

TO MEETING WITH THE NATIONAL ASSOCIATION OF CONVENIENCE STORES (NACS)

This week, as you meet with representatives and members from NACS, the association for convenience and fuel retailing industry, you will likely hear certain arguments about credit card interchange fees and the Durbin-Marshall Credit Card Bill. Below are fact-checks that set the record straight about the harm caused by credit card routing mandates.

Interchange Rates Haven't Changed—Sales Volume Has



“Swipe fees have grown from about \$20 billion a year when NRF began tracking them in 2001 to \$137.8 billion in 2021.” (National Retail Federation, 2022)



Interchange rates have remained stable over the past decade. Interchange is charged as a share of transaction value, so increases in total interchange revenue mean that consumers are simply spending more using credit and debit cards.

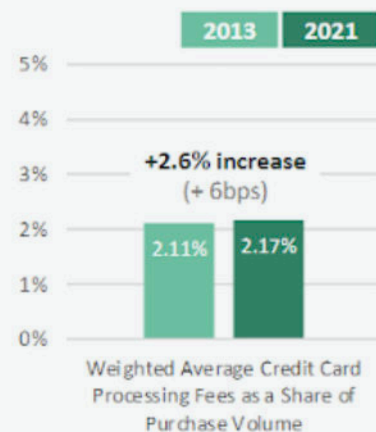
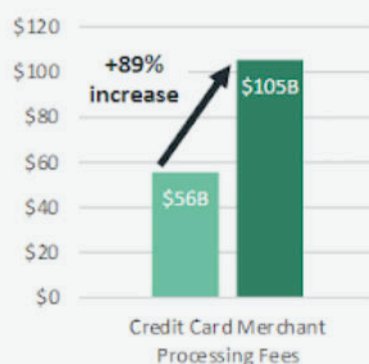
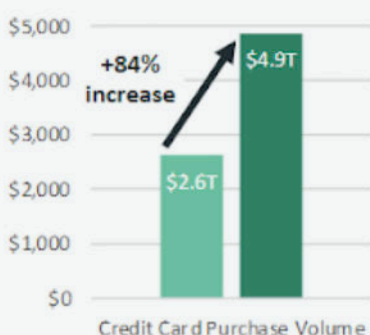
NACS members are likely to claim that “swipe fees” are increasing. In reality, the rates have NOT been changing. The growth in aggregate interchange revenue is driven by rising sales volume and card use, not increases in the transaction-level fees that merchants pay to accept cards.

The dramatic growth in electronic payment use over the last few decades demonstrates the system’s value to consumers. Credit cards are popular for a reason: cardholders enjoy the convenience of features such as tap-to-pay, the ability to purchase goods online, the security and fraud protection that comes with credit cards, and lucrative rewards programs.

As shown below, credit card purchase volume at the top four issuers rose by 84% from 2013 to 2021. Aggregate merchant discount fees (which include interchange) rose by about 89% — a nearly identical increase. Meanwhile, the merchant discount rate has hovered around 2% for the last seven years. The conclusion is clear: **while it’s true that merchants are paying more in total fees, their average per transaction fee as a share of purchase volume has not changed.**

Change in Volume of Merchant Processing Fees, Purchase Volume, and Merchant Discount Rate

In billions USD or percent, values in 2013 and 2021



Source: The Nilson Report.

Cash is NOT Cheaper Than Credit Cards



“Regardless of size, the fees are most merchants’ highest operating cost after labor and drive-up consumer prices, amounting to more than \$900 a year for the average American family.” (NRF, 2022)



Credit card fees are nowhere near merchants’ highest costs. The cost of handling cash is far higher than credit card fees. Cash payments are more costly than credit card payments, and they lack the extra benefits that cards provide.

First, the merchant discount rate (including interchange) likely make up just 1% to 3% of costs at small businesses that accept credit and debit cards, a minimal share compared to other operating costs, like rent, utilities, labor (including payroll, insurance, and administration), cost of goods sold, insurance and permits, and advertising. Indeed, given that the average merchant discount rate is 2.17% for credit cards and 0.71% for debit cards, it is difficult to imagine how these expenses could possibly be the second highest operating cost for businesses. This assertion might serve as a compelling talking point in a marketing campaign, but it does not pass the smell test. In addition, card transactions are 2-4 times larger than cash transactions, which explains why merchants experience a 10-15% increase in average transaction when they begin accepting card payments. It is also important to remember that accepting cash is not costless to merchants — indeed, the costs associated with handling cash exceed 9%, according to a study produced by IHL, a retail industry consulting firm.

Corporate Convenience Store Chains Aren’t Lowering Prices



If interchange were capped, merchants would pass along savings to consumers. Studies prove that, after the Durbin Amendment was enacted, merchants lowered prices for consumers.



Merchants base these claims on a single, flawed study that was paid for by the retail industry. Independent research from the Federal Reserve shows that merchants were the primary benefits of interchange price caps.

To bolster their position on interchange regulation, leading voices in the retail and merchant community often cite a 2013 white paper written by economist Robert J. Shapiro. The paper (which is affiliated with the Merchants Payments Coalition, a prominent retail industry group) claims, incorrectly, that nearly 70% of the savings accrued by merchants from lower interchange fees is passed along to consumers. However, this “pass-through” assumption is based on a separate study published in 2009 on manufacturer trade promotions and has nothing to do with interchange fees. It is a figure Shapiro uses for convenience, but it does not represent the true pass-through rate for interchange. Fortunately, a study conducted by the Federal Reserve Bank of Richmond contains compelling and directly relevant data regarding the extent to which merchants pass interchange savings along to consumers. Not surprisingly, the answer is “basically not at all.” Specifically, the Richmond Fed surveyed a diverse set of merchants and found that more than three-fourths in the sample did not change their prices after the Durbin Amendment was implemented. In fact, according to the study, nearly one in four merchants increased prices since the Durbin Amendment took effect — while less than 2% reduced prices after the regulation was implemented.

The Richmond Fed's research is one of the preeminent studies on the topic and employed a sophisticated mixed-methods approach that included a merchant survey as well as logit regressions to estimate the impact of debit card fees on merchant pricing. Other research corroborates the Richmond Fed's findings.

Questions to Ask NACS Representatives That You Meet With:

- **Are NACS members passing along savings from the Durbin Amendment to customers? If not, why?**
 - A Federal Reserve Bank of Richmond survey found more than three-fourths of retailers did not change their prices and 22% actually increased their prices.
- **Will NACS members commit to passing along credit interchange savings? How can they be held accountable to do so?**
- **Studies show small merchants have had a negative experience with interchange regulations. What is the NACS's response to small business owners who would be hurt by credit card routing mandates?**
 - The Federal Reserve study found small merchants have been hurt by price controls, especially those that sell less expensive merchandise.
- **Did consumers benefit from debit card routing mandates?**
 - The Richmond Fed study found that only one percent of retailers returned any funds to consumers as related to interchange since the original Durbin Amendment took effect.
 - The so-called "carve out" for smaller financial institutions in the Durbin amendment did not work.