

The Credit Card Industry Should Come Clean About Who Pays for Fraud

- While the card industry often talks about a “payment guarantee,” merchants are not guaranteed payment on credit or debit card transactions.
- In fact, merchants are forced to absorb the majority of the cost of fraudulent card transactions.
 - When the merchant is forced to pay for the fraud, this is called a “chargeback.” It means that the money the merchant was supposed to receive on the transaction is taken away (in other words, charged back). This can happen to a merchant without notice even months after the transaction takes place.
- The Federal Reserve has collected data on debit card fraud every two years since debit reform was passed.
 - Based on 2021 data, the Fed determined that merchants covered 47 percent of debit card fraud and card issuing banks covered 33.5 percent.¹ Consumers covered the rest.
 - Swipe fees, of course, jumped by billions of dollars per year during that same time period. The idea that the card industry needed higher swipe fees when merchants were paying more for fraud than banks makes no sense.
- The picture is similar for credit cards as merchants absorb most fraud losses – particularly since Visa and Mastercard implemented a liability shift to push chip card usage which pushed a significant share of fraud onto merchants. In fact, the Federal Reserve reported that the merchant share of fraud on dual message debit cards in 2021 (which are processed in similar fashion to credit cards) was more than 60 percent.²
- Of course, all of the fraud chargebacks that merchants must pay are on top of the swipe fees they pay. Those swipe fees amount to a prepayment of all fraud charges (and much more) to card-issuing banks. Merchants should not have to prepay for fraud and they should not have to pay when the fraud happens in addition to prepaying for it.
- Even with debit reform, merchants prepay all the fraud that banks otherwise cover. Federal Reserve Regulation II, which implements debit reform, includes 5 basis points as part of the regulated debit swipe fee to cover fraud losses by banks. That number was pegged to 100 percent of the fraud losses on debit cards paid by the average bank covered by the regulation.
 - And, the vast majority of banks across the nation are not subject to the Fed’s fee regulation. They charge even higher fees that exceed their fraud losses on debit cards. Why merchants must pay chargebacks to cover the majority of fraud that they have already prepaid (and then some) to the banks is inexplicable.

¹ “2021 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions,” Board of Governors of the Federal Reserve System (Oct. 2023) at 3, available at [Federal Reserve Board Publication](#).

² *Id.* at 23 (Figure 17).