ENERGY MARKETERS OF AMERICA ISSUE BRIEF

Credit Card Swipe Fees

Background

The Energy Marketers of America (EMA) and the Merchants Payments Coalition (MPC) are committed to achieve credit card swipe fee reform. The interchange fee market (swipe fees) is broken, and competition must be restored to the credit card fee setting structure. Swipe fees have more than doubled over the past decade despite technological improvements that have driven down processing costs. The rates charged to U.S. retailers are among the highest in the world, seven times the maximum allowed in Europe. In 2019, card processing fees totaled $116.4 billion, according to the Nilson Report. That was up 88 percent over the previous decade. Additionally, swipe fees are the second highest operating cost for convenience store retailers. In 2019, the industry's pre-tax profit was $11.9 billion and card fees paid by the industry were $11.8 billion. **For small business energy marketers, swipe fees are the highest expense other than payroll**.

The swipe fees set by Visa and Mastercard vary according to type of card, type of transaction and size of merchant, with hundreds of combinations possible. It is difficult to understand swipe fee costs, even for payments experts, and retailers do not know how much revenue is derived from a particular transaction at the time of purchase. In addition, Visa and Mastercard set the swipe fee rates that are followed by virtually all of the hundreds of banks that also issue bank-branded credit cards. Rather than competing to offer the lowest fees and therefore hold down costs for retailers and prices for consumers, the two card giants compete to set the highest fees to entice banks to select one or the other card issuer. This upside-down version of competition hurts small business retailers and consumers. Rather than following Visa and Mastercard in lockstep, Congress should encourage banks to set fees independently and compete to offer the lowest fees.

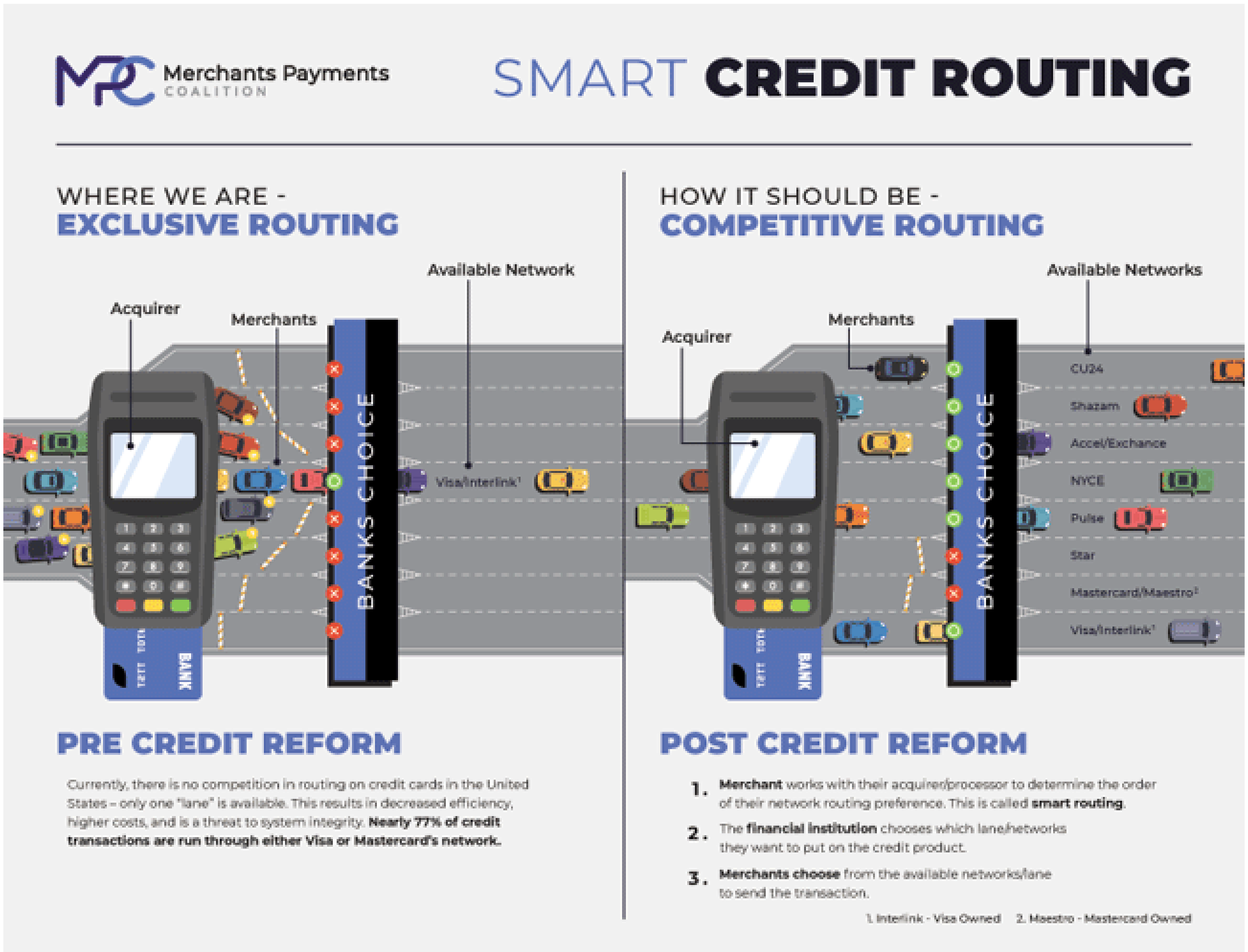
Consumers Benefit when Congress Brings Competition to Credit Card Routing

When it comes to how American's credit card transactions are processed or routed, there is minimal competition. There are nearly a dozen of independent networks that are equipped to route transactions, but a handful of dominant networks have prevented them from competing in the credit space. Nearly ten years ago, Congress acted to open the debit card market to competition, and businesses and consumers have all benefited. But today, retailers have limited choice of network when it comes to credit card 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.

Routing competition would allow consumers to continue to use their credit cards, even if one network goes down or is hacked, because there is a backup network though which their transaction can be routed. By allowing businesses to have a choice of network, they can reduce costs and pass those savings onto the consumer. Introducing routing competition could save businesses and consumers upwards of $11 billion annually.

"The Ask"

EMA urges Congress to introduce credit card routing competition legislation 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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