

Credit card companies adjust merchant fees. Consumers may pay the price

April 26 2022, by Medora Lee



Credit: Pixabay/CC0 Public Domain

Processing fees, or "swipe" fees, on credit cards are likely rising for millions of businesses, but whether this is a classic case of corporate greed at the expense of consumers depends on who you ask.

Visa and Mastercard, the top two payments networks in the U.S. with more than 70% of the market, recently changed its fee structures for merchants who accept their credit cards for payments. The fees, charged every time a customer swipes a [credit card](#), are typically a percentage of the total spent in the transaction.

Most of the fee, or the so-called interchange fee, goes to banks issuing the cards. A much smaller slice goes to Visa and Mastercard solely for the use of their network to process the transaction. Visa and Mastercard say the fees help cover costs related to innovation and preventing fraud.

The companies said some of the changes, delayed from last year due to the pandemic, include both increases and decreases and are meant to continue supporting small businesses and safe and convenient shopping for consumers. However, retail trade groups and a bipartisan group of lawmakers say the moves on the whole will force business to pass on added costs to consumers.

Although some companies will see fee increases, Mastercard notes it's lowering costs for all merchants with transactions below \$5 and Visa says it's cutting its rates by 10% for more than 90% of small businesses, which Reuters earlier reported meant those with \$250,000 or less in credit card volume. Both say these types of changes are going to help make [small businesses](#) more competitive against [big-box retailers](#) and benefit local shoppers.

Consumers will pay those processing fees, critics say

Only an extremely narrow segment of merchants with a small overall transaction volume might benefit from the new fee structure, critics say. The bulk of retailers will see increased costs, which will trickle down to consumers already struggling to make ends meet amid the highest inflation in 40 years.

"Merchants and American consumers are not fooled by such bait-and-switches," wrote Democratic senator Dick Durbin of Illinois in a letter to the heads of Visa and Mastercard last week asking them to call off fee hikes. The letter was also signed by Republican senator Roger Marshall of Kansas, and U.S. representatives Democrat Peter Welch of Vermont and Republican Beth Van Duyne of Texas. "Your profits are already high enough and any further fee increase is simply taking advantage of vulnerable Americans."

Visa responded late Friday in a letter defending its rate tweaks. It noted more than 838,000 small U.S. businesses would benefit from a drop in fees and that monies from increases would go towards making card transactions more secure.

"As more commerce moved online during the pandemic, so did fraud," it said.

To see how much is at stake, total processing fees for all types and brands of cards were \$137.8 billion in 2021, according to the Nilson Report, which provides news and analysis of the global card and mobile payment industry. That compares with \$110.3 billion in 2020 and \$65.1 billion in 2011. For Visa and Mastercard credit cards alone, 2021 was \$77.48 billion, 2020 was \$61.63 billion and 2011 was \$27.7 billion.

Battle over swipe fees is nothing new

Credit card processing fees have long been contentious, with Walmart in and out of litigation during the last decade with Visa over high fees. Late last year, Amazon also threatened to stop accepting Visa [credit cards](#) issued in the UK due to high fees. The two companies ultimately struck a deal that prevented a shutdown of British Visa cards for Amazon purchases.

In the U.S., the battle continues with retailers arguing for decades that the fees set by Visa and Mastercard amount to price fixing. But the fight now takes on new urgency with consumers coping with higher prices of nearly everything.

Leon Buck, [vice president](#) at the National Retail Federation, estimates the average family spends on fees about \$700 a year—an amount that will continue to climb with inflation since the fees are a percentage of their total spending bill.

These fees "get factored into the cost of everything consumers buy," said Doug Kantor, general counsel at the National Association of Convenience Stores. "This is bad for merchants, bad for consumers and bad for inflation."

(c)2022 USA Today

Distributed by Tribune Content Agency, LLC.

Citation: Credit card companies adjust merchant fees. Consumers may pay the price (2022, April 26) retrieved 26 April 2024 from <https://techxplore.com/news/2022-04-credit-card-companies-adjust-merchant.html>

<p>This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.</p>
--