

Merchants Payments Coalition: Debit Card Fast Facts

Fact #1: Why Small Bank Cards Will Be Accepted By Merchants 100% of the Time

Debit networks will support a two tier interchange rates structure – one for financial institutions with assets greater than \$10 billion, and one for those with less.

- In January, Visa announced they would support a two tier debit interchange fee structure.¹
- Other networks, such as First Data's STAR network, have announced similar intentions.² To date, over 80% of PIN debit networks have indicated they will support a two tier interchange structure.
- Widespread support of a two tier structure means interchange rates for small financial institutions should stay the same or even increase because networks compete for card issuers with high interchange rates. If MasterCard lowers interchange fees for their issuers they would risk losing them to Visa or another network.

There are numerous reasons merchants will not treat small financial institution cards any differently despite higher interchange fees on those cards:

1. Honor all Cards: Visa has a rule that merchants who accept Visa debit cards must accept all Visa debit cards.³ MasterCard has a similar rule.⁴ If a merchant breaks this rule, they face the threat of fines in excess of \$5,000/day.⁵
2. Economics: Despite the exemption of 99% of all financial institutions from the debit transaction fee reforms, the debit card market is so consolidated at large issuers, the majority of cards in circulation will be subject to the reforms. Given the limited number of transactions on non-exempt cards there is no financial case to turn those cards away even it is were allowed.⁶ Additionally, customer satisfaction is critical to keeping shoppers returning to the store. A retailer is not going to turn away a customer who wants to pay with a certain type of card because they will risk losing them to a competitor – a risk a 1% margin business cannot afford to take.
3. Operations: Different types of debit cards, and the interchange fees associated with those cards, are not readily identifiable at the checkout. Additionally, there are environments where a retailer doesn't see the card, such as grocery self checkout, pay at the pump, and online.

¹ <http://www.americanbanker.com/news/visa-plans-two-tiered-interchange-1031002-1.html>

² http://www.americanbanker.com/issues/176_23/first-data-debit-rules-1032373-1.html

³ Core Principle 6.2 – Honoring All Visa Cards at pg. 354. <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>.

⁴ MasterCard Rule 5.8.1 – Honor All Cards at pg 114. http://www.mastercard.com/us/merchant/pdf/BM-Entire_Manual_public.pdf.

⁵ Visa General Fines Schedule – U.S. Region at pg. 65. <http://usa.visa.com/download/merchants/visa-international-operating-regulations-main.pdf>.

⁶ When counting signature-based debit only, the 10 largest signature-based issuers accounted for 73.7% of the top 50 in 2009. For PIN-based purchase volume, the 10 largest PIN-based issuers accounted for 81.6% in 2009 (Nilson Report Issue 947, April 2010). The Federal Reserve issued surveys to 131 financial institutions (<http://edocket.access.gpo.gov/2010/pdf/2010-32061.pdf>, pg.4) with assets greater than \$10 billion. If can be inferred based on the large market share of the top 10 issuers and the number of additional covered issuers, that the market share of exempt financial institutions is very small.