

MYTH vs. FACT

CORRECTING MISINFORMED CLAIMS ON THE CREDIT CARD MARKET

A recent misleading [blog post](#) from CMSPI, a retail industry consulting group, claims that upcoming changes in interchange and network fees will cost retailers over \$500 million, a number later cited in the [Wall Street Journal](#). CMSPI provides almost no methodological details describing how these figures were reached. They estimate the cost of a new digital service network fee without fully citing sources or showing any calculations.

Combined with the series of errors, oversights, and misleading conclusions in previous blog posts that EPC has previously [documented](#), the recent blog post should cast serious doubt on the validity of CMSPI's analysis. Further, CMSPI's explicit support of the Credit Card Competition Act — which would benefit large merchants at the expense of issuers, networks, and consumers — raises legitimate questions about the group's objectivity. Put simply, they are entitled to a voice in the policy debate, but reporters and policymakers have an obligation to demand more transparency regarding their calculations and should apply more scrutiny to the analytical rigor (or lack thereof) that underpins their “factual” claims.

CMSPI's Misinformed and Misleading Claims: Key Takeaways

- Despite CMSPI's claims, **interchange rates are essentially unchanged for the last decade**. While the total volume of interchange fees collected has increased, this is due to consumers using credit cards for a higher percentage of purchases (as well as merchants raising prices on the goods and services they sell).
- CMSPI claims regarding the cost of digital transactions **ignore the myriad benefits merchants receive from accepting electronic payments**. By focusing only on costs and ignoring benefits, they present only half the story and intentionally mislead the public.
- CMSPI's argument that consumer rewards would be unaffected if the Credit Card Competition Act were to become law **ignores evidence from Australia to the contrary — and is supported by calculations that suffer from severe mathematical flaws**.
- **CMSPI is not a neutral third-party source as many have treated it**. Rather, they are a retail industry aligned advocacy partner and their research should be viewed through that lens. They regularly partner with merchant trade associations to advocate for merchant-supported policies, including interchange price caps. Given their recent track record of flawed analyses, their research should be treated with heavy skepticism.

CMSPI's assertion that the cost of card acceptance for merchants has grown by an average of 9% annually lacks critical context.

- It is true that aggregate interchange fees have risen steadily over the last decade, but this is due to higher sales volume and card usage over the same period — **not higher interchange rates**. The rates charged to retailers are essentially unchanged over the past decade. Retailers are intentionally misleading policymakers and the public about interchange.

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- CMSPI’s analysis of total fees paid ignores the fact that electronic payments have grown dramatically over the past decade, particularly during the pandemic. According to Nilson, total credit card purchase volume grew by almost 60% from 2017 to 2022.
- The increased use of credit cards illustrates the value that electronic payments provide to consumers and merchants alike. Consumers benefit from increased payment security, faster checkout, convenience, and rewards. Merchants benefit from fraud protection, larger transaction values, and increased sales channels (including the ability to sell goods and services online). The widespread acceptance of credit cards demonstrates that merchants understand the value provided by electronic payments.
- Contrary to CMSPI’s implication, major credit card issuers froze interchange fee increases during the pandemic. Over the past decade, merchant fees (which include interchange) have remained stable, hovering between 2.09% and 2.20%, per Nilson. In April 2022, networks adjusted interchange fees slightly, but the restructuring did not lead to across-the-board increases.
- It is worth noting that CMSPI’s misdirection is laid bare in the retail industry’s own data. According to same-firm survey data released by the National Association of Convenience Stores in its most recent [State of the Industry report](#), total sales revenue at convenience stores increased by 26.6% from 2021 to 2022, nearly identical to the increase in total card fees during the same period (27.6%).¹ According to the report, there are three reasons why convenience stores paid more in interchange fees: higher gasoline prices, higher prices for in-store purchases, and increased use of credit cards.
- CMSPI would like to trick policymakers and the public into blaming credit card issuers and networks for retailers paying more in credit card fees, but the truth is that the leading trade association representing convenience stores **didn’t cite interchange rates as a top three reason for the increase in its own report**.

CMSPI’s claims regarding the cost of digital transactions ignore the myriad benefits merchants receive from online shopping and card-not-present transactions.

- Noncash and online payments have become vital to both consumers and merchants, beyond the pandemic. Accepting digital transactions of course isn’t costless, but merchants gain far more than they pay, including access to essential e-commerce and digital retail channels that help broaden their consumer base.
- Over the past several years, online shopping has become central to the consumer experience. In the second quarter of 2023, e-commerce payments rose 7.5% compared to the previous year and comprised more than 15% of total retail sales.²
- Consumers tend to spend more online than they do in person. According to a 2023 survey by PYMNTS, on average, consumers spent \$42 more on digital purchases than in-store purchases.³ The same survey found that over a quarter of non-grocery retail purchases happened online, and that many consumers are likely to increase how much they shop online.

Not only does this recent blog post contain misleading statements and unsubstantiated figures, previous CMSPI blog posts have failed to meet rigorous statistical and methodological standards. They have confused a basis point reduction with a percentage change, leading to erroneous conclusions. They regularly provide figures that lack concrete sourcing and re-calculable estimates. Some examples of these inaccurate assertions are laid out below.

¹National Association of Convenience Stores (2023). “State of the Industry Report of 2022 Data.” Financial Performance Table 2 (Sales: Same-Firm Sample) and Table 5 (Store Operating Expenses: Same-Firm Sample).

²Census Bureau, https://www.census.gov/retail/mrts/www/data/pdf/ec_current.pdf

³PYMNTS (2023). “Tracking the Digital Payments Takeover: Catching the Coming eCommerce Wave.” Available at <https://www.pymnts.com/study/tracking-digital-payments-takeover-ecommerce-grocery-retail-online-shopping/?cache=skip#wpcf7-f1513385-o1?download=true>

In a separate [blog post](#), CMSPI cited evidence from Australia — where rewards were cut by 40% due to interchange regulation — to wrongly argue that rewards programs would be unaffected in the United States if the Credit Card Competition Act were to become law.

- CMSPI's calculation relies on false assumptions and incorrect calculations. When these flaws are corrected, the data CMSPI cites actually demonstrates that consumers would lose out on billions of dollars in rewards each year.
- CMSPI confused a basis point reduction with a percentage change. Finding that rewards per transaction could fall by 10 bps, they said that “consumers would incur at most a less than 0.10% drop in rewards.” This is a misunderstanding of financial math, which downplays the decline in rewards.
- After correcting CMSPI's mathematical error, EPC [estimates](#) that consumers would lose more than \$11 billion each year in rewards (and this figure is a conservative estimate).

In the same [post](#), CMSPI ignored evidence that merchants pocketed the savings from past interchange regulation.

- The inconvenient truth for retailers is that cost savings from previous interchange regulation were not passed through to consumers, as several independent research studies have found.
- Per a study from the Richmond Fed, only 1% of merchants reduced their prices following passage of the Durbin Amendment, and the vast majority did not adjust their prices at all.⁴ In fact, 22% of merchants raised their prices after the Durbin Amendment was passed.
- A University of Pennsylvania study found little evidence of across-the-board consumer savings. The authors said that their analysis “suggests that consumers are not helped by this interchange regulation.”⁵

CMSPI has a long history of working with merchant trade associations to help advocate for their preferred policy positions, as acknowledged by a leading merchant advocate.

- In a recent [CMSPI-hosted webinar](#), Doug Kantor, General Counsel of the National Association of Convenience Stores, acknowledged that CMSPI has “been a fantastic partner on the advocacy side” and “pulls data together in order to make merchants’ cases.”⁶
- EPC supports the role that trade associations play in conducting research into the electronic payments industry. However, such research should be judged on its merits and should not be assumed to be objective, factual, or methodologically sound.
- The poor quality of CMSPI's recent analyses should give journalists and policymakers serious pause before citing their findings or policy recommendations.

⁴ Wang, Schwarz, and Mitchell (2014), [The Impact of the Durbin Amendment on Merchants: A Survey Study](#). Federal Reserve Bank of Richmond Economic Quarterly.

⁵ Mukharlyamov, Vladimir and Sarin, Natasha, “The Impact of the Durbin Amendment on Banks, Merchants, and Consumers” (2019). Faculty Scholarship. 2046. https://scholarship.law.upenn.edu/faculty_scholarship/2046.

⁶ CMSPI (2023). “Retail Payments Talks (Video): CMSPI and Doug Kantor.” Available at <https://cmspi.com/nam/en/resources/content/retail-payments-talks-video-cmspi-and-doug-kantor/>. (Relevant discussion begins at 13:00 mark.)