

MYTH VS. FACT:

Debunking Senator Dick Durbin's Misleading Op-ed on His Credit Card Routing Mandates:

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In a recent op-ed published on FoxNews.com, Senator Dick Durbin (D-IL) makes numerous claims about his legislation that would force harmful credit card routing mandates on the payments industry. The Electronic Payments Coalition has debunked these claims below to set the record straight about how Senator Durbin's credit card routing mandates would hurt small businesses, consumers, and small financial institutions.

What Senator Durbin Claims:

"The Credit Card Competition Act, the bipartisan bill I introduced with Republican Senator Roger Marshall of Kansas, only applies to banks with more than \$100 billion in assets. That's just a handful of mega-banks."

What Senator Durbin Claims:

"Our bill would shake up the Visa-Mastercard duopoly, which controls more than 80% of the U.S. credit card market and charges high transaction fees of about 2%-3% whenever a card is swiped. . . Consumers bear these fees in the form of higher prices on everything from gas to groceries."

What Senator Durbin Claims:

"Market competition typically helps keep fees in check, but Visa and Mastercard have structured the credit card industry to avoid competitive market pressures on their swipe fees."

Fact:

Small financial institutions, including credit unions and community banks, were supposedly exempt from the 2010 Durbin Amendment that enacted price caps and routing mandates on debit card purchases.

However, data from the Federal Reserve shows that community banks and credit unions have lost interchange fee revenue since the implementation of the debit card fee cap and routing mandates. Small community banks and credit unions have seen average interchange fees decline by 10% for dual-message transactions and 30% for single-message transactions from 2011 to 2019. Additionally, costs for small banks to access debt card networks increased significantly. As a result of the lost interchange revenue due to the Durbin Amendment's debit routing regulations, some small banking institutions were forced to reduce services and increase fees. Expanding the regulation to include credit routing mandates would only further reduce the services offered by smaller banks and further narrow choices for consumers.

Fact:

Merchant discount rates have remained stable for years, hovering between 2.09% and 2.26% for the past eight years. Additionally, Visa and Mastercard froze interchange fees in 2020 and 2021 to help businesses survive the worst of the pandemic. In April of 2022, they reevaluated costs and fees to better serve their consumers, resulting in lower fees for some merchants and higher fees for others. Senator Durbin conveniently leaves out the fact that in return for these small interchange fees, merchants receive all the benefits of electronic payments, including increased sales, guaranteed payments, access to online channels, and lower costs of cash handling. Their customers also benefit through ease of payment, rewards, and data security.

Fact:

The United States is home to the most established and most competitive electronic payments market in the world. Not only are there at least six international credit and debit payment networks, but nearly a dozen regional debit networks, as well as other forms and technologies, including merchant and retail credit card programs. There is intense

competition in payments, facilitated by the rise of e-commerce and new market entrants during the pandemic. The payments market is much broader than traditional players with new entrants that give consumers many options to pay including global brands such as American Express, Discover, JCB, and alternative payment players such as PayPal, Klarna, Afterpay, and Block. Additionally, not all businesses rely on Visa and Mastercard to accept payments; some successful businesses remain cash-only, opting out of credit cards entirely. Most merchants, however, recognize that credit cards provide substantial value to their businesses, increasing the amount that customers spend, saving time, and protecting against theft and fraud.

What Senator Durbin Claims:

“The Credit Card Competition Act would require the largest 30 or so banks in the country to enable two networks to be used on their credit cards, and at least one must be a network other than the Visa-Mastercard duopoly...This competition and choice between networks would incentivize better service and lower fees.”

What Senator Durbin Claims:

“Banks, not card networks, offer rewards programs, and they do so to attract cardholders to use their banks and not other banks. Increasing competition among networks will not diminish banks’ competition for cardholders.”

What Senator Durbin Claims:

“Our bill would give merchants incentive to route the transaction over the network with better security, because card fraud losses are typically charged back to merchants. More competition will incentivize better security, not worse.”

Fact:

Senator Durbin’s bill will raise credit card costs, and consumers will bear the burden. Credit routing mandates would decrease innovation and investment in security and decrease the benefits and rewards associated with credit cards. Reducing revenue for credit card issuers would also limit the investment they can make in improving security and innovation. The original Durbin Amendment’s debit card mandates resulted in the loss of free or low-cost banking services for thousands of consumers. Customers lost the power to choose their debit processors, leaving merchants in charge and allowing them to select whatever network was cheapest—and not necessarily the most secure.

Fact:

Senator Durbin’s legislation would result in a major decrease in interchange revenue across the entire payments industry. This would cut off revenue for issuers and could force them to cut services. Like any business, if card issuers lose revenue through one means (interchange), they would need to make up the loss by reducing services or increasing prices in other areas. Popular credit card rewards programs, like cash back and travel miles, are just one program that would be affected; if banks kept rewards programs intact, they could instead raise interest rates for high-risk borrowers or increase annual fees to make up for some of the lost revenue. Either way, consumers would pay the price.

Fact:

Financial services companies bear the cost of fraud to ensure that consumers can be confident using credit cards. They also spend billions of dollars each year to bolster cybersecurity, leading to technological advancements like tap-to-pay and contactless payments. But under the Credit Card Competition Act, providers wouldn’t have the interchange revenue to invest in the protections and innovations that cardholders deserve. Additionally, the Credit Card Competition Act has a hollow carve-out for foreign networks like China UnionPay, which won’t stop American consumer’s transaction information from being routed through less secure foreign countries. Forcing consumers, banks, and small financial institutions to have their cards processed on other networks would require reissuing credit cards to all cardholders—which alone would cost billions of dollars. The change would also force credit card networks and issuers to cede their routing technology to their competitors, disincentivizing investment in payments security and innovation.