

CREDIT CARD COMPETITION ACT FACTS

S. 3623/H.R. 7035

FACT: CUSTOMERS WILL SEE SAVINGS BECAUSE ANY SAVINGS IN BUSINESS COSTS RESULT IN CONSUMER SAVINGS

- The retail sector is an intensely competitive industry. Retailers try to keep prices as low as possible to incentivize customers to come to their stores.
- When Moody's Investor Services investigated, they found that savings from debit card interchange fee reform shielded consumers from higher prices that would have resulted from increases in other operating costs for businesses such as transportation and fuel costs.
- The best example is that cost increases, as reflected in the Producer Price Index for retail trade industries, rose 9.4% from the time debit card reform went into effect in October 2011 through the end of 2016, while price increases for consumers, reflected in the Consumer Price Index, increased only 4.3%. That is a large spread between the higher costs merchants had to pay for the goods they sold and the prices they charged consumers. Those numbers demonstrate clearly that merchants shielded their customers from the majority of the cost increases merchants themselves faced.
- That experience has held true even with increased inflation. During 2021, the Producer Price Index rose by 9.7% while the Consumer Price Index rose by 7%.
- Retail profit margins show the same pattern. Those margins did not grow following debit reform.
- It is very clear that savings from debit reform (and more) have been consistently passed along from merchants to consumers in the form of prices that are significantly lower than what consumers would have been forced to pay in the absence of those reforms.
 - The opinion polls cited by the banking industry don't change the actual economic data showing that retail is intensely competitive and keeps prices lower when costs are lower.

FACT: SMALL BUSINESSES WILL BE HELPED MORE THAN BIG BUSINESSES

- Visa and Mastercard set higher swipe fee rates for small businesses than big businesses.
- That puts small businesses at an automatic competitive disadvantage.
- With competition, small businesses could work to get the best deals on swipe fees.
- In fact, they could follow the model set by credit unions that used competition on debit cards to work together to get a better deal.
- All of that will help level the playing field for small businesses – just what free market competition does in other areas.
- It is not a coincidence that the National Federation of Independent Business is helping lead the lobbying charge for the Credit Card Competition Act. They surveyed their small business members and 92% said they wanted competition on credit cards.

FACT: SMALL BANKS AND CREDIT UNIONS ARE EXEMPT FROM THE LEGISLATION

- The bill exempts banks and credit unions with under \$100 billion in assets. Only 30 of the largest banks and one credit union are above that threshold. The biggest banks issue 85% of credit cards.
- Having competition on debit cards helped small credit unions compete.

- They formed Co-op Pay and negotiated among the networks to get the best deal they could – with the Star network.
- That was only possible because the law ensured there were two networks competing for business on every card.
- In fact, community banks gained market share following reforms to the debit card market.

FACT: CREDIT CARD REWARDS WILL NOT GO AWAY BECAUSE THEY ARE OFFERED AROUND THE WORLD EVEN WHERE SWIPE FEES ARE MUCH LOWER

- Competition on credit cards will not end rewards. Visa and Mastercard don't give rewards; the banks that issue cards do. Those banks will still offer rewards to incentivize customers to use their cards.
- Merchants regularly provide many of their own rewards and loyalty programs – without resorting to the price-fixing that the credit card industry engages in.
 - That is true even though average retail profit margins are less than 3%.
 - Bank profit margins are the highest of any industry and more than 10 times retailers' margins – around 30%. They will still have plenty of funds to put into rewards even if they have to compete with each other in the future.
 - In fact, banks collected \$125 billion from cardholders in 2022 in annual fees, late fees, interest payments and other fees on top of swipe fees. And cardholders only earned \$41.1 billion in rewards. That is an \$84 billion gross profit margin *before* the \$100 billion in Visa and Mastercard credit card swipe fees are factored in.
- Rewards have not gone away in other countries where swipe fee reform has been adopted. A decade after reform in Australia, the Reserve Bank of Australia found banks still offered "significant credit card rewards" despite Visa and Mastercard claims that rewards would go away.
- In fact, payments consulting firm CMSPI estimates that rewards would be reduced by less than one-tenth of 1% "at most."
- Competitive markets are much better for consumers than price-fixing – they deliver low prices and rewards by reacting to what consumers want.

FACT: THE BILL WILL IMPROVE CARD SECURITY AND FIX A VULNERABILITY BY PLUGGING A LOOPHOLE THAT COULD ALLOW CHINA UNION PAY TO ENTER THE U.S. MARKET

- The bill makes credit cards more secure than they are today.
- Visa and Mastercard have eight times the fraud rate of the competitive debit networks on a per transaction basis.
- Competition leads to better security and makes networks improve security on debit.
- Following debit routing implementation, the Star network was the first to offer end-to-end encryption, which other networks then followed.
- The bill also prohibits any network from entering the U.S. market if it threatens security – ensuring that it would block China Union Pay or any network sponsored or funded by a foreign government.
- The United States has the most credit card fraud in the world – 34% – even though it has only 22% of the world's transaction volume.
- Today, any bank in the United States is free to select China Union Pay as the network on its credit cards.
 - This is a particularly big threat because Visa and Mastercard have brought China Union Pay into the security standard-setting bodies they control.
- Competition leads not only to lower prices but also to innovations in card security.

FACT: CREDIT DECISIONS WILL WORK BETTER FOR CONSUMERS IF THERE IS COMPETITION ON CREDIT CARDS

- Major banks charging anti-competitive fees change how they view the credit card business.
- Those overinflated fees incentivize banks to charge consumers higher fees as well – and make credit cards a fee-based business model rather than a lending model.
- The result is that banks don't care as much about consumers' ability to repay credit card loans. The banks just want more revenue from fees.
- We've seen where that type of predatory lending has taken us in the past.
- Ensuring that decisions are made in a competitive market without being skewed by high fees will help ensure consumers aren't taken advantage of through their credit card relationships.

FACT: CREDIT CARDS WILL NOT NEED TO BE REISSUED BECAUSE THE SAME THING HAPPENS WITH BANKS ON DEBIT CARDS AND IT DOES NOT REQUIRE REISSUING

- Routing competition is proven to work because it happens today on debit cards domestically and overseas on credit cards.
- The whole concept of "massive reissuance" has no basis in fact.
- The card industry made the same claim about reissuance of cards when debit reform was debated but when it came time to implement the new law, banks did not have to reissue debit cards.
- Routing happens as a back-office process with the banks sharing information regarding the enabled networks with processors. It doesn't need to change anything physical on the cards.
- That was true for single-network debit cards a decade ago and it's true for single-network credit cards now.
- There have been some credit cards that have used more than one network over time – Diner's Club, for example. There was no "massive" change or investment needed for that. In fact, hardly anyone noticed. There will be some software changes that happen, but these will be relatively minor.

ONE THING IS CLEAR FROM ALL OF THIS:

EVERY ONE OF THE CLAIMS MADE BY THE CARD INDUSTRY TO CRITICIZE THE CREDIT CARD COMPETITION ACT IS WRONG.