

# AMERICAN BANKER®

THE FINANCIAL SERVICES DAILY

Friday, October 23, 2009

## VIEWPOINTS

### Consumers Stand To Lose on Shift In Interchange



ANTHONY T. WALKER

After years of a vitriolic multimillion-dollar lobbying campaign, calls for rarely granted antitrust exemptions and demands that Congress rewrite this country's laws to undermine free markets, what benefit would the American consumer get from merchants? Free gift wrapping.

That's what the head of the Merchant Payments Coalition told members of the House Financial Services Committee recently during a hearing on legislation that would put price controls on the small fee merchants pay for the multiple benefits they receive from accepting credit and debit cards, and sharply curtail competition among the thousands of banks and credit unions offering American cardholders the world's broadest choice of payments options.

For years, merchants have pursued legislation and legal action aimed at lowering or eliminating their costs of accepting

electronic payments — claiming this is to protect their customers who would see lower prices as a result. But what it's really about is protecting their profits and shifting costs to the general consumer.

Merchants receive huge benefits from accepting credit and debit cards. For less than 2 cents on a dollar, they outsource their credit risk to financial institutions who issue those cards and are left "holding the bag" if a customer doesn't pay their bill. Merchants get protection from fraud and theft, guaranteed payment, efficient record keeping and faster checkout. Plus, they get higher sales as consumers aren't constrained by the amount of cash they have in their wallet.

But at a recent hearing on legislation introduced in the House by Vermont Rep. Peter Welch, when the MPC representative was asked if he would support an amendment to the bill requiring merchants to pass along to customers any savings they received from lower acceptance fees, he said no. He didn't think merchants should have any more "constraints" on their pricing.

He went on to explain that merchants might reflect those lower fees in different ways, depending on things like costs, competition and their own economics. Incredibly, he said, some might reflect the lower fees by offering free gift wrapping.

It's ironic merchants think it is fair and appropriate for them to set prices in a free market, but there's something wrong when payments networks like MasterCard or Visa set fees for transactions on their systems using

similar variables. Those fees are paid to the issuing banks to partially offset the risks they absorb as part of their role in the system.

At the same hearing, speakers representing thousands of independent community banks and credit unions across the country told Congress that without interchange income, they would no longer be able to compete in the payments marketplace and offer their patrons credit or debit cards. We don't think that is good for competition in our industry or for consumers.

Merchants tell Congress Americans would be better off if retailers paid lower fees to accept credit cards. It wouldn't be surprising if those same members of Congress decided one day that America might also be better off if convenience stores didn't charge their customers much higher prices than consumers pay for the same goods in grocery stores. Merchants need to be careful what they wish for when calling for price controls.

Cardholders would pay a steep price if the merchants get what they want. Several years ago, the Australian government mandated that interchange, a component of merchant acceptance fees, be cut in half. That resulted in significantly lower fees to merchants. Today, no one has found real evidence that merchants cut prices to reflect those savings. But there is solid evidence consumers are paying significantly more to use their cards.

*Anthony T. Walker is the president and chief executive of NARFE Premier Federal Credit Union in Alexandria, Va.*