

## CREDIT CARD COMPETITION ACT FACTS

### S. 3623/H.R. 7035

#### Background

The Energy Marketers of America (EMA) urge Congress to support the Credit Card Competition Act - a market-based solution to lower costs and improve reliability in the U.S. credit card payment system. The bill would require that credit cards issued by the largest U.S. banks have at least two unaffiliated payment networks to promote competition in transaction routing. While there are nearly a dozen independent networks equipped to route transactions, credit cards only have one network enabled on a card and lack any back up options if there is an outage. The lack of competition results in higher costs for consumers, reduced security, and less innovation.

#### The Issue and How do these fees impact consumers?

- Credit card processing fees – or “swipe fees” – have more than doubled over the past decade despite technological improvements that have driven down processing costs.
- Swipe fees account for merchants’ second highest operating cost after labor
- U.S. retailers face some of the highest swipe fees in the world. Because Visa and Mastercard set the fee structure—and issuing banks follow—there is no real price competition, keeping rates high.
- The Merchants Payments Coalition estimates that swipe fees under the current noncompetitive regime amount to more than \$1,200 a year for the average family. U.S. businesses and consumers could save over \$17 billion annually by bringing routing competition to credit cards, according to economists at the payments consulting firm CMSPI.
- These fees account for between \$2 and \$4 of every \$100 consumers spend. In other words, a product that sells for \$100 could sell for between \$96 and \$98 without these fees.

#### What fees do retailers pay for credit and debit card processing?

When a consumer pays with a credit card, merchants pay a fee typically composed of:

- Interchange fees (70–90%): Paid to the bank that issued the card (e.g., Chase, Bank of America). These are the largest portion and are set by the card networks. They vary by card type, merchant category, and transaction method (in-person vs. online).
- Network/assessment fees (small portion, usually 0.10–0.15%): Paid to the card networks (Visa, Mastercard, etc.) for using their infrastructure.
- Processing/acquiring fees (the retailer's processor or acquiring bank's markup): Typically, 0.2–0.8% plus a flat per-transaction fee (e.g., \$0.05–\$0.30).
  - Example on a \$100 credit card sale (assuming ~2.5% total fee): Interchange: ~\$1.80–\$2.25 (to issuing bank)
  - Network fees: ~\$0.10–\$0.15 (to Visa/Mastercard)
  - Processor markup: ~\$0.20–\$0.50 + flat fee (to your payment processor)

#### “The Ask”

EMA urges Senators to promote small business interest, technological innovation, and reduce costs for consumers by supporting the Credit Card Competition Act, S. 3623/H.R. 7035.

## **FAQ: Marshall-Durbin Amendment/Credit Card Competition Act**

### **Will credit card rewards be affected by the CCCA? NO!**

The bill addresses which networks transactions are routed over for processing, which has nothing to do with rewards. Rewards are determined by banks, not networks, and are used as a marketing tool to convince consumers to choose a Visa or Mastercard card from one bank rather than another bank.

Furthermore, the \$16 billion in projected savings is less than 10 percent of swipe fee revenues, so banks would still have plenty of profits to pay for rewards. Many retailers offer rewards of their own through loyalty programs and manage to do so even with an average profit margin of under 3 percent. By comparison, bank profit margins are the highest of any industry and more than 10 times retailers' margins – around 30%. They will still have plenty of funds to put into rewards even if they have to compete with each other in the future. In fact, banks collected \$125 billion from cardholders in 2022 in annual fees, late fees, interest payments and other fees on top of swipe fees. And cardholders only earned \$41.1 billion in rewards. That is an \$84 billion gross profit margin before the \$100 billion in Visa and Mastercard credit card swipe fees are factored in.

Finally, rewards have not gone away in other countries where swipe fee reform has been adopted. A decade after reform in Australia, the Reserve Bank of Australia found banks still offered “significant credit card rewards” despite Visa and Mastercard claims that rewards would go away. In fact, Australian banks even lowered interest rates, a move that benefits the average consumer far more than rewards points.

### **Will credit card security be harmed? NO!**

The bill requires that credit cards have two unaffiliated network options for routing. One could still be Visa or Mastercard while the second could be networks like NYCE, Star or Shazam. Banks and consumers currently trust those networks with billions of dollars in debit card and ATM transactions each day. The freedom of choice and competition can also force Visa and Mastercard to improve their security protocols. In fact, Visa and Mastercard have eight times the fraud rate of the competitive debit networks on a per transaction basis. American Express and Discover, both of which have robust security, could also be the second network. Competition leads to innovation in security. For example, it was only after debit card swipe fee reform that networks began introduction of end-to-end encryption of data and accelerated the adoption of EMV chip cards in the United States.

In addition, the legislation would close a glaring security gap by blocking networks supported by foreign governments like China's UnionPay from entering the U.S. processing market. Currently, any bank could choose to route its credit card processing to UnionPay, effectively outsourcing consumers' sensitive financial data to a foreign government. This is a particularly big threat because Visa and Mastercard have brought China Union Pay into the security standard-setting bodies they control.

### **Will community banks and credit unions be affected? NO!**

The carefully targeted legislation applies only to financial institutions with at least \$100 billion in assets. According to the Federal Reserve, there are only 32 banks in the entire country that are that large. That list includes American Express and Discover's banks, which do not issue Visa or Mastercard cards and therefore are not affected. Further, Morgan Stanley and Capital One are counted twice, leaving an actual total of 28 affected banks. Only one credit union – Navy Federal – meets the \$100 billion threshold. Not a single community bank or small credit union would be affected.

### **Will retailers share savings with consumers? YES!**

The retail motor fuels market is the most competitive marketplace in the country. Retailers post their prices on large signs where a one-penny difference can determine where customers choose to fill up. The best example is that cost increases, as reflected in the Producer Price Index for retail trade industries, rose 9.4% from the time debit card reform went into effect in October 2011 through the end of 2016, while price increases for consumers, reflected in the Consumer Price Index, increased only 4.3%. That is a large spread between the higher costs merchants had to pay for the goods they sold and the prices they charged consumers. Those numbers

demonstrate clearly that merchants shielded their customers from the majority of the cost increases merchants themselves faced. That experience has held true even with increased inflation. During 2021, the Producer Price Index rose by 9.7% while the Consumer Price Index rose by 7%.

**Will cards need to be reissued? NO!**

Routing is a back-office procedure in which banks share information regarding enabled networks with processors. It does not require the change of anything physical on the cards. When debit routing was debated, banks claimed they would need to reissue cards, but they did not when the routing was actually implemented. Over time, some credit cards – Diner’s Club, for example – have used more than one network with no reissuance required. Even if banks choose to replace cards, credit cards are routinely reissued every two or three years as they reach their expiration dates, so the change could be phased in as part of that cycle.

**Would consumer choice be affected? NO!**

Consumers can currently choose among a wide variety of Visa or Mastercard credit cards issued by banks across the country, each offering different interest rates, rewards, cash-back options, logos of universities and sports teams and other benefits. Nothing about that will change. By contrast, neither merchants nor consumers have any choice in which networks credit card transactions are routed over today. This legislation would allow merchants to choose the networks that offer the best security, service and fees for the benefit of their customers, bringing choice to how credit card transactions are routed and improving the consumer experience.

**Would Free Checking go away? NO!**

Banks claim the number of checking accounts without a monthly fee dropped after debit card swipe fee reform was passed by Congress. But the 11 percent drop they cite is from 2009 to 2010 – a period before debit reform took effect – and was actually prompted by the financial crisis of 2007-2008. Debit reform didn’t take effect until October 2011. And, according to the American Bankers Association, 61 percent of banks offered free checking in 2014 – up from 50 percent of banks in 2010. Free checking actually increased after debit reform.

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