

Interchange Myths and Facts

Myth: Interchange fees are a “hidden tax” on consumers.

FACT: Interchange fees are neither hidden nor a tax, and are not paid by consumers. An interchange fee is a small fee paid by a merchant’s acquiring bank to a cardholder’s issuing bank as part of an electronic payment card transaction. Interchange facilitates the global electronic payments system and serves as a critical tool to balance the benefits and costs of that system among its participants. This fee allows merchants to enjoy all the benefits they seek from card acceptance, including security, guaranteed payment, fraud protection and speed of service.

Each merchant is able to negotiate its own card acceptance costs with its acquiring bank, and similarly, the merchant’s bank and card-issuing bank are also able to bilaterally negotiate their fees. To overcome the inefficiency of thousands of separate negotiations, however, MasterCard sets “default” interchange rates that may be used in the absence of separately negotiated arrangements. MasterCard publicly discloses all of its interchange rates on its website, and merchants are free to disclose these fees to their customers. For further information, please visit www.mastercardmerchant.com.

Myth: Reducing and capping interchange will benefit consumers, so enacting the Durbin Amendment is a positive development.

FACT: For more than four decades, interchange has been set to balance the costs, risks and rewards of electronic payments for cardholders, merchants and issuing banks. Even prior to the price caps enacted by the Durbin Amendment’s implementation, consumers saw the unintended negative impact as banks anticipated regulations by limiting cardholder benefits and raising fees. Since October 1, not only are consumers already paying more to own and use a debit card, but data suggests merchants will not pass on any savings at the point of sale. A recent survey¹ revealed that 41 percent of retailers do not intend to pass on lower prices to consumers, and 56 percent are unsure about their action. Further, lower income individuals and “underbanked” consumers will be most impacted by this regulation as the new fees effectively edge them out of the traditional banking system, forcing them to use predatory services such as payday loans and check-cashing services.

Prior to the experience in the United States, other countries sought to regulate interchange fees with very little success and - most often - with significant, adverse unintended consequences for consumers. In 2003, the Reserve Bank of Australia halved credit interchange fees, believing the merchant windfall would be passed on in the form of lower prices for consumers. There is no evidence that Australian consumers have enjoyed any reduced prices. Instead, they are now burdened with a more expensive payment system that delivers fewer benefits – rewards programs have declined 23 percent since implementation. The cumbersome regulation in Australia has also caused the industry there to suffer from a lack of competition and innovation.

Evidence from other countries – and early signs here in the U.S. – strongly suggest that imposing price controls in a free marketplace yields unintended and extremely harmful consequences. Representatives Jason Chaffetz (R-Utah) and Bill Owens (D-New York) in the United States House of Representatives have already introduced a bill calling for the repeal of the Durbin Amendment,

¹ www.digitaltransactions.net/news/story/3188

citing the Amendment's "unintended costly consequences for my constituents and their checking accounts."

Myth: MasterCard collects millions of dollars in interchange fees each year.

FACT: MasterCard does not receive any revenue from interchange. Interchange fees are passed from merchants' banks to cardholders' banks, which use the revenue to ensure fast, secure transactions.

Myth: There is a lack of competition in the payment card arena.

FACT: There is tremendous competition among payment card providers. In 2010, the United States Department of Justice opted not to challenge interchange rate setting and a number of payment card network rules, and instead only required that MasterCard specifically include in its rules a group of merchant discounting or steering options that were already permitted by MasterCard's business practices.

In addition to MasterCard, Visa, American Express and Discover, there are many debit networks, including Electron, Interlink, PULSE, Star, NYCE and Tempo. Alternative payment providers such as PayPal and Google Checkout are further evidence of strong competition in the payments marketplace. Merchants are free to choose which payment products they accept, may encourage customers to use particular brands, and can offer discounts as an incentive for buyers to use other forms of payment such as cash or checks.

Myth: Consumers receive no value from interchange.

FACT: Interchange facilitates tremendous value for consumers including the convenience, efficiency, safety and security of electronic payments. Additionally, consumers across the economic spectrum are able to use payment cards to access their money at ATMs and make purchases at more than 30 million merchant locations in fractions of a second at any time across the globe.

By providing incentives for card issuers, interchange encourages banks to innovate and develop new payment options, broaden the range of card products available to consumers, and invest in cutting-edge security and fraud prevention measures.

Myth: Interchange fees have risen "dramatically" in recent years and Americans pay the highest credit card interchange fees in the world.

FACT: Interchange *rates* have risen very slowly – 1.9% since 1990, well below the rate of inflation. Total interchange *fees* paid among banks have increased because more and more merchants have chosen to accept payment cards to increase their revenues and obtain the many other benefits that payment cards offer. The value of these benefits increases all the time as innovations like MasterCard's PayPass and new card offerings give more consumers the incentive to pay with their MasterCard cards.

In some countries, the government has imposed price controls on interchange. This has led to service charges on checking accounts and debit cards being subject to a more limited range of use. Canadian consumers, for example, typically pay \$11 to \$13 per month for a checking account; consumers in Finland pay high annual fees for their debit cards; and banks in Denmark operate their debit programs at a loss but make up the lost charges by applying other fees. And price-controlled countries typically only offer PIN debit, so you may not be able to use your debit card online or at a store without a PIN pad. The debit systems in these countries are less innovative and less convenient for consumers.

Myth: More money is spent on interchange fees than cardholders' annual fees, cash advance fees, late fees and over-limit fees for credit cards.

FACT: Consumers do not pay interchange fees. Interchange is paid between banks to balance costs in the payments system, and is a component of the fee merchants pay for the tremendous benefits they receive when they choose to accept electronic payments. The vast majority of the revenue issuers receive on payment cards is from the fees charged to cardholders, not industry fees.

Myth: Interchange is part of an illegal "price fixing" scheme.

FACT: MasterCard establishes default interchange rates to provide incentives for merchants to accept cards and for card issuers to provide innovative products that meet consumer demand. While MasterCard sets default interchange fees to enable efficient interaction among thousands of financial institutions, the company receives no revenue from those fees. On this basis, interchange fees enhance competition by helping to encourage innovation in product and service offerings.

Myth: Interchange fees hurt merchants' business.

FACT: For merchants, the global electronic payments system provides a valuable service that enables them to receive guaranteed payment for goods and services through the acceptance of electronic payment products such as credit, debit, and prepaid cards.

Merchants that accept electronic payments benefit from reducing the costs and hassle associated with handling other forms of payment, including bounced checks, check verification and guarantee services, and check processing; as well as collecting, counting and safely transporting cash.

Merchants accepting MasterCard cards receive extraordinary value for a relatively small fee – that's why MasterCard cards are accepted at more than 30 million merchant acceptance locations, and that number is growing every day.

Myth: MasterCard does not disclose its interchange rates and rules to merchants.

FACT: MasterCard is committed to transparency and publicly discloses its U.S. interchange rates and operating rules that apply to merchants by making them available without restriction on its website, www.mastercardmerchant.com, along with comprehensive information to help merchants understand the rates and how they apply. These steps are intended to help foster an ongoing dialogue with merchants, acquirers and others about interchange rates and disclosure.

Myth: Merchants have no choice but to pay a set interchange fee and cannot negotiate these rates.

FACT: Each merchant has the ability to negotiate its own acceptance costs with the acquiring bank of its choice. If a retailer is dissatisfied with the acceptance costs it negotiated with its bank, that retailer has several options: it can provide discounts to those who pay with cash, check or other forms of payment; negotiate a different merchant discount rate with its bank; switch to a bank that offers more competitive rates; or choose not to accept MasterCard cards.

Myth: MasterCard rules prohibit or essentially make it impossible for merchants to disclose these fees to consumers.

FACT: Merchants are free to disclose their acceptance costs, interchange fees, or any other cost they incur. MasterCard's policy also allows merchants to discount for cash, checks, debit or any other payment option the merchant would prefer to accept.

Myth: Card company rules prohibit merchants from offering discounts for cash and check.

FACT: Merchants are free to offer discounts for cash – or any other form of payment – as well as discounts for competing brands.

Myth: Checks “clear at par” and therefore debit cards should too.

FACT: Merchants routinely pay between 48 and 85 cents per check transaction to obtain guaranteed payment. In addition to that base fee, merchants must also purchase and maintain equipment to convert checks to electronic funds to avoid deposit fees.

Additional related fees for check acceptance can include set-up fees; transaction fees of approximately 22 cents per check per transaction; monthly service fees; monthly minimums; and terminal fees. Checks also take much longer to process at the point of sale, generating higher labor costs and consumer dissatisfaction for customers waiting in line behind the check payer. Checks can “bounce,” leaving merchants with no payment for their goods or services.

Every transaction - whether it's check, credit or debit electronic payment - incurs processing costs. Any honest comparison between checks and cards needs to account for all of the costs and benefits of both modes of payment.