

What Benefits Me by Paying a Credit Card Swipe Fee?



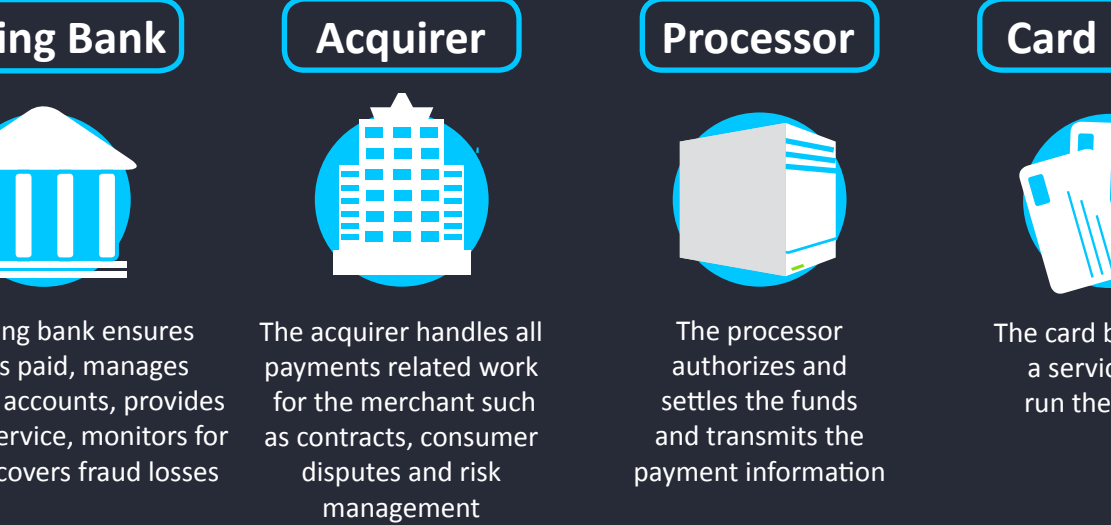
An explanation of what merchants pay to accept credit cards, why it's paid, and the benefits provided to merchants and consumers

How much is a credit card swipe fee?

2.20% Typical credit card swipe fee in the U.S. (Source: Government Accountability Office)

Who gets paid this fee?

Here's the approximate structure of a swipe fee:



Entity	Fee	Percentage
Issuing Bank	\$1.62	74%
Acquirer	\$0.31	14%
Processor	\$0.18	8%
Card Brand	\$0.09	4%

If credit cards have these fees, why not just use cash or checks?

What are the benefits?

In exchange for paying 2.2%, merchants get all of these benefits:

- Increased Profits**
 - Consumers spend more with credit
 - Avoid cash & check handling costs
 - Payment guarantee
- Efficiency**
 - Faster funding
 - Faster checkout times
 - Faster reporting
- Risk Mitigation**
 - Fraud monitoring
 - Avoid bounced checks
 - Less cash on-hand = less theft
- Marketing**
 - Access to customer analytics
 - Better loyalty programs
 - Targeted offers
- Market Access**
 - eCommerce
 - Mobile
 - Phone Order

By paying with credit cards, consumers get all of these benefits:

- It's a Loan**
 - Buy now, pay later
 - Interest free if balance is paid off
 - Lower interest rate with good credit
- Convenience**
 - Fast checkout times
 - Online shopping
 - Automatic transaction reporting
- Security**
 - Chargeback ability
 - A card can be replaced, cash cannot
 - Extended warranties
- Rewards**
 - Cash back
 - Miles
 - Exclusive access
- Worldwide Acceptance**
 - Accepted at over 35 million locations
 - No switching currencies
 - Zero liability if card is lost

VIRTUALLY NONE OF THESE BENEFITS COME WITH USING CASH OR CHECKS

Why do swipe fees exist?

LIKE ANY PRODUCT OR SERVICE, CREDIT CARDS REQUIRE MONEY TO EXIST. SWIPE FEES ARE NECESSARY AND COST-EFFECTIVE

- Infrastructure**: Card payments require electricity, cables, data servers and workers
- Funds Availability**: Someone's gotta pay for that water jet pack you bought on credit
- Customer Validation**: Is that really you buying that jet pack?
- Chargebacks**: Processes and procedures to handle returns and disputes. "This memory foam mattress has no memory, I need to return this."
- Fraud Monitoring**: "Hello sir, we noticed some unusual purchases on your credit card and just wanted to confirm that it was you that made them. Did you recently purchase a water jet pack and 20 front row tickets to the upcoming Bieber Fever concert?" "Oh, I never bought any Justin Bieber tickets, just the jet pack." "No problem sir, you will not be liable for that purchase, we will take care of everything."



Worldwide Connection: Swipe fees support the authorization network so that someone with a card issued by a bank in Fargo, can visit a business in Laos and purchase a woven rug with that credit card. A transaction can be made anywhere in the world and it will be authorized and validated in just a few seconds

Why not regulate these fees?

- Swipe fee price controls have been imposed in Australia
- Merchants have increased profits, but consumers have lost card rewards and choices
- Consumers are paying higher prices due to checkout fees merchants are able to charge due to the regulations

In Canada, where card transactions are more regulated, consumers typically pay around \$12 per month for a checking account

Post regulation, average cardholder fees for standard credit cards in Australia increased by **22%** (2001 - 2004)

Another bad idea being pushed by some state legislators (in Washington state and elsewhere) is to put price caps on what credit card companies can charge merchants (i.e., price controls). The credit card industry is highly competitive, with four major competitors and many small ones. Merchants can select which credit cards they wish to accept and they can negotiate fees.

Richard W. Rahn, senior fellow of the CATO Institute and chairman of the Institute for Global Economic Growth

Imposing price controls on credit cards may help a few borrowers, but it would raise the cost of having a credit card for everyone else and cut off access to credit for many of the riskiest borrowers. That's no way to be a friend to consumers.

Jonathan M. Orszag, senior fellow, Center for American Progress

Unintended Consequences of The Durbin Amendment

- Non-interest checking account fees rose an average of **25%** after implementation
- Consumers have NOT seen most of the **\$8 Billion** in savings that the government intended to be passed on the consumers
- Small ticket merchants are paying more and big ticket merchants are paying less
- For a typical signature debit purchase of \$5, merchants now pay over 2% more per sale than they did pre-Durbin

NOTE: The cost of accepting credit cards is not 2.2% more than the cost to accept cash and checks. These payment methods have processing costs too.

HOW DOES PAPER STACK UP TO PLASTIC?

A study by FSU suggests that if a country were to go completely cashless, the savings could amount to 1% of its annual GDP. That would equal about **\$150 Billion** for the U.S.

Average Dollar Value of Payment Type

Credit Cards	\$51
Cash	\$24

Merchants prefer cards

- Estimated processing cost per paper check: **\$1.22**
- 60% of consumers have a rewards credit card
- Average increase in spending from consumers that hold a rewards credit card with 1% cash back: **\$68** a month
- 80% of convenience store theft can be reduced if cash in registers is limited. Plus don't forget there are costs for **Collecting, Counting, & Transporting** cash
- 2012 U.S. B2C e-commerce sales (driven by cards): **\$343 Billion**
- 5% is the U.S. national average credit card loss rate. Credit issuers take on this risk. Swipe fees help ensure merchants get paid even if the cardholder doesn't pay their bill. If merchants ran their own credit programs, they would absorb this cost
- Dante Ristorante in Omaha that guests who use a credit card to pay for their order spend an average of 10% more than guests who use cash

Governments prefer cards

- The State of Maryland switched from paper checks, to an electronic prepaid card and saved an estimated \$400,000 a year. They were also able to avoid any problems caused by lost and delayed checks
- The Fed is doing the same. Cost to issue a federal benefits paper check: **\$1.03**
- Cost to issue federal benefits electronically: **\$0.10**
- 100% of U.S. federal benefits will be paid electronically by March 2013
- Estimated missing tax revenue due to tax evasion via cash use: **\$75 Billion**
- Estimated cash loss due to theft, counterfeit bills and accidents: **\$40 Billion**
- Estimated worth of time consumers spend accessing cash: **\$31 Billion**
- To print and deliver money: **\$750 Million**
- A study from Moody's found that between 2008 and 2012, card usage increased GDP in the U.S. by **\$127 Billion**

...the cost of cash distribution is not reflected in the cost of cash use to consumers, which often creates the erroneous belief that cash is essentially a costless means of making payments. -DotEcon

I got tired of dealing with theft and paying all the waiters to spend an hour counting all the cash, then I would count it all and then I'd drive it a good 10 miles to the bank. Now, I save a good 45 minutes to an hour per day. At the end of the day, I just push a button and everything goes through and life is good. -David Hatfield, owner, Bend Municipal Airport Cafe

Despite a challenging global economic landscape, the increased penetration of payment cards helped boost consumer consumption and, on average, added to GDP. -Mark Zandi, Chief Economist of Moody's Analytics

...merchants' belief that cash is less expensive than other forms of payment may be based on erroneous assumptions and misinformation. -Fred Purches, Stores Magazine

Consumers prefer cards

A survey from the Federal Reserve in Boston shows that most consumers rate a security and ease of use as "most important" for a payment method

Type	Security	Convenience
Cash	2.7	4.0
Credit Card	3.1	4.3

(5-point scale: 1 Lowest, 5 Highest)

Is it worth the 2.20%?

- The benefits credit cards bring to merchants and consumers are tangible and lengthy. In short, the value outweighs the cost
- The payments marketplace is more competitive than it's ever been, as the current revenue model that swipe fees provide fuels existing players and incents new companies to enter the market. These new entrants range from start-ups to national telecoms and are developing innovative products for consumers and merchants
- The global economy undoubtedly performs better due to the frictionless economic exchange electronic payments companies provide

