

Anticipating the Outcome of Debit Interchange Regulation

BACKGROUND

A U.S. retail banking giant, like its peers, was caught off guard by looming regulatory caps on interchange (or swipe fees), a significant revenue stream for the bank.

CHALLENGE

Lacking any idea of how severe the caps might be and therefore how large the revenue loss might be, the bank engaged Fuld + Company to conduct a war game to explore possible future states. Applying war game facilitation skills honed over three decades, we helped the bank develop several effective strategic options for protecting the revenue stream under differing regulatory outcomes.



FACTORS TO CONSIDER

The Durbin Amendment, challenging the fairness of debit card interchange, caught many industry participants off guard when the Senate added it to its version of the bill. When this happened, banks knew that the Federal Reserve would soon have the authority to set caps on debit interchange, but they had no idea how drastic the changes would be. Because debit interchange represented a significant revenue stream, our client needed to think about the full range of possible outcomes and prepare for each of them.

APPROACH

To explore possible future states, we conducted a war game simulation. The war game brought together the bank's top thinkers and strategists from a number of functional areas that would each be impacted by the impending regulation. This diversity of participants ensured that broad perspectives could be considered in great depth as teams assumed the viewpoints of other major industry stakeholders, including merchants, the card networks, acquirers/ processors, and direct bank rivals. We led the participants through a complex and multi-dimensional exploration of the range of regulatory outcomes, possible competitor responses to each one, and contingent strategies for the bank to adopt in various pricing scenarios.

RESULT + BENEFITS

Ostensibly, the coming debit regulation was bad news for most industry participants, except merchants, who had lobbied for lower debit swipe fees for years. Although the situation appeared dire for the bank, we discovered alternative paths that made even the worst-case scenario potentially manageable. We also forecast possible competitor responses the bank could preemptively adopt itself, blunting the effect of the regulation. A key revenue stream was at risk, but creative thinking during the war game and in the post-game analysis yielded several realistic and appealing strategic options that had not been considered previously.

The swift action and speedy results enabled the bank to prepare several contingent strategies well in advance of the actual regulation, which was announced five months after the war game.