Each transaction cost an average of 51.4 kr., a reduction of nearly 24% between years. Credit card transactions increased in number between 2021 and 2022, but revenues declined in real terms. Both of these factors lower the per-transaction cost of credit card use.

#### Service charges for domestic use of credit cards

Households mainly pay an annual fee for domestic use of credit cards. The fees vary depending on whether there are perks and benefits attached and how much they amount to. According to the banks' year-end 2022 price lists, the fee averaged 2,500 kr. for the cheapest credit card (no perks) and 45,000 kr. for the most expensive. The average fee paid for active credit cards in Iceland was 11,600 kr., indicating that more users opt to pay higher fees in exchange for certain perks.

#### Payment services

Service charges paid by households to banks and service providers in Iceland for cross-border payments totalled 900 m.kr. in 2022, an increase of 11% year-on-year in real terms.

The decline is due to reduced administration costs – in connection with statements of account, for instance – and a year-on-year drop in the use of BNPL solutions. The average cost per transaction came to 0.9 kr., an increase of 11% between years. The combined number of transactions came to 78 million, down 2% relative to 2021. The fee paid per BNPL transaction is far higher than the above-specified average, but such transactions are few in number.

#### Service charges for payment services

In general, households pay no fees for transfers of funds to another account via online bank or banking app. The cost stems mainly from account statements, cashier assistance, and fees charged for BNPL and P2P transactions.

#### Use of domestic payment instruments abroad

When households travel abroad or shop online with foreign merchants, they generally use payment cards.

The difference between credit card fees and debit card fees is smaller for use abroad than for use in Iceland. For example, households used debit cards abroad 15 million times, which equates to 46% of total foreign transactions, and used credit cards 16.6 million times (49% of the total).

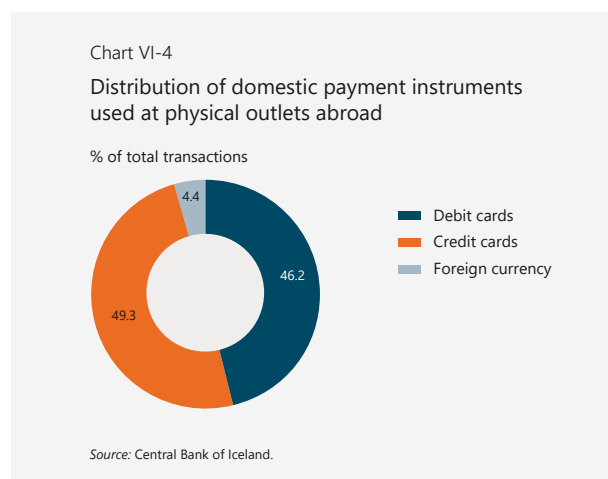


Table VI-2 Households' service charges for overseas use of domestic payment instruments

| Payment instrument:           | Expenses, ma.kr. | Change 2021-2022 (%) | Per transaction, kr. | Change 2021-2022 (%) |
|-------------------------------|------------------|----------------------|----------------------|----------------------|
| Currency <sup>1</sup>         | 0.2              | 79.5                 | 118.2                | 18.4                 |
| Payment cards                 | 4.7              | 37.6                 | 148.2                | 0.5                  |
| debit cards                   | 1.8              | 4.9                  | 117.8                | -24.9                |
| credit cards                  | 2.9              | 70.9                 | 176.7                | 34.6                 |
| Payment services <sup>2</sup> | 0.9              | 10.7                 | 2261.1               | 29.8                 |
| Total                         | 5.8              | 33.5                 | 171.8                | -9.0                 |

1. A share of foreign currency was listed as a separate item under cross-border payments in The Cost of Retail Payments 2023/1.

2. In the Central Bank's first report on the cost of retail payments, cross-border payment services were listed as a separate item; however, in this report they are classified under overseas use of domestic payment instruments. Cross-border payment services account for a small number of transactions in comparison with other payment instruments.

Source: Central Bank of Iceland.

It is estimated that in 2022, households paid 5.8 b.kr. in service charges for use of payment instruments abroad. These charges include transaction fees, exchange rate premia, and fees for transfers of funds. They rose 33% between 2021 and 2022, owing mainly to an increase in Icelanders' overseas travel and cross-border e-commerce. Below is a more detailed discussion of the fees associated with each type of payment instrument.

#### Foreign currency

Fees for the use of foreign currency totalled an estimated 200 m.kr., an increase of 80% year-on-year, because of the surge in overseas travel among Icelandic house-

holds. Each transaction cost an average of 118 kr., or 18% more than in 2021, indicating that service charges were raised steeply.

### Service charges for foreign currency

When Icelandic krónur are converted to foreign currency, no matter what payment method is used, the customer pays a fee, an exchange rate premium, and/or a note rate. Service charges are also paid for cash withdrawals from ATMs in Iceland if the issuer and the owner of the ATM are not the same party. Furthermore, a fee is paid for currency purchased from a bank cashier. Fees are always charged for foreign currency purchases from ATMs or bank cashiers abroad.

### Payment cards

Service charges for households' payment card use abroad totalled 4.7 b.kr., including 4.4 b.kr. in exchange rate premia. In real terms, charges increased by 38% between years, owing partly to increased overseas consumption and partly to a general increase in fees. The number of overseas transactions using domestic payment cards grew 47% between 2021 and 2022, from 22 million to nearly 33 million.

**Debit cards:** Total fees for overseas debit card use in 2022 are estimated at 1.8 b.kr., an increase of 5% year-on-year in real terms. The cost per transaction averaged 118 kr. (transaction fee plus exchange rate premium), which was 25% lower than in 2021. The reason for the decline is a 50% year-on-year increase in the number of transactions.

**Credit cards:** Households' service charges for overseas credit card use are estimated at 3 b.kr. in 2022, an increase of 71% year-on-year in real terms. As in the case of debit cards, use of credit cards abroad increased. Fees are higher for credit cards than for debit cards. Each credit card transaction cost 177 kr. (transaction fee plus exchange rate premium), an increase of 35% relative to 2021.

### Service charges for overseas use of payment cards

The fees charged for overseas use of payment cards include an exchange rate premium paid for each use of the card at a physical outlet (except in the case of debit cards issued by Indó), at an ATM, and via bank cashier. Per-transaction fees may also be charged.

Table VI-3 Exchange rate premium for payment card use

| Payment instrument:  | Expenses, b.kr. | Per transaction, kr. |
|----------------------|-----------------|----------------------|
| Debit cards          | 1.6             | 103.2                |
| Credit cards         | 2.8             | 169.7                |
| Payment cards, total | 4.4             | 137.5                |

Source: Central Bank of Iceland.

### Payment services

Fees charged for payment services totalled 900 m.kr. in 2022, a real increase of 11% between years.<sup>8</sup> The average cost per transaction rose 30% year-on-year, to 2,261 kr. in 2022. Charges for cross-border money transfers are much higher than for electronic transfers to foreign bank accounts. Each money transfer cost an average of 3,340 kr. and each electronic transfer 1,500 kr.

### Service charges for cross-border payments

Households use online banking, banking apps in smart devices, and assistance from bank cashiers to transfer funds in the form of either money transfers or electronic transfers to foreign bank accounts. Transferring funds abroad is quite expensive, but the cost can vary, depending on where the funds are sent and which payment method is used.

## Merchant service charges

Merchant service charges for use of payment instruments totalled 14.6 b.kr. in 2022, including 4.5 b.kr. in fees for foreign payment cards. In real terms, merchants' expenses for use of payment instruments rose nearly 24% between 2021 and 2022.

Merchant service charges (MSCs) for payment card use are estimated at 14.4 b.kr., increased nearly 24% than in the previous year. The increase is due partly to the larger number of tourists in Iceland and partly to higher fees on domestic payment cards. Fees charged for debit cards are always lower than corresponding fees for credit cards, in part because the ceiling on interchange fees is lower for debit cards than for credit cards.<sup>9</sup>

Each debit card transaction cost an average of 50 kr., as compared with 142 kr. for each credit card transaction. The per-transaction cost for both debit and credit

8. The foreign recipient of the payment generally pays a fee to the service provider that accepts payment from an Icelandic service provider. These costs are not included in the analysis.

9. Acquirers and merchants negotiate the settlement period for payment cards, and the service charge can vary with the contract made. Most commonly, debit card transactions are settled at the end of the transaction day or on the following day.



cards increased between 2021 and 2022, partly because the number of transactions rose only slightly between years, while the amount per transaction increased. The number of transactions using foreign payment cards doubled year-on-year, however (101% increase), which explains to a large extent why that portion of the cost declined for each transaction.

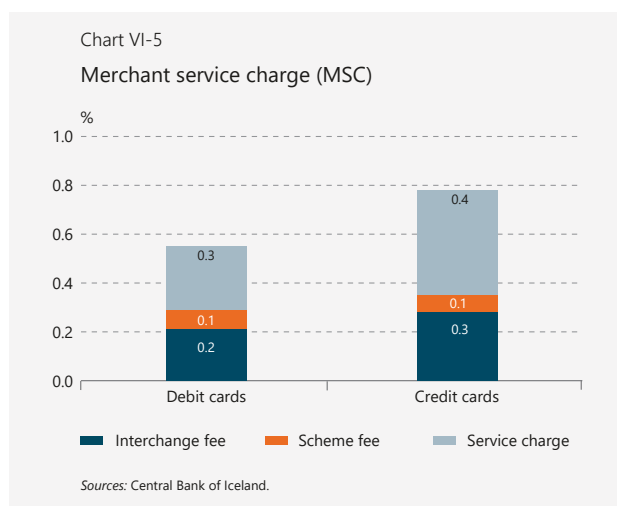
### Merchant service charges

Merchants pay fees to commercial and savings banks for cash services and payment services, including fees for banknote handling and electronic transfers, as well as transaction fees. Retail merchants' main fee item, however, is the merchant service charge (MSC), as the vast majority of customers use payment cards to pay for goods and services. The MSC comprises an interchange fee, a scheme fee, and a service charge (i.e., acquirer fee). The proportional distribution of these charges can be seen in Chart VI-4.

Table VI-4 Merchant service charges for use of payment instruments

| Payment instrument:    | Expenses, ma.kr. | Change 2021-2022 (%) | Per transaction, kr. | Change 2021-2022 (%) |
|------------------------|------------------|----------------------|----------------------|----------------------|
| Cash                   | 0.1              | 66.9                 | 846.7                | 79.5                 |
| Payment cards          | 14.4             | 23.5                 | 90.1                 | 28.8                 |
| debit cards            | 4.5              | 9.0                  | 50.1                 | 15.1                 |
| credit cards           | 9.8              | 30.7                 | 142.1                | 34.1                 |
| Payment services       | 0.1              | 3.0                  | 0.6                  | 6.8                  |
| Total                  | 14.6             | 23.5                 | 63.7                 | 53.5                 |
| Foreign payment cards: |                  |                      |                      |                      |
| Payment cards          | 5.7              | 78.0                 | 202.3                | -5.7                 |
| debit cards            | 1.2              | 49.0                 | 86.4                 | -21.1                |
| credit cards           | 4.5              | 87.8                 | 317.7                | -0.5                 |

Source: Central Bank of Iceland.



## Payment service providers' revenues and expenses

Net service revenues from payment intermediation in 2022 are estimated at just under 33 b.kr., a real increase of almost 37% year-on-year. Revenues from debit cards rose 11% and revenues from credit cards by just over 1%.

Net revenues from payment services declined by 64% relative to the previous year, and the service operated at a loss in 2022, as in 2021. Commercial and savings banks generally do not charge for transfers of funds to another bank account in Iceland; however, they do charge for cross-border transfers. With increased electronic payment intermediation and households' growing tendency to use self-serve methods for transfers, this item can be expected to continue falling per transaction.

Table VI-5 Payment service providers' net revenues from payment instruments

| Payment instrument: | Expenses, ma.kr. | Change 2021-2022 (%) | Net revenues, kr. | Change 2021-2022 (%) |
|---------------------|------------------|----------------------|-------------------|----------------------|
| Cash                | 0,9              | 0,4                  | 0,5               | 7,4                  |
| Payment cards       | 30,0             | 6,4                  | 23,6              | 4,6                  |
| debit cards         | 10,3             | 1,9                  | 8,4               | 11,0                 |
| credit cards        | 19,7             | 4,5                  | 15,2              | 1,3                  |
| Payment services    | 1,7              | 4,3                  | -2,6              | -64,4                |
| Total               | 32,6             | 11,1                 | 21,5              | 36,6                 |

Source: Central Bank of Iceland.

### Service revenues and expenses

Service charges paid by households and merchants create revenues for payment service providers. As is noted above, merchants pay acquirers an interchange fee calculated as a percentage of each transaction. Acquirers send the revenues from interchange fees to VISA and Mastercard, together with a scheme fee, while the latter (defined as a subcontractor) settles the interchange fees with payment card issuers (banks and savings banks) in Iceland and abroad. Interchange fees on domestic payment cards are therefore double-counted, but they are netted out by acquirers. In addition, payment service providers pay various other fees, such as processing and production fees paid to subcontractors.



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