**Credit Card Competition Act Pits Credit Card Issuers Against Retailers**

You have probably recently heard about the *Credit Card Competition Act*. Bipartisan support for the Act has surged since it was introduced last year. It is important to note that this act is a proposed Act and not one that has become law. The Act was reintroduced in June in the House and Senate, after failing to gain enough traction for a vote in either chamber during the previous Congress.

**What is It?**

The measure intends to create competition for credit card processing networks by requiring big banks to allow merchants at least one alternate network that isn't controlled or operated by Visa or Mastercard to be used for processing their branded cards. This would give merchants a choice in the fees they pay – something that has never been offered in the past. Visa and Mastercard control over 80 percent of the U.S. credit card network market. That's more than 576 million credit cards. Every time a merchant accepts a Visa or Mastercard for payment, approximately 2% to 3.5% is charged to the merchant and effectively erodes profitability. The same can be said for American Express and Discover who operate their own respective networks.

**Where the Money Goes**

While Visa and Mastercard keep a portion of fees for themselves by calling it a Network Fee, most of the fees assessed are part of an "Interchange Fee" set by Visa and Mastercard and paid to the bank that issued the credit card. Swipe fees for all card brands combined have more than doubled in the past decade, hitting a record $160.7 billion in 2022, according to a Nilson Report. On average, U.S. credit card swipe fees account for 2.24% of a transaction, according to the Merchants Payments Coalition. Interchange fees are essentially another tax to consumers. They are going to pay – one way or another through collection of the fees or in some cases from surcharges assessed by merchants.

**About Those Fees**

In 2022 alone, Visa, Mastercard, and their card-issuing bank partners charged merchants a total of $93 billion in credit card fees as a portion of the $160.7 billion total fees collected. These fees are presumably passed on to your customers in the form of higher prices to cover the fees. These fees were last adjusted in April 2022 and continue to trend upward. Visa and Mastercard set the fees for all different types of cards, so banks have a level playing field – everyone has the same rate for a specific type of card. When a customer pays with a Visa or Mastercard, a merchant must accept it or lose access to accept all cards issued in the Visa and Mastercard networks. In this "take-it-or-leave-it" system, merchants must accept Mastercard and Visa to stay in business since they are the most widely used card brands.

## Intention of The Act

The Credit Card Competition Act would enhance credit card competition and choices to reduce excessive fees. It will require the largest credit-card issuing financial institutions to offer at least two card networks to process credit cards instead of the Visa/Mastercard duopoly. This would only apply to banks with more than $100 billion in assets who issue Visa and Mastercard credit cards. In summary, the giant banks that issue Visa and Mastercard credit cards would have to choose a second competitive network for each card issued, and the merchant will choose which networks they prefer to use rather than being forced to use one.

## The Intended Results

The Competition Act is intended to incentivize better service and processing costs. All but the biggest 30 or so banks would not be subject to the bill’s requirement to add a second credit card network. If the network itself is the card issuer, such as American Express and Discover, they would not be required to add a second network – although it is possible that Amex and Discover could potentially serve as a second network on other banks’ cards. By adding a second network, networks would be motivated to hold down merchant fees to keep transactions routing over their network instead of having merchants choose the second network.

## The Supporters

The Act has gained the support of over 200 State and regional business associations as well as the International Franchise Association, National Association of Convenience Stores, National Association of Theater Owners, the National Grocers Association, National Restaurant Association, and the National Retail Federation. Currently, more than 2,000 retailers, platforms and small businesses have signed a petition urging lawmakers to pass the bill. Retailers in support of the legislation argue credit card processing costs are hurting consumers by driving up the cost of business, and, in turn, the price shoppers pay at checkout.

## The Opposition

Visa, Mastercard, Discover and Capital One have all gone on record to say the bill will hurt consumers by diminishing or eliminating credit card rewards programs funded by the fees as well as reducing funds available for fraud protection efforts. In a June 9th post on its website, The Electronic Payments Coalition, a group representing banks, credit unions, community banks and payment card networks said the legislation would “add billions of dollars to the bottom lines of mega-retailers every year and describes the bill as a “bait and switch that harms consumers”, and says the bill would eliminate almost all the funding that goes towards popular credit cards rewards programs. They also predict it will weaken cybersecurity protections and reduce access to credit while ultimately giving the decision-making of where a transaction is going to be routed to the merchant instead of the card issuer or consumer. It could end up being routed over a cheaper network offering fewer fraud protection and little to no customer rewards programs.

## The Bottomline

All of this is speculative at this point and political and payment analysts feel there is a high probability that a vote could come as soon as the end of the year. However, it is more likely that The Act would be incorporated into a larger bill governing the payments industry. For now, all we can do is watch and wait.

**Who is Aurora?**

Aurora Payments is a network of professionals providing Merchants with reliable payment solutions for any industry and any environment. We help businesses increase efficiency and growth. Our proprietary technology provides One Ecosystem - One Contract - One Partner - **One Aurora.** As a Full-Service Provider (FSP), we have all the products, services, solutions, and support Merchants need - all-in-one place. We're an organization driven by a passion for helping our Merchants succeed. Interested in learning how you can eliminate credit card processing fees? Send us an email at hello@risewithaurora.com or call us at 833-287-6722. You'll be saving money in no time!

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**What is It?**

- The measure intends to create competition for credit card processing networks
- Will require big banks to allow merchants a network not operated by Visa or Mastercard
- This would give merchants a choice in the fees they pay

**Where the Money Goes**

- Visa and Mastercard keep a portion of fees for themselves as a Network Fee
- Most of the Interchange fee set by Visa and Mastercard is paid to the card issuing bank
- Swipe fees for all card brands combined have more than doubled in the past decade
- $160.7 billion in fees was collected in 2022 according to a Nilson Report

**About Those Fees**

- In 2022 Visa, Mastercard, and their card-issuing bank partners earned $93 billion in fees
- Fees are presumably passed on to your customers in the form of higher prices
- Fees were last adjusted in April 2022 and continue to trend upward
- When a customer pays with any Visa or Mastercard, the merchant must accept it

**Intention of The Act**

- The Credit Card Competition Act would enhance credit card competition
- Requires the largest credit-card issuing financial institutions to offer two processing networks
- Applies to banks with more than $100 billion in assets who issue Visa and Mastercard cards
- Merchants will choose which networks they prefer to use rather than being forced to use one

**The Intended Results**

- Incentivize better service and processing costs
- American Express and Discover would not be required to add a second network
- It is possible that Amex and Discover could serve as a second network on other bank cards
- Adding a second network would motivate a hold down of merchant fees

**The Supporters**

- The Act has gained the support of over 200 State and regional business associations
- More than 2,000 retailers, platforms and small businesses have signed a petition to pass
- Retailers argue credit card processing costs are hurting consumers

**The Opposition**

- Visa, Mastercard, Discover and Capital One have gone on record to say it will hurt consumers
- Will diminish or eliminate credit card rewards programs funded by the fees
- Reduces funds available for fraud protection efforts
- The Electronic Payments Coalition describes the bill as a “bait and switch that harms consumers”
- EPC also says it will weaken cybersecurity protections and reduce access to credit
- Gives decision-making to merchant to be routed over a cheaper network with lower fraud protection

**The Bottomline**

- All of this is speculative at this point
- Political and payment analysts feel a vote could come as soon as the end of the year.
- It is more likely that The Act would be incorporated into a larger bill governing payments

**Who is Aurora?**

Aurora Payments provides reliable payment solutions for any industry and any environment. As a Full-Service Provider (FSP), we have all the products, services, solutions, and support Merchants need - all-in-one place.

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