



CREDIT CARD ROUTING MATTERS

Support the Credit Card Competition Act S. 3623/H.R. 7035

Competition is foundational to a free market but, unfortunately, there is none when it comes to how credit card transactions are processed in the United States. Lack of competition results in higher costs for consumers, and less security and innovation. The Credit Card Competition Act would simply require that credit cards issued by the largest U.S. banks have at least two unaffiliated card payment networks available to process transactions.

WHAT IS TRANSACTION ROUTING?

When a consumer swipes, inserts or taps a credit card in person or pays online, merchants and banks route financial information over a network for processing. The network through which a transaction is routed is analogous to how a phone call is routed through a carrier. But just like “Ma Bell” once held a monopoly over telephone service in the United States, Visa and Mastercard – which control 80% of the U.S. credit card market – hold a near-monopoly over credit card processing. Lack of competition, like in the case of the old Ma Bell, results in high fees, few options and little innovation. Today, a business chooses which phone carrier to use based on several factors from reliability to cost. Merchants should be able to do the same with credit card processing. The Credit Card Competition Act would not break up Visa or Mastercard, but it would require them to compete the same as any other business.

WHY DOES THE CREDIT CARD COMPETITION ACT MATTER?

There are a dozen competitive networks that could process credit card transactions. However, the dominant credit card networks have blocked them from entering the market. Independent networks are as fast and often less costly than the dominant global players, and the Federal Reserve says they have less fraud. Nearly 15 years ago, Congress opened the debit card market to network routing competition, and businesses and consumers alike have benefited.

- **Competition results in innovation.** When routing competition was introduced into the debit card market, innovation flourished. Because networks had to compete, they all invested in and offered greater security technologies to their customers. For example, end-to-end encryption technology was enabled to make transactions more secure.
- **Competition means greater reliability.** Today, credit cards only have one network enabled on a card and lack any backup options if there is a network outage. In the past decade, the two largest networks, Visa and Mastercard, have both experienced outages. Routing competition would provide a backup network, allowing consumers to continue to use their credit cards even if one network goes down or is hacked.

- **Competition results in lower costs for businesses and consumers.** Swipe fees are most merchants' highest cost after labor, far too much to be absorbed, and drive-up prices for consumers. MPC estimates that swipe fees under the current non-competitive regime amount to nearly \$1,200 a year for the average family. U.S. businesses and consumers could save \$16.4 billion annually by bringing routing competition to credit cards, according to economists at the payments consulting firm CMSPI.
- **The Credit Card Competition Act would improve the security of the U.S. payments system.** Independent networks like NYCE, Star and Shazam have about one-eighth the fraud of Visa and Mastercard's networks, according to the Federal Reserve. These are the same networks that process billions of dollars in ATM transactions and debit card transactions each day. In addition, the bill closes a glaring security gap in current law – it directs the Federal Reserve to block any network backed by a foreign government, such as China's UnionPay, from being enabled on a U.S.-issued card. Currently, any bank in the United States is free to select UnionPay as the processing network for its credit cards.
- **Community banks and all but one credit union are exempt from the bill.** Only financial institutions with over \$100 billion in assets – the biggest of the Wall Street megabanks – are covered by the legislation. That means about 30 banks and only one credit union in the entire country are covered.

STAND UP FOR MAIN STREET!
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For decades, the dominant global networks have been able to shut out any competitors from the credit card processing market. This anticompetitive behavior has inhibited innovation and reliability and has resulted in higher costs for businesses and higher prices for consumers. U.S. consumers and Main Street businesses have benefited from competition in the debit network market. It is time to bring routing competition to credit cards and ensure that the United States has an innovative, reliable, and efficient credit card market.