ENERGY MARKETERS OF AMERICA **ISSUE BRIEF**

Credit Card Competition Act

Background

The Energy Marketers of America (EMA) supports the "Credit Card Competition Act" (CCCA), which would simply require that credit cards issued by the largest U.S. banks have at least two unaffiliated card payment networks available to process transactions. 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. This results in higher costs for the consumer, less security, and less innovation.

Here are the Facts about the Credit Card Competition Act

Will the recent Visa/Mastercard proposed settlement resolve the issues that the CCCA is designed to resolve? NO!

The proposed Visa/Mastercard settlement does nothing to bring competitive market forces to swipe fees or change the behavior of a machine that centrally fixes rates and bars competition. Nothing in the proposal would change the dominance of the Visa-Mastercard duopoly. Instead, it offers minor, temporary relief and then allows the card companies to raise rates yet again.

Under the proposed March 26, 2024, settlement, Visa and Mastercard would lower credit card swipe fees – which average 2.26 percent of the transaction amount – by four basis points for three years. For five years, swipe fees would not increase above rates that existed at the end of 2023, and the average rate would be at least seven basis points below the current average. In other words, the proposed settlement purports to lead to approximately $30 billion in swipe fee savings for merchants over five years—an average of $6 billion in savings per year. However, in 2023 alone, Visa and Mastercard credit card interchange fees totaled $100 billion. After five years, all fees could be increased to more than make up for any temporary reductions. Unfortunately, the proposed settlement's changes are meager and temporary and will not bring real reform to address excessive credit card swipe fees.

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 $15 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, the money center banks that issue the vast majority of credit cards have an average profit margin of 27 percent, with 45 percent for Mastercard and 50 percent for Visa in 2022.

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, the Federal Reserve says they have about one-fifth the fraud of Visa and Mastercard's networks. American Express and Discover, both of which have robust security, could also be the second network.

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.

Competition leads to innovation in security. For example, it was only after debit card swipe fee reformthat networks began introduction of end-to-end encryption of data and accelerated the adoption of EMV chip cards in the United States.

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. After similar routing competition for debit card transactions took effect in 2011, a landmark study by acclaimed economist Robert Shapiro found 70 percent of the estimated $8 billion a year in savings was passed on to consumers. At this point, over $100 billion has been saved and proportionately shared. CMSPI estimates that routing competition between credit card networks would conservatively result in $16.4 billion in annual interchange savings for merchants and consumers – up from 2023 estimates of $15 billion which means that swipe fees rose to over $1,100 a year per family last year, up from $1,000.

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.

Have swipe fees increased? YES!

The average Visa-Mastercard swipe fee rate has grown, rising from 2.02 percent in 2010 to 2.26 percent in 2023, according to data from the Nilson Report. That increase has a massive affect when multiplied against trillions of dollars in transactions each year. And while that is the average, far more credit cards today are premium rewards cards, which carry a swipe fee of 3 or even 4 percent.

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.

Won't the Discover merger with Capital One negate the need for the CCCA? NO!

The merger itself will not bring the competition over credit card swipe fees that is needed for reform and for a healthy market. No merger can change that bar to competition – only legislation can. Visa and Mastercard block transactions from going over competing networks, so none of the networks — including Discover — could become a second network without passage of the CCCA.

"The Ask"

EMA urges Congress to consider on the floor and pass the Credit Card Competition Act (H.R. 3881, S. 1838) to give small business energy marketers at least two choices to route transactions, similar to today's debit cards, which will ultimately reduce costs for consumers.
(*Committees: House Financial Services Committee, Senate Banking Committee, All Lawmakers)*

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