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TÜRKİYE'DE KART TAKAS ÜCRETİNİN VE ÜYE İŞYERİ ÜCRETİNİN TEMEL BELİRLEYİCİLERİ VE İSLAMİ FİNANS AÇISINDAN DEĞERLENDİRİLMESİ[a]

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ÖZ

Bu çalışmanın amacı, Türkiye'de kart takas ücreti ve üye işyeri ücretinin yapısını ortaya koymak ve faiz oranı ile bu ücretler arasında bir ilişki olup olmadığını araştırmaktır. Bu çerçevede, Türkiye Cumhuriyet Merkez Bankası ve Rekabet Kurulu düzenlemeleri kullanılarak ve kart piyasasının iki taraflı yapısı açıklanarak, takas ücreti ve üye işyeri ücretinin kaynağı ortaya konmuştur. Çalışma, faiz oranının fonlama maliyeti kanalıyla bu ücretlerin temel belirleyicisi olduğunu ortaya koymaktadır. Öte yandan, operasyonel maliyetlerin bu ücretler içinde küçük bir payı bulunmaktadır. Üye işyeri ücretleri, faize duyarlı yapısı nedeniyle, zamana ve faiz oranına bağlı olarak değişmektedir. Ayrıca, takas ücreti, kart sahibi banka ile kabulcü bankanın aynı olmadığı işlemlerde üye işyeri ücretinin önemli bir bileşenidir. Çalışma, bütün bankaların aynı düzenlemeye tabi olup aynı altyapıyı kullanmasına rağmen, İslami bankacılıkta, üye işyeri ücretinin yalnızca hizmet bedeli olarak değerlendirilmesinin doğru bir yaklaşım olmadığını göstermiştir. Bunların yanında, İslami finans literatüründeki varsayımın aksine, kart işlemlerinden kaynaklanan alışveriş tutarının ertesi gün işletmenin hesabına aktarılmasının bankaların yükümlülüğü değil, işletmenin tercihi olduğu anlaşılmaktadır. Bu nedenle, İslami finansta söz konusu ücretlerin kaynağını açıklamak için yeni bir bakış açısının geliştirilmesi gerekmektedir. Mevcut uygulamalarda, üye işyeri ve kart takas ücretinde İslami finans açısından faiz şüphesi varsa, banka ve işyerlerinin çalışma modellerini ve sözleşmelerini değiştirmeleri gerekebilir. Son olarak, üye işyeri ücretinin tam kaynağını anlamak, tüccarlar için asimetrik bilgiyi azaltabilir ve sözleşmelerdeki pazarlıkları artırabilir.

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DETERMINANTS OF CARD INTERCHANGE FEE AND MERCHANT FEE IN TÜRKİYE AND ITS EVALUATION FROM THE PERSPECTIVE OF ISLAMIC FINANCE[a]

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ABSTRACT

The aim of this study is to indicate the structure of card interchange fee and merchant fee, and to investigate whether there is a relationship between the interest rate and these fees in Türkiye. Using the Central Bank of the Republic of Türkiye and Competition Board regulations and explaining the two-sided structure of card market, the source of the interchange fee and merchant fee is asserted. The study reveals that the interest rate is the main determinant of these fees through funding cost channel. On the other hand, the operational costs have a small share in these fees. The merchant fees vary depending on time and interest rate owing to the interest-sensitive structure. Also, the interchange fee is a significant component of the merchant fee in not-on-us transactions. The study demonstrated that, despite all banks being subject to the same regulations and using the same infrastructure, treating merchant fees solely as a service fee in Islamic banking is inappropriate. Furthermore, contrary to the assumption in Islamic finance literature, it appears that transferring the money owing to card transactions to the business's account on the next day is not the obligation of the banks; however, it is a preference of the business. Therefore, a new perspective is needed to explain the source of these fees in Islamic finance. In current practices, if there is a suspicion of interest in terms of Islamic finance in the merchant and interchange fees, banks and merchants may need to change their business models and contracts. Finally, understanding the exact source of merchant fee may reduce the asymmetric information for merchants and may increase the bargaining in contracts.

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INTRODUCTION

There is a continuous rise in the volume of credit card transactions owing to the credit card becoming a widespread payment instrument. Credit card transactions consist of a significant part of interest and non-interest income of banks. While banks charge a fixed annual fee to cardholders, they also earn a noticeable interest income due to credit card debt that is not paid on time. In addition, businesses that accept credit cards also pay different fees to the Point of Sale (POS) owner bank owing to engage in the credit card system. The most striking one is the merchant fee, which is paid to the POS owner bank if the amount of the transaction is transferred to the free use of the merchant the next day. Moreover, if the POS owner bank and the card issuing bank are different, a card clearing transaction is done between the banks and some banks can earn revenue. This process works similarly for debit cards transactions. On the other hand, the card interchange fee is also noteworthy determinant of the merchant fee.

In Türkiye, regulations have been made in card interchange fee and merchant fee to protect commercial and individual customers. While the first regulation was made softly for the card interchange fee, increasing complaints led Central Bank of the Republic of Türkiye (CBRT) to directly regulate the merchant fee. Based on the credit card interchange fee, CBRT has intervened with the merchant fee and determined a cap for all banks including Islamic banks. To understand why these fees are collected it is necessary to examine the composition of the credit card interchange fee and then how the merchant fee is formulated.

Since businesses do not know the source of the merchant fee exactly, they often complain about the cyclical increases. In addition, businesses do not consider the two-sided structure of the credit card system, and they hope that spending amounts made with the card are transferred to their free use the next day. Since the merchants do not usually know why they pay the merchant fee, they make business contracts with banks under asymmetric information.

The merchant fee is also important for the price stability and financial stability goals of CBRT. If there is no regulation, banks can determine high merchant fee to increase their profit. Customers may face increased prices if the businesses pass this cost indirectly within the price of the goods and services. Thus, high merchant fee can trigger the inflation. On the other hand, the high merchant fee may also cause businesses to not accept credit card in shopping. It decreases the efficiency in payment systems, and it is also a problem for financial stability. Thus, to understand why the merchant fee is high, it is necessary to examine its structure.

Furthermore, the source of merchant fee is a controversial issue in Islamic finance literature. While some approaches claim that the merchant fee is legitimate according to the principles of Islamic finance, some consider it as an interest-bearing transaction. Also, there are some studies that interpret the merchant fee as a full-service fee. However, this assessment stems from a lack of full understanding of how the credit card system works. The studies on Islamic finance have not examined the regulations of public authority that exhibit the source of merchant fee and interchange fee clearly. The latest regulations obviously indicate that a new perspective on merchant fees needs in terms of Islamic finance.

The aim of this study is to reveal how the interbank card interchange fee and merchant fee are formed in Türkiye, based on the two-sided structure of the credit card system. In this context, it is investigated whether there is a relationship between the interest rate and the merchant fee and whether the merchant fee is a non-interest income or spending. Considering the interest-free structure of Islamic finance, the emergence of interest suspicion in the interchange fee and merchant fee may require changes in business models and contracts for merchants and banks in credit card system. Moreover, Islamic finance literature ignores the regulations of public authority in evaluating the source of merchant fee and interchange fee. The study will guide discussions on the merchant fee in Islamic finance by explaining the composition of the merchant fee and interchange fee by using the regulations and literature review. In addition, the study will be contributing for the increase in the financial literacy level of businesses and for making the business contracts more conscious. Since no similar study has been done in literature before, the study will make a significant contribution to academic literature.

In the first part of the study, the theoretical literature on interbank card interchange fee and merchant fee, and the regulations in different countries are discussed. In the second part, the functioning of the credit card system, the composition of the card interchange fee in Türkiye, and the merchant fee regulations are examined. In the third part, different approaches to merchant fee under Islamic finance are evaluated. The study is finalized with conclusion and suggestions.

LITERATURE REVIEW

While the theoretical literature on the credit card system is raising, the empirical literature is quite limited. Also, studies on merchant fee and interchange fee usually focus on why regulations are needed and their results in conventional banking rather than the composition of these fees. In this section, the conceptual framework and regulations made in the world regarding merchant and card interchange fees are examined through a literature review.

Conceptual Framework

While conventional banks generate interest and non-interest income from their commercial and individual customers due to financial intermediation transactions, Islamic banks can only earn non-interest revenue owing to interest-free structure. Non-interest income is also called fee or commission revenue. CBRT defines the fee as any amount and rate including expenses and commissions requested from customers other than interest, profit share, taxes, funds and similar legal expenses (CBRT, 2020a). Banks also charge businesses some fees in the credit card system. Among them, the merchant fee collected from member business is one of the most controversial items. A member business is defined as a real or legal person who agrees to sell goods and services or provide cash to the card holder within the framework of the contract it has made with financial institutions (BRSA, 2006). Merchant fee, which is paid to acquiring bank/payment service provider, includes interchange fee, scheme fee and other fees and costs. Interchange fee goes to the card issuing bank and it is typically paid by the acquirer to the issuer. Scheme fee or network fee goes to the card networks. The acquiring bank gets other fees owing to card services and technology provided for transactions (RBA, 2024). Funding cost is also included in the merchant fee.

A member business agreement is signed between the businesses and the POS-owned bank. The contract determines the mutual rights and responsibilities of the member business and the bank. The commission rates of credit cards and debit cards are specified in the member business contracts. Different rates are decided according to whether the sales are in advance or installment, and whether the business receives the cash the next day or the bank keeps it blocked. The blockage removal fee, to be applied in case the member business requests its receivables early, is also determined in the contract. In addition, different merchant fees may be determined depending on whether the card accepting bank and the card issuing bank are the same. The payments of the member business to the reward programs, the amounts to be paid by the business in case it cannot achieve its monthly commitment and other service fees are determined (Denizbank, 2025; Kuveyt Türk, 2025).

General Framework of Regulations

The practices in the world indicate that public regulations emerge because of market failures such as incomplete competition, negative externalities, asymmetrical information in the credit card market, departure from the optimal balance and increasing consumer complaints. Moreover, despite the decrease in operational costs owing to technological innovations and improved communication, banks may not decrease card interchange and merchant fee if there is no public intervention (Balto, 2000). In many practices, public interventions are more focused on determining the interbank card interchange fee. The merchant fee (member business fee) is generally indirectly affected. In a few countries, the merchant fee is directly regulated (Koç, 2012). Also, conventional and Islamic banks are subject to same regulations.

The interchange fee is a source of revenue for a net issuing bank; for a net accepting bank, it is a cost item. However, the accepting bank demands this cost from businesses within the merchant fee. Businesses can also indirectly reflect the cost of card transactions to the consumer within the price of the goods/services. If an additional fee cannot be charged to customers due to card transactions, all consumers, including using cash, burden the cost of card transactions. Under this system, there is no pressure on banks to set the interchange fee at a low level. Since card interchange fee is an important source of income for card issuing institutions, it is possible for the dominant position to be abused. Costs that are not clearly reflected to the consumer can excessively encourage the use of credit cards, increase the profits of intermediary institutions, and impose an unfair cost on consumers who do not use the card (Akkaya-Karayol, 2007).

Balto (2000) argues that card issuers have high market power because new network entries are more difficult. Since banks are more interested in issuing cards than accepting, they tend to keep the interchange fee high to obtain the highest possible revenue from merchants and consumers. If merchants do not have a clear role in determining the interchange fee, card issuers will have more opportunities to manipulate card costs. Balto also suggests that interchange fees should be regulated according to costs, banks should determine interchange fees through bilateral agreements, and costs should be explicitly passed on to consumers for card transactions.

Evans and Mateus (2011) investigated how the caps on the credit card interchange fee would affect consumer welfare, based on the practice in the European Union. They argued that if a maximum fee was determined, card issuers could compensate for some of their reduced income by charging different fees to the cardholder. On the other hand, the reduced interchange fee may lead to passing on less transaction cost to consumers. They argue that the former impact outweighs, and consumers welfare declines with the regulation.

There is an increasing trend in the world to regulate card interchange fees. European Union, Canada, Australia and some developing countries have determined caps on interchange fees for debit and credit cards. In Australia, to increase the use of debit cards and to provide better price signals, additional fees have been charged to customers for credit card transactions since 2002. In addition, a maximum rate was set for interchange fees in 2002, and banks' income was reduced by approximately 40%. After the regulation, it was observed that in the short-run, card issuing banks compensated for 30-40% of their lost revenue by increasing the fees they charged to cardholders. These rates increased as cards were renewed. While there was a small decrease in the merchant fees paid by businesses, it was not reflected as a price decrease for their customers. It was seen that a holistic approach was needed in the regulation of two-sided markets, considering both users and members (Chang et al., 2005).

In the US, merchants are allowed to offer discounts for cash payments but are not allowed to charge additional fees for credit card transactions. In addition, it has been argued that card interchange fees, along with a rule prohibiting surcharge, may lead to cross-subsidization between customers who transact with cash and credit cards, therefore, credit card interchange fees have not been regulated (Bolt and Chakravorti, 2011). While the US sets a maximum fee only for debit cards, credit cards are not regulated. This soft regulation leads to higher interchange fees for credit cards compared to other developed countries (Table 1).

While developing countries generally focus on interchange fees like developed countries, it is seen that both interchange fees and member merchant fees are subject to regulation in some countries such as Türkiye and India. In Türkiye, while the card interchange fee between banks has been regulated by a formula since 2005, member merchant fees have been intervened in 2019 and 2020. The maximum interchange fee in Türkiye is higher than other developing countries as of 2024 (Table 1). The main reason is the high interest rates due to increasing inflation. In periods when inflation is stable, the maximum interchange fee in Türkiye was close to other developing countries.

Table 1. Interchange Fee Caps by Countries in 2024

Country	**Regulation**	**Debit Card**	**Credit Card**
EU	Interchange Fee Regulation	0.2%	0.3%
USA	Durbin Amendment	$0.21 + 0.05%	No Cap (1,5%-3%)
Australia	Reserve Bank of Australia Rules	0.5%	0.8%
Canada	Voluntary Interchange Reduction	-	1.5%
India	Merchant Discount Rate	0.40%-0.90%	0.75%-1%
China	People's Bank of China Regulation	0.35%	0.45%
South Africa	Competition Commission Regulations	0.55%-0.70%	0.75%-2.0%
Türkiye	Turkish Competition Authority Regulation	0.68%	%3.19

Source: Payop, ICC

RESEARCH METHOD

The quantitative research method, which is a scientific method mainly based on data, is used in this study. This method aims to obtain objective results by converting events and facts into numbers. Quantitative research investigates the answers to concrete and measurable questions, tries to understand cause-effect relationships and shapes the processes of reaching new information. Descriptive method and content research are also methods used in quantitative research. Descriptive method is a research method that aims to describe and explain the subject examined within the scope of a research or study in detail. Researchers describe events, objects or situations, determine their characteristics and analyze them using this method. Content research focuses on documents or content, and is used to understand the content of texts and extract data (Garip, 2023).

In this study, firstly, the functioning of the credit card system is investigated by employing descriptive method. Then, focusing on the Competition Authority and CBRT regulations, interchange fee and member business fee calculation methods, the relationship of these fees with interest rate is examined.

CREDIT CARD SYSTEM, INTERCHANGE FEE AND MERCHANT FEE IN TÜRKİYE

To understand how the merchant fee emerged, firstly it is necessary to examine the functioning of the credit card system, which is a two-sided market. Then, it would be useful to consider why the card interchange fee, which is an important factor in the merchant fee, is charged. They may help to evaluate the merchant fee and the relevant regulations in Türkiye more accurately.

How the Credit Card System Works

In the credit card system, banks and other card issuing institutions provide services to member businesses that sell goods and services on the one hand, and to cardholders who purchase these goods and services on the other. Card issuing institutions simultaneously serve customers with different demand structures and price these groups differently (Baxter, 1983; Yereli and Koç, 2013). In the credit card market, card issuing institutions may charge cardholders a fixed card fee or a fee per transaction, while they may also earn interest revenue if statements are not paid on time in conventional banking. On the other hand, businesses are charged merchant fee for transactions made with cards and different fees for the infrastructure of card systems.

Both conventional and Islamic banks have same operational cycle in card system. In card transactions, if the POS owner bank and the card issuing bank/institution are the same, no interbank clearing commission arises. The bank issuing the card provides intermediary services to the consumer and the business, and as a result, it may charge a fee. Businesses accept a forward transaction when they approve selling with a credit card (Aktepe, 2010). If the business wants the money to be transferred to its account the day after the transaction, a fee is charged as a percentage of the transaction amount. In practice, since the cardholders pay their debt to the bank within an average of 25-30 days, the bank incurs the funding cost when the member business requests the money the day after the transaction. In addition, providing the payment service leads to some operational costs for the bank. For these reasons, a fee is charged from the member business. Within the framework of the agreement between the member business and the bank, if the transaction amount is not transferred to the free use of the business the next day and is blocked in the bank for a certain period, the bank charges a lower fee for this transaction or does not charge any fee at all. Since the bank ensures that the credit card is accepted at the business, it may also charge a fee from the consumer in the form of a periodic card fee. In some countries, consumers may also be charged a fee per transaction.

When a consumer buys a product worth 1,000 TL from a member business with a credit card, the business forwards the information of customer to the bank that issued the card. If the business wants the transaction amount to be transferred to free use on the next day of the transaction, assuming a 2% merchant fee, a commission of 20 TL will be deducted from 1,000 TL and 980 TL will be transferred to the business. The cardholder consumer will pay the product cost of 1,000 TL to the bank that issued the card when the credit card statement is issued (Figure 1). Such transactions, where the POS owner bank (accepting bank) and the card issuing bank (issuing bank) are the same, are called "on-us" transactions.

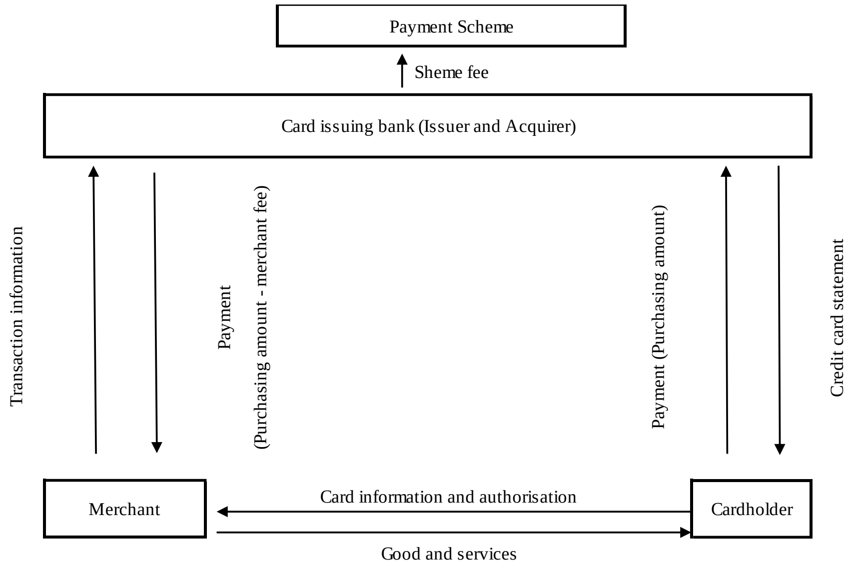


Figure 1: Card transaction without interbank clearing transaction

Source: RBA, 2024

In a card transaction, if the accepting and issuing bank are not same, an interchange fee arises due to the clearing and settlement of the transaction between the two banks. After a purchase, if the member business wants the transaction amount to be transferred to its free use the next day, the accepting bank charges a merchant fee for this transaction and transfers the remaining amount to the free use of the member business. The fee arises as the interchange fee that the accepting bank will pay to the issuing bank and the fee for the service that the accepting bank provides to the business. Clearing and settlement are done between the banks through Interbank Card Center (ICC) in Türkiye. Transactions for the previous day are terminated between the banks. The issuing bank pays the remaining amount of the transaction to the accepting bank after deducting the interchange fee calculated by ICC. The cardholder customer also pays the shopping amount to the issuing bank after the credit card statement is issued. The issuing bank basically receives an interchange fee because it receives the payment from the cardholder within an average of 25-30 days but pays the accepting bank the next day of the purchase (Figure 2). On the other hand, if the purchase amount is kept blocked in the bank for a certain period based on the agreement between the accepting bank and the business, the accepting bank charges a lower fee from the member business or does not charge any fee at all. Such transactions, where the POS owner bank (accepting bank) and the bank that issued the card (issuing bank) are different, are called "not-on-us" transactions.

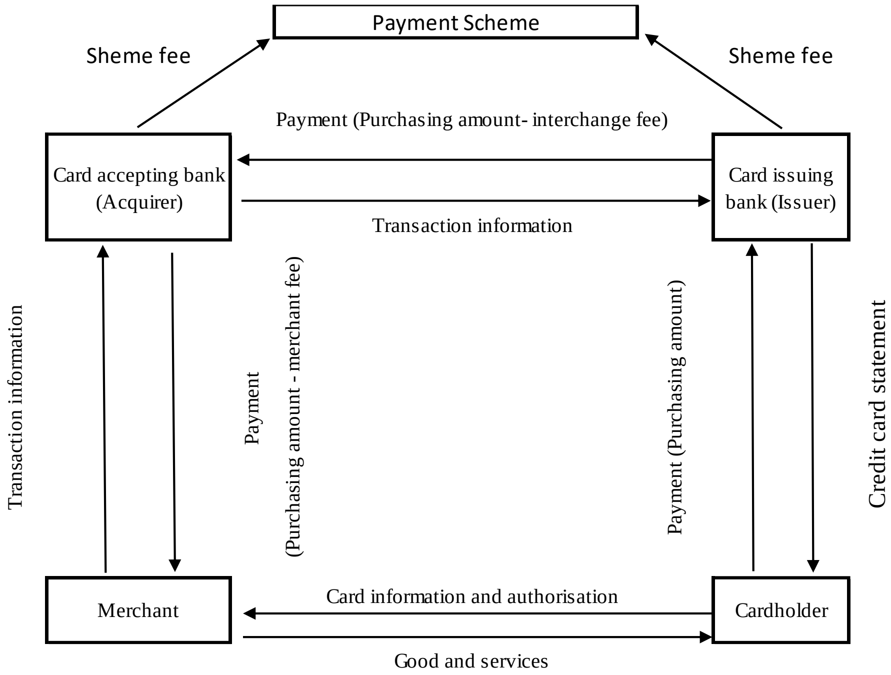


Figure 2: Card transaction with interbank clearing transaction

Source: RBA, 2024

The card or payment scheme within the credit card system is a payment network where the verification of transactions and money transfer management are carried out between cardholders, banks and businesses. They provide the main service to banks. They receive a certain commission and a fixed periodic fee from banks per transaction. The scheme fee varies depending on the agreement between banks and the scheme. The accepting bank pays a higher fee. The total amount of the fee paid generally does not exceed 0.1% of the transaction amount. Scheme fees are determined by card networks such as Visa, Mastercard, Troy and may change depending on card type, transaction type, merchant category, and country. The scheme fee includes assessment fee, processing fee and licensing and access fees. Assessment fee stems from operating and maintaining the cost of the card network. The processing fee indicates the cost of authorizing transactions. The licensing and access fee is paid for the use of the brand. Credit cards usually have higher fees than debit cards owing to higher risk (Bullock, 2010; RBA, 2024).

Credit card and debit card interchange fee

According to 2024 data, approximately half of the credit card transactions in Türkiye are made through another bank POS device (ICC, 2025). In this case, the interbank interchange fee has a significant impact on the member merchant fee.

The credit card interchange fee shows the amount paid by the institution accepting the card to the institution issuing the card. The same interchange fee for conventional and Islamic banks has been announced by ICC according to the calculation method determined by the Competition Board since 2005. The credit card interchange fee consists of the sum of operational costs, funding cost and net capital cost. ICC calculates operational costs once a year and the same operational costs are considered for the interchange fee for 12 months. On the other hand, the funding cost and net capital cost are calculated monthly based on the developments in market interest rates. Accordingly, if the monthly calculated rate by ICC changes by ± 7.5% or more from the current rate, the new rate is put into effect (ICC, 2025). Table 3 indicates the sub-items of interchange fee in Türkiye. According to the data, the largest component of the credit card interchange fee consists of the funding cost, which shows the weighted average interest rate of banks on 32-45-day deposits. The interest rate on 32-45-day deposits has been employed because the average number of days banks fund their customers is 27. In April 2025, while the interchange fee was 3.19% excluding taxes, the contribution of funding cost was 2.77 points, the contribution of the capital cost, which is also sensitive to interest, was 0.370 and the contribution of total operational costs were 0.210. Operational costs constitute a very small portion of the interchange fee and do not show significant change over the years. Also, operational costs show the cost of the credit card infrastructure and the share of the service fee in interchange fee. On the other hand, as the interest rate, which constitutes a large portion of the interchange fee, increases, credit card interchange costs increase. The credit card interchange fee rate has been stable since November 2023. Determining a threshold level as 7.5% for changes has been effective in this development.

Table 3. The composition of credit card interchange fee

	Total Operational Costs (%)	Cost of Capital (%)	Number of Funding Days	Funding Interest Rate (%)	Funding Cost (%)	Interchange Fee (Excluding Taxes) (%)	Interchange Fee (Including Taxes) (%)
09.2021	0,23	0,13	27,21	17,47	1,3	1,64	1,73
12.2021	0,23	0,14	27,04	15,21	1,13	1,5	1,58
09.2022	0,23	0,14	27,04	14,35	1,06	1,5	1,58
10.2022	0,23	0,14	27,04	13,13	0,97	1,34	1,41
12.2023	0,25	0,16	26,82	37,77	2,78	3,19	3,36
12.2024	0,21	0,38	26,74	37,77	2,77	3,19	3,36
04.2025	0,21	0,37	26,74	37,77	2,77	3,19	3,36

Source: ICC

Note: The sum of the items may not be equal to the interchange fee because of the 7.5% threshold level for changes.

Table 4. The composition of the operational cost in credit card interchange fees

	Customer Service and Collections (%)	Authorization (%)	Swap / Settlement (%)	Fraud and Exception File (%)	Expenditure Objections (%)	Total Operational Costs (%)
09.2021	0,133	0,056	0,013	0,026	0,002	0,23
12.2021	0,111	0,074	0,012	0,03	0,002	0,23
09.2022	0,111	0,074	0,012	0,03	0,002	0,23
10.2022	0,111	0,074	0,012	0,03	0,002	0,23
12.2023	0,083	0,073	0,064	0,029	0,002	0,25
12.2024	0,066	0,052	0,064	0,026	0,002	0,21
04.2025	0,066	0,052	0,064	0,026	0,002	0,21

Source: ICC

Debit cards also can be used in shopping and lead to interchange fees in the case of not-on-us transactions. The debit card interchange fee represents the commission amount paid from the card accepting institution to the card issuing institution for purchases made with a debit card. The interbank debit card interchange fee is calculated once a year by ICC according to operational costs using the method approved by the Competition Board. As of April 2025, the tax-inclusive debit card interchange fee is 0.68% (ICC, 2025). This rate has not changed since October 2024. Since there is no funding cost in transactions made using a debit card, this leads to less interchange fee for banks.

On the other hand, technological developments and financial innovations reduce the costs that banks face in the credit card system. Applications such as Common POS support the profit margins of banks by reducing the clearing cost and operational costs. Credit card transactions of more than one bank are carried out through a single POS device in member businesses. When a purchase is made with the card in a member business, the POS device automatically recognizes the card and directs the transaction to the issuing bank. Since there is no need for clearing transactions between banks that use the system jointly, costs are reduced.

Merchant Fee Regulations

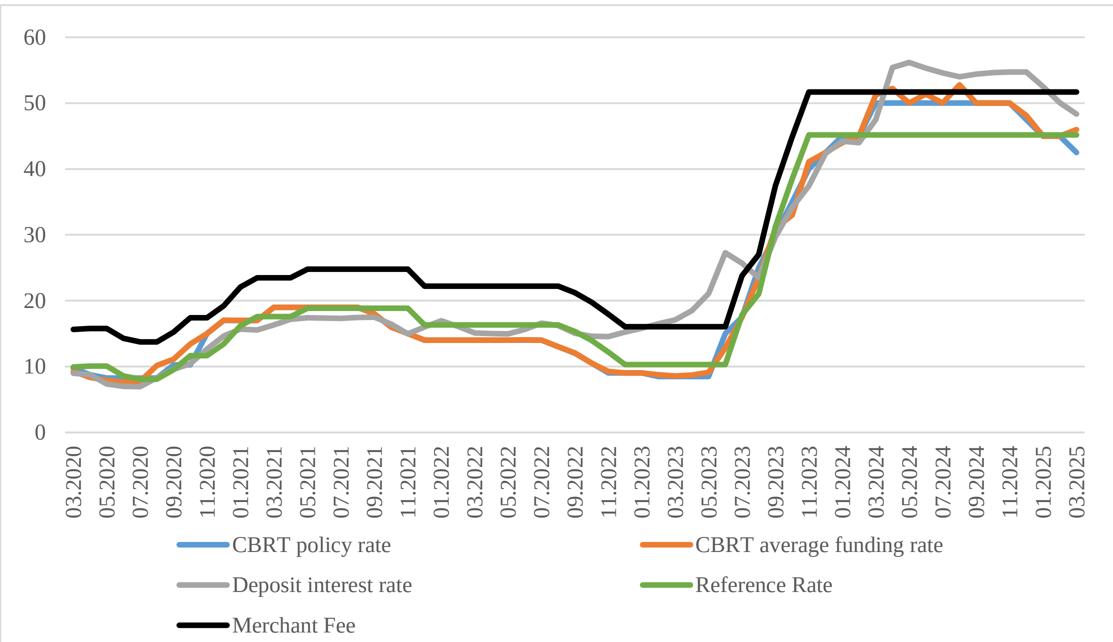
The costs faced by banks vary depending on whether the transactions made with the card are 3 or 4-party. Banks impose a certain amount of profit margin on their costs and largely transfer the costs of the credit card system to businesses under the merchant fee. The card interchange cost that occurs in 4-party transactions leads to a higher fee being reflected on the businesses. On the other hand, the costs faced by banks are reduced in 3-party card transactions where the acceptor bank and the card issuing bank are the same. In addition, since there is no funding cost in transactions made with debit cards, the costs faced by banks are quite low. In practice, in the contracts between banks and member businesses, a single merchant fee rate or different rates can be determined according to the type of transaction. If businesses do not fully know the functioning of the credit and debit card system, banks may demand high merchant fees with asymmetric information and increase their profits.

Public interventions in the credit card market of Türkiye were all aimed at protecting the consumer until 2019. However, no regulation has been made for a long time to protect the businesses. The first indirect regulation on this side was the intervention in the interbank interchange fee by the Competition Board in 2005. The regulation made by the Competition Board is seen as a soft regulation as it focuses on ensuring transparency in the interchange fee for banks and determining the cost items to be used in the calculation of this fee. Since 2005, the Competition Board has intervened in the market to regulate bank and credit card interchange fees but has pointed to the relevant institutions for more comprehensive regulations. The banking system is not deep enough, competition is not high, and the financial literacy levels of businesses and consumers are low in Türkiye. For these reasons, a holistic approach to the banking system and the credit card system has necessitated the regulation of merchant fees in addition to the interchange fee.

CBRT is responsible for ensuring the price stability and financial stability in Türkiye. Regarding financial stability, establishing, operating and monitoring payment systems is a function of the central bank (CBRT, 2025b). CBRT determined a maximum rate for the merchant fee in November 2019 because of increasing complaints of businesses and supporting the effective operation of payment systems. In addition, imposing a cap on merchant fee has supported price stability by eliminating unfair costs on businesses and customers. Conventional and Islamic banks are subject to same regulation. It has been regulated that in advance transactions, a maximum fee is 1.60% when the transaction amount is transferred to the use of the member business the next day, and in installment transactions, a maximum of 0.89 points can be added to this rate for each additional installment. The merchant fee has been addressed in more detail with the Communiqué on the Procedures and Principles Regarding the Fees Collected by Banks from Commercial Customers in 2020. Considering the interbank interchange fee, merchant fee for transactions in advance and installment transactions have been linked to a formula. Accordingly, the maximum merchant fee is calculated using the reference rate announced by CBRT. In the Implementation Instructions Regarding the Communiqué, the reference rate is explained as follows: "As the reference rate, the lower of weighted average interest rate of TL deposits opened with a maturity of 32-45 days and 1.1 times of monthly policy interest rate determined by CBRT is considered" (CBRT, 2020b). While only the 32-45-day deposit interest rate was considered in the first version of the regulation, with the change at the beginning of 2022, the policy interest rate was also included. Thus, in the calculation of the maximum merchant fee and the funding cost in the interchange fee, deposit interest rate or monthly policy rate have been used considering the 27-day average funding day in credit card system. It can be claimed that this change protects the businesses and consumers in case of sudden increases in market interest rates. Moreover, CBRT regulations in merchant fee may support disinflation process in Türkiye. Caps on merchant fee, may limit rise in the cost of businesses and prices due to increase in interest rate.

In advance transactions, transaction amounts are transferred to the free use of the business the next day. This model is called the non-blocked business model, and the maximum merchant fee is calculated by adding 0.45 points to the monthly reference rate announced by CBRT. The constant term 0.45 includes the costs of credit card infrastructure or service fee and profits of banks. In practice, it is observed that some banks change the merchant fee according to turnover commitments of businesses, higher fees are charged to businesses that fail to meet their turnover targets, but the maximum rate cannot be exceeded in any case.

The development of the annual interest rates, the annual reference rate announced by CBRT and the annual merchant fee are given in the graph below (Graph 1). The reference rate has tended to decrease due to the decline in interest rates from the end of 2021 to the second half of 2023. As a result of the using lower policy rate in the calculation of the reference rate from the last quarter of 2022 to the second half of 2023, the gap between the market rate and the reference rate has widened. After the second half of 2023, when the return to traditional policies began, the difference between the deposit rate, policy rate and reference rate closed. However, after the regulation that the monthly merchant fee cannot reach 3.11%, it has started to remain below the policy rate and the market rate. The merchant fee has an identical development with the reference rate because it has computed by adding a constant term to the reference rate. Determining the maximum rate for the merchant fee as 3.11% without considering the rise in interest rate can be evaluated as a measure to prevent the reduction of POS usage and unregistered transactions owing to increasing costs. This cap also support the price stability goal of CBRT in addition to ensuring financial stability by increasing efficiency in the payment system. On the other hand, the gap has closed again since the end of 2024, when the CBRT started to reduce interest rates.



Graph 1: Interest Rates, Reference Rate and Merchant Fee (Annually, %)

Source: CBRT

Table 5 gives a comparison of merchant fee and interchange fee. Reference rate in merchant fee and funding cost in interchange fee are calculated using deposit interest rate or CBRT policy rate. Therefore, these fees are too sensitive to change of interest rates. In the not-on-us credit card transaction the interchange fee emerges, and the merchant fee must cover at least the interchange fee. The maximum merchant fee must be determined higher than the interchange fee to give fair profit share for banks. Table 5 indicates that CBRT has given a fair profit margin for banks by determining the merchant fee above the card interchange fee. The reference rate determined by the CBRT corresponds approximately to the sum of the funding cost and the capital cost in the interchange fee. The constant of 0.45 added to the reference rate also shows the operational costs in the interchange fee and the profit margin left to the banks. In addition, the maximum merchant fee rate determined by CBRT is valid for transactions made with both credit cards and debit cards. According to ICC data, as of the beginning of 2025, the amounts of purchases made with debit cards correspond to approximately 20% of the credit card transactions. Considering that the interchange fee is low in transactions made with debit cards, an increase in the share of debit cards will further increase the profitability of banks. In addition, the profit margin of banks may be higher than calculated because some customers pay their card debts early that leads to lower funding cost for bank. On the other hand, the CBRT has determined that the monthly reference rate will not exceed 3.11% with the regulation in 2024. Unlike the reference rate, since there is no upper limit for the credit card interchange fee, the 5% change threshold, required to update the current fee, has been increased to 7.5% to act in parallel with CBRT reference rate and merchant fee regulations.

Table 5. Merchant Fee and Interchange Fee (%)

	Total Operational Costs in Credit Card Interchange Fee (a)	Capital Cost in Credit Card Interchange Fee (b)	Funding Cost in Credit Card Interchange Fee (c)	ICC Interchange Fee (a+ b + c)	CBRT Reference Rate (d)	CBRT Maximum Merchant Fee (d + 0.45)
09.2021	0,23	0,13	1,3	1,64	1,43	1,88
12.2021	0,23	0,14	1,13	1,5	1,25	1,70
09.2022	0,23	0,14	1,06	1,5	1,18	1,63
10.2022	0,23	0,14	0,97	1,34	1,08	1,53
12.2023	0,25	0,16	2,78	3,19	3,11	3,56
12.2024	0,21	0,38	2,77	3,19	3,11	3,56
04.2025	0,21	0,37	2,77	3,19	3,11	3,56

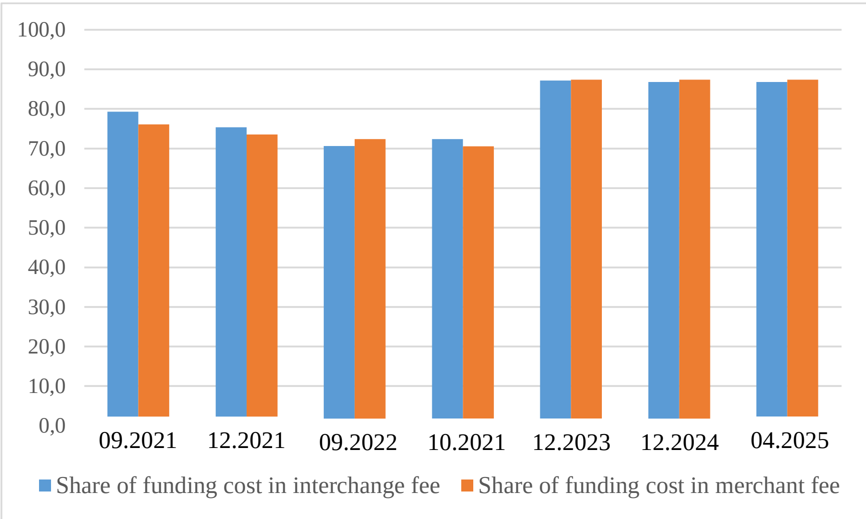
Source: CBRT, 2025a and ICC

Graph 2 illustrates the importance of funding cost or interest rate in interchange fee and merchant fee. Considering the equation 1 and equation 2, share of the funding cost in interchange fee and merchant fee can be computed.

$\text{Credit Card Interchange Fee} = \text{Total Operational Costs} + \text{Capital Cost} + \text{Funding Cost}$ (Equation 1)

$$\text{Maximum Merchant Fee} = \text{Reference Rate} + 0.45 \text{ (Equation 2)}$$

Funding cost item in interchange fee and reference rate in merchant fee are main determinants of fees and based on interest rate as it explained in Table 5. Both indicate banks incur funding costs of around 27 days on average. When the interest rate is low, share of funding cost corresponds to nearly 70% of these fees. During the high-interest rate periods, the share of the funding cost increases up to 87% of the interchange fee and merchant fee. On the other hand, the share of service fee or cost of credit card system is represented by operational cost in the interchange fee. It equals to the constant term 0.45 in the merchant fee. Therefore, a small part of these fees consists of service fee. Furthermore, all banks that engage in credit card system must comply with these regulations including Islamic banks. It implies that merchant fee and credit card interchange fee are also determined using interest rate in Islamic banks.



Graph 2: Share of Funding Cost in Credit Card Exchange Fee and Merchant Fee (%)

Source: CBRT, ICC

CBRT also determined caps for different business models in the credit card system. In installment transactions, a maximum of 50% of the fee can be added to the maximum rate in advance transactions for each installment. In addition, in some cases according to the agreement, banks do not transfer the cost of goods and services to the member business the next day and are kept blocked, and do not demand merchant fee. This is called the full blocked working model, and the blocking period cannot exceed 40 days in transactions without installments. In the “blockage + fee” business model, the maximum merchant fee is computed according to formula based on reference rate (see CBRT, 2020b).

In some cases, after making an agreement with the bank regarding blocked working model, member businesses can request their receivables that are waiting in the block early to meet their cash needs, and banks also request a blockage removal fee for the disrupting in their liquidity flows. CBRT have regulated the blockage removal fee and linked it to a formula based on reference rate (see CBRT, 2020b).

Other Fees Collected from the Business Due to Card Transactions

Conventional and Islamic banks collected different fees in card system from member businesses before CBRT regulated the non-interest fees. In addition to merchant fees, banks charged fees such as POS inefficiency/POS inactivity when sufficient transactions were not made with the POS, as well as fees associated with various services such as communication fees and statement fees. These fees were abolished with the regulation of CBRT that came into force in March 2020. Moreover, CBRT regulation states that no other fee can be collected from the member business based on the price of goods and services other than the merchant fee. However, if the member business approves, banks may collect rewards/bonus from the business to be transferred to the cardholder. In addition, while only POS-related service fees are allowed, banks must get permission from CBRT before charging fees for special services they will offer within the credit card system. On the other hand, CBRT has made it possible to collect POS-related fees for maintenance, repair, hardware and software updates, accessories and lost/damaged POS devices (CBRT, 2020a).

Revenues from Cardholders

In the credit card system, conventional banks also gain different revenues such as interest, card fees, statement deferral fees, installment fees from cardholders. Considering the two-sided structure of the credit card market, CBRT also uses the reference rate of merchant fee when determining the maximum contractual and delay interest rate to be applied to customers in credit card transactions. In case of default on individual credit card debt, the monthly reference rate and a constant value are used to calculate the maximum monthly contractual interest rate. In addition, the monthly maximum contractual interest rate to be applied to corporate credit cards is determined by adding 164 basis points to the monthly reference rate. The monthly maximum delay interest rates to be applied to credit card transactions in TL are determined by adding 30 basis points to the monthly maximum contractual interest rates. It has also been regulated that the monthly contractual profit share rates to be applied to credit card transactions in interest-free banking cannot exceed these limits (CBRT, 2020c). Therefore, both interest revenues and non-interest incomes through credit card transactions are mainly based on the interest rate for all banks.

Findings

Conventional and Islamic banks use the same infrastructure for credit card system, and all banks comply with the same regulations. Considering the two-sided structure of the credit card market, transferring the money owing to card transactions to the business's account the next day is not the obligation of the banks; however, it is a preference of the business. Normally, the bank is required to make the payment after collecting the debt from the cardholders. The merchant fee received by banks is basically due to the funding cost, and it varies according to time and market interest rate. Moreover, funding cost is also the main determinant of interchange fee and blockage removal fee. Also, the interchange fee is a significant component of the merchant fee in not-on-us transactions. On the other hand, the operational costs or cost of the services in the credit card system have a small share in these fees. In addition, different fees may be collected for other services offered for the credit card system.

ASSESMENT OF MERCHANT FEE IN ISLAMIC FINANCE

Main principles of Islamic Finance

Islamic finance differs from conventional finance with its unique principles. The fundamental rules of Islamic finance are the prohibition of interest-bearing transactions, profit/loss sharing and risk sharing, the consideration of money as potential capital, the prohibition of excessive uncertainty and speculation, the sanctity of the contract, and the prohibition of activities that are not approved by Islamic Law.

First, the ban of the interest is the main principle of the system. Interest is the fixed and predetermined surplus on money calculated considering the term and principal. It is not allowed because the surplus is guaranteed regardless of the performance of the investment. This ban aims to prevent unfair earnings, extra cost for the enterprise, injustice in income distribution and to encourage production (Askari et al. 2010). Second, Islamic finance encourage fund suppliers to be investors instead of being creditors. People should be partners in business to share risks and profit/loss rather than making money from money without bearing any risk. Therefore, the link between the financial sector and real sector is supported (Tiby and Grais, 2015). Third, the approach of Islamic finance to money differs. Money is accepted as a means of exchange. It describes the value of goods and services and it is a payment instrument between buyers and sellers. Because money has no value on its own, it is not permitted to lend money for interest. Money is considered as potential capital in Islamic finance. When combined with other resources such as labor, capital, natural resources money becomes productive and accepted as real capital. Considering money as potential capital means that money turns into capital when invested. Moreover, it is forbidden to keep money idle and to stack (Kettell, 2010). Fourth, excessive uncertainties and speculation are not approved in Islamic finance. This ban includes investments and derivatives such as options, forward and futures (Tiby and Grais, 2015). Fifth, Islamic finance requires transactions to be recorded in contracts and views contractual compliance as a sacred duty. It aims to reduce asymmetric information and moral hazard problems (Visser, 2009). Finaly, Islamic finance permits commercial activities that comply with Islamic law. Investing in businesses that engage in gambling, alcohol, etc. is prohibited.

Credit Card in Islamic Finance

Credit card is a modern payment tool, and it may also supply a short-run loan. Credit card is a widely used tool in conventional and Islamic banking. In conventional banking, credit cards can be used for purchasing goods and services in advance or installments, and customers can get cash advances by bearing interest. Furthermore, card spendings can be paid in installments later, and statements can be deferred by bearing interest. Interest is applied when credit card debt is not paid by the due date. Because interest-bearing transactions in conventional banking are included in credit card agreements and violate Islamic banking principles, most scholars have disapproved the use of credit cards within this system. The Islamic Fiqh Council's ruling on this matter is as follows: "It is not permissible to issue and use a credit card that has an interest-bearing clause in its contract and is not based on an account at the bank. The determination of the card holder not to miss the payment due date does not change the ruling." However, some argue that, despite the interest-bearing clause, this clause is invalid, and that such a card is permissible. According to these scholars, if the card holder demonstrates the will not to incur interest, obtaining and using the card is permissible. On the other hand, Islamic banks have issued interest-free credit cards as a result of the widespread use of credit cards as a payment method. As with traditional banking, credit cards can be used for both advance and installment transactions. Installment payments must be agreed upon before making a purchase, and repayment of the debt in installments by bearing extra cost is not permitted after the transaction is completed. Furthermore, short-term interest-free cash advances are permitted from credit cards, up to a limited allocated to the customer. Card holders cannot use credit cards to purchase goods and services deemed inappropriate by Islamic Law (Aktepe, 2010).

Purchasing goods and services with credit cards is often considered by Islamic jurists within the scope of guarantee and debt transfer agreements. According to the majority of contemporary Islamic jurists, the purchase of goods and services with a credit card consists of a three-party guarantee agreement. In the credit card system, the bank is the guarantor, the merchant is the creditor, and the cardholder is the debtor. By issuing the card, the bank tells the holder, "I will pay the cost of the shopping if you make shopping with this card." It also tells the merchant, "I am a guarantor for the debts of customers who make purchases by presenting my card." According to some Islamic jurists, purchasing goods and services with a credit card constitutes a debt transfer. By issuing the credit card, the bank declares to the holder that it will accept debt transfers for future transactions. It also declares, in accordance with its membership agreement, that it will repay the merchant for any debts transferred by cardholders. A third group considers the process from issuance of a credit card to its use to be a distinct legal relationship, and the process after its use to be a distinct legal relationship. Accordingly, the legal relationship from the issuance of the card to the purchase of goods and services is a guarantor relationship, while the legal relationship resulting from the use of the card is a debt transfer, which includes the guarantee (Bayındır, 2005).

Merchant Fee in Islamic Finance

Islamic jurists state that the relationship between the bank, cardholder, and merchant cannot be fully explained by any of the classical contracts. It looks like a hybrid contract, bearing traces of guarantee, debt transfer, agency, pledge, and brokerage contracts. According to Bayındır (2013), the legal relationship between the bank, cardholder, and merchant in the credit card system should be considered a set of contracts, primarily encompassing guarantee, then debt transfer, and service contracts. Therefore, the source of the merchant fee charged by the bank has been one of the most debated issues in Islamic banking. Many studies on interest-free banking claim that the merchant fee is legitimate according to the principles of Islamic finance. However, some approaches consider it as an interest-bearing transaction. In international literature, the legitimacy of the merchant fee is supported by using one of the following approaches: guarantor relationship, debt transfer, the principle of making a discount on the debt and paying in advance, brokerage fee, agency fee and service fee.

According to the first approach, the legal nature of the relationship between the bank and the member business is guarantee. The fee received by the bank from the business is considered as a guarantee fee. It is equal to the difference between the amount received by the bank from the card holder and the amount paid to the business. In membership agreement, the bank states that it will pay any debts incurred by cardholders who purchase from the merchant, if the merchant gives a certain percentage of it. The agreement with the cardholder indicates that the bank will demand the full guaranteed amount from the cardholder, not the amount paid to the merchant. However, in practice, the contract between the bank and the cardholder and the contract between the bank and the merchant are completely independent of each other. In both of these contracts, the bank has an independent agreement with each party, and the two parties often do not even know each other. The member merchant can only request the debt from the bank. Therefore, scholars claim that the nature of credit card transactions does not fully comply with guarantee. Similar to first approach, some scholars argue that the relationship between a bank and a merchant is debt transfer. Accordingly, by issuing a credit card, the bank declares that it will accept the cardholder's future debt transfers and will repay the merchant with a discount. The bank will get a transfer fee. Like the guarantee relationship, proponents of the debt transfer consider contract as a single three-party contract. In practice, the contract between the bank and the merchant is independent of the contract between the bank and the cardholder. Thus, this approach is also not sufficient to explain the merchant fee. On the other hand, some scholars argue that the membership agreement may be a guarantee together with the debt transfer. However, this joint approach can also not clarify merchant fee clearly (Bayındır, 2005).

According to the third approach, the fee received by the bank from the business is an excess taken based on the principle of "discount the debt, I will pay it in advance". As a result of the debt transfer agreement between the cardholder and bank, the cardholder refers the merchant to the bank to collect the debt. While the bank should normally pay the debt arising from card transaction after a certain period of time, it agrees with the merchant to discount a certain percentage of the debt and then pays it in advance. The "discount the debt, I will pay it in advance" principle has also been approved by the Islamic Fiqh Academy by following explanation: “Whether the request comes from the creditor or the debtor, it is permissible to discount a term debt to collect it in advance. If this is not done based on a previous agreement and the relationship between the debtor and the creditor continues as a bilateral relationship, it is not forbidden. However, if a third party takes part in this practice, it is not permissible. Because such a transaction means having a promissory note broken”. However, Meni claims that the income earned as a result of the "discount the debt, I will pay it in advance" principle is interest; it reminds the promissory note broken transaction, which is agreed to be interest. On the other hand, Meni states that if the bank agrees to pay the merchant any debt arising from the card transactions six months or one year later in membership agreement, then bank pays the merchant a discounted amount in advance, in accordance with the "discount the debt, I will pay it in advance" principle, there is no problem in terms of Islamic banking (Bayındır, 2013).

According to the fourth view, the commission paid by the business to the bank is the brokerage fee. The bank directs card holders to the business and increases the sales of goods/services. There is no problem in receiving a certain fee from the seller in return for these services. However, according to al-Darir, if the fee received by the bank varies according to the variability of the payment time, then there is a suspicion of interest. In practice, banks usually do not act as an intermediary in directing customers to businesses. Banks only use the names of large companies to advertise their credit cards. Medium and small businesses are not subject to advertisements (Yıldız, 2015).

The fifth approach claims that the bank, as the representative of the business, gets the spending amount from the card holders and makes the payment to the business. This fee charged from the business is also considered as an agency fee and is accepted as permissible (Zuhaylî, 2004; Cevâhirî, 2004). In practice, the payment to business is not affected by whether the card holder makes the payment or not. All the risk belongs to the bank. For this reason, there are not many supporters of this approach.

According to the last approach, the merchant fee is received in return for the services provided by the bank, and it is legitimate. It is claimed that the POS owner/issuing bank provides many services and advantages to the businesses by offering the credit card system, such as increasing the customers, ensuring their collections, not dealing with problematic debts, accelerating their sales, eliminating the problem of cash collection and keeping their accounts in order. For these reasons, banks have the right to receive a commission from the businesses in return for these services and advantages (Aktepe, 2010). Moreover, supporters of this approach claim that banks have to transfer the price of sold goods and services to the business in the next day of the transaction (Bayındır, 2005).

In studies on Islamic banking in Türkiye, the merchant fee is usually evaluated as a legitimate service fee. The fatwa of the Turkish Religious Affairs High Council on the subject is as follows; "The fee received in return for a job or a service or a good is halal. Banks provide a service with the credit cards they issue. Therefore, in purchases made with credit cards, the fee that the bank receives from the business in return for the services cannot be considered as interest" (Bayındır, 2013; Yıldız, 2015; Açıkgül ve Açıkgül, 2007; Teoman, 1996).

On the contrary, there are some scholars who do not see the merchant fee as legitimate. Abu Zayd claims that the merchant fee is neither a service, nor an agency, nor a guarantee fee; it is the interest the bank receives from the merchant in exchange for the loan provided to the cardholder. With credit cards, banks provide interest-bearing loans disguised as fees or commissions, by involving the merchant (Bayındır, 2013). Furthermore, some scholars liken merchant fee to the surplus obtained due to the promissory note broken transaction (Darîr, 2000; Hammâdî, 2000). According to al-Darir, the merchant fee is permissible if the owner of the POS and the card issuing are the same bank. However, if the banks are different, the transaction is promissory note broken and it is not permissible due to the suspicion of interest. Hammadi states that the fee, regardless of the bank, is similar to the extra amount earned through promissory note broken and therefore is not approved.

If the member business does not want to pay a fee for credit card transactions, the shopping amount is kept in a blocked account at the bank for a certain period. Then, the amount is transferred to the member business's account. It is called the blocked business model, the real owner of the money is the bank during the blocking period, and when the payment date comes, the money belongs to the business. Since the bank benefits from the money for a certain period, it gives up asking for a fee from the business (Bayındır, 2013). Many scholars accept this practice as legitimate in interest-free banking.

In some cases, despite the agreement of a blocked working model, the business may demand the shopping amount early. Then the bank requests the blockage removal fee from the business. In terms of interest-free banking, some scholars do not consider it legitimate, like the transaction of having a promissory note broken. The fatwa of the Turkish High Council of Religious Affairs is: "If a business that sells good and services with a credit card receives less money from the bank before the due date, instead of receiving the price of the goods sold in accordance with the initial installment plan, the transaction like having a promissory note broken. This is also not permissible. Religious responsibility belongs to the seller and the bank.

The customer does not have a direct responsibility in this transaction." However, there are also some scholars who evaluate this working model with the principle of "make a discount and I will pay in advance" and consider it legitimate. The Islamic Fiqh Academy also approve this principle as it explained in approaches to merchant fee (Yıldız, 2015).

Consequently, when examining the two-sided structure of the credit card system, the assumption in Islamic finance literature that the transaction amount for credit card purchases must be transferred to the merchant's account the next day is incorrect. Depending on the nature of the transaction, the bank is required to pay the merchant after collecting the credit card debt from the card holder. Therefore, banks charge a fee for businesses who request the transaction amount the next day. An examination of the formulas for the maximum credit card interchange fee and maximum merchant fees regulated by public authorities clearly demonstrates that average number of funding days and the funding cost are main determinants in these fees. Furthermore, the low interchange fee for debit card implies that, unlike credit cards, there is no funding cost. While the maximum merchant fee for credit cards includes a small service fee or operational costs, the majority consists of the funding cost, which is sensitive to interest. Banks also charge different fees such as POS, maintenance, and hardware fees for services offered within the credit card system. Moreover, due to referring customers to merchants, banks receive reward points from businesses in addition to the merchant fee and transfer them to customers. In line with these explanations, it is thought that it is not correct to consider the merchant fee and the credit card interchange fee as a service fee. It is evaluated that the merchant fee is also not paid for the risk of the card holder not paying. If the customer does not pay on time, there is a punishment and legal proceedings are initiated for customers.

In conventional banking, it is accepted that merchant fees largely arise from funding interest. Owing to the allowing interest-bearing transactions, the essence of member merchant fees is not widely discussed. Conversely, in Islamic finance, where interest-bearing transactions are prohibited, approaches such as guarantee fees, transfer fees, agency fees, and brokerage fees, which attempt to explain member merchant fees, appear to be incompatible with the nature of the transaction. Evaluating credit card transactions under one of the classical contracts is considered an inappropriate approach. Based on the evaluations in this study, contrary to most of the Islamic finance literature, the principle of "discount the debt, I will pay it in advance" may be more appropriate for explaining merchant fees. In line with this principle, the creditor merchant chooses between the blocked working model and the advance payment model offered by the bank. If the creditor merchant requests the transaction amount the next day, the payment is made after a deduction based on the merchant fee rate that is predetermined in the contract. The maximum rate for the merchant fee is determined by the public authority for all banks, largely based on the funding interest rate and the average number of days funded. Islamic banks can apply merchant fee up to the maximum rate. What is important in terms of Islamic finance is the source of the fee. If Islamic banks charge a merchant fee for providing funds to a customer, it could be an interest-bearing transaction. However, if the

Islamic banks demand the merchant fee according to "discount the debt, I will pay it in advance" principle, it may be legitimate. Moreover, the maximum fee that can be charged by the bank for the blockage removal and hybrid working models (blockage + fee) varies depending on the number of days. It is necessary to discuss whether there is an interest suspicion in these practices in Islamic finance or whether three- and four-party credit card transactions resembles the promissory note broken process, which is prohibited. Furthermore, merchant agreements in Islamic banking are drafted considering the merchant fee as a service fee. If the "discount the debt, I will pay it in advance" principle is adopted, this should be clearly stated in the agreements.

According to current practices, if there is a suspicion of interest in the merchant fee, merchants can avoid paying the fee by preferring blocked working model. Furthermore, merchants should avoid practices such as blockage removal transactions. According to current regulations, conventional banks and Islamic banks clear and settle credit card debts and receivables at the ICC the next day after the transaction. This practice makes interchange fees inevitable. To address the suspicion of interest rate in Islamic finance, regulations could be introduced that would allow clearing transactions between banks to be completed 25-30 days later. This would eliminate the interchange fee, which largely consists of funding cost. On the other hand, it is evaluated that credit card holders do not have a responsibility for the content of the merchant fee. Finally, transactions made with debit cards seem appropriate from an Islamic finance perspective because they only incur operational costs or service fees.

CONCLUSION AND SUGGESTIONS

CBRT has regulated merchant fee to ensure financial stability and price stability. The regulations made by CBRT in 2019 and 2020 clearly revealed the two-sided structure of the credit card market and showed that a different perspective should be developed for the card interchange fee and merchant fee. When the functioning of the credit card system, the maximum merchant fee regulation and interchange fee regulations are examined, it is seen that the funding interest is the main factor in determining the merchant fee and credit card interchange fee in Türkiye. Also, it is valid for both conventional and Islamic banks. While banks get spending amounts from cardholders on average between 25-30 days, in practice, many businesses want to receive the shopping amount the next day after the transaction. When member businesses demand their receivables early, funding cost emerges. Conventional banks reflect the funding cost under the name of merchant fee. In addition, the operational costs incurred by banks during the transaction are also included in the merchant fee. According to data, 70-87% of the merchant fee consists of funding costs, depending on interest rate developments. When calculating the funding cost, the deposit interest rate or the CBRT policy interest rate is used. Merchant fee increases in periods of high interest rate due to its interest-sensitive structure. Therefore, merchant fee does not look like a real fee based on services.

Merchant fee is directly related to the transaction amount. However, different fees are charged for services offered within the credit card system, regardless of the spending amount.

Although, Islamic banks are subject to same regulation with conventional banks and apply the same maximum fee determined according to funding cost by public authority, they accept the merchant fee and interchange fee only as a service fee. Also, Islamic finance literature claims that transferring the money owing to card transactions to the business's account on the next day is the obligation of the banks. Considering regulations that formulate the fees and functioning of the credit card market, these approaches are inappropriate. The service fee consists of a small part of these fees and banks also collect other fees for the credit card system. In addition, it is in line with the nature of the credit card system that businesses collect their receivables with a certain delay because selling with a credit card means accepting a forward transaction. Thus, a new approach should be developed to explain the merchant fee and interchange fee in Islamic banks. The principle of "discount the debt, I will pay it in advance" may be appropriate. However, it should be discussed whether it is convenient to determine the merchant fee by referencing the interest rate, to change the fee according to the number of days and to make a discount on the debt according to the predetermined rate in the contract. Furthermore, it should be debated whether there is an interest suspicion in the blockage removal practice in merchant fee or whether three- and four-party credit card transactions resembles the promissory note broken process. Finaly, if there is an interest suspicion Islamic banks and merchants should change their business model and contracts in the credit card system.

Businesses must accept that increases in merchant fees are inevitable during periods of rising interest rates. However, merchant fee can be eliminated based on the contracts between banks and businesses. When the transaction amount is kept in blocked accounts at the bank for an average of 30-40 days after the shopping date, the merchant fee disappears. On the other hand, transactions with debit cards only have operational costs and there is no funding cost. This makes the interchange fee quite low compared to credit cards. Moreover, when the accepting bank and the issuing bank are the same, banks incur less costs. Since CBRT determines a single maximum fee rate for debit and credit cards, businesses with low financial literacy levels may pay high merchant fees for debit cards and credit card transactions that do not generate an interchange fee. Especially small and medium-sized businesses do not know exactly why they pay the merchant fee. This study may contribute to the increase of bargaining power of businesses in member business contracts.

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Yazarların mevcut araştırmaya katkı oranları aşağıda belirtildiği gibidir:

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PEER REVIEW

Reviewed by at least two external referees / Double-Blind Review.