

ICBA Legislative Update: Credit Card Routing Mandates

Overview: The Credit Card Competition Act (CCCA, S. 3623, H.R. 7035) would create new credit card routing mandates. Banks with over \$100 billion in assets would be required to offer merchants at least two networks to process credit cards, at least one of which cannot be owned by Visa or Mastercard.

A credit card routing network is the system that carries a payment from the merchant to the bank for approval, with each network offering different security features and fees. All networks are not equal. Each has different security features, rules, and interchange fees. The routing mandate will allow the largest corporate merchants to choose the lower-cost network to boost their profits at the expense of consumers.

The new routing requirements would apply to well over 80 percent of the credit card market by card issuance and volume. This would be a sweeping change that would shift the choice of routing network from the issuing bank and the consumer to the merchant.

ICBA Position: Under the CCCA, corporate mega store profits will be subsidized by community banks and consumers.

- ICBA strongly opposes the so-called Credit Card Competition Act. The choice of routing network should ultimately remain where it has always been—with the consumer.
- The legislation will require major new infrastructure investments throughout the payments ecosystem – card issuers, processors, merchant acquirers, and networks.
- The mandates may also require the reissuance of hundreds of millions of credit cards and chip recertification.
- These substantial costs will ultimately be borne by consumers and community banks.

Key Talking Points

Consumer security will be compromised and consumer rewards will be curtailed or eliminated.

- Interchange fees directly fund network security, innovation, and consumer rewards programs—features highly valued by consumers.
- Allowing breach-prone mega stores to control network routing to reduce interchange

and boost their profits will put consumer data at risk and curtail or eliminate consumer rewards programs.

Experience of the Durbin Amendment—which capped *debit* card interchange—shows that corporate mega stores fail in their promise to pass on savings. CCCA would be no different.

- Credit card routing mandates would further boost the profitability of corporate mega stores at the expense of consumers and community banks.
- Recent polling from Morning Consult shows that two-thirds of American adults, both Republicans and Democrats, believe the new routing mandates would (i) create less secure networks and (ii) would not provide savings to consumers but only to merchants.

Numerous independent studies have demonstrated the harmful impact of the original Durbin Amendment and the CCCA.

- The Durbin Amendment boosted the profits of the largest retailers by \$106 billion without lowering consumer prices (the Federal Reserve Bank of Richmond) and reduced access to free checking which had been supported by interchange (Government Accountability Office).
- The Durbin Amendment shows that community bank “exemptions” are not effective. Following enactment of the Amendment, “exempt” community banks experienced a 30 percent drop in interchange revenue, according to Federal Reserve data. A similar exemption in the CCCA would be no more effective.
- The impact of CCCA would be felt by lower-income families. Seventy-seven percent of cardholders earning less than \$50,000 carry a rewards card. These middle-income consumers stand to lose their rewards.
- CCCA could cost the U.S. economy \$228 billion and 156,000 jobs by undermining rewards programs that support travel and tourism (Oxford Economics).
- Nearly all savings created by CCCA would flow to retailers with more than \$500 million in annual sales. Small businesses would be placed at a further competitive disadvantage (University of Miami).
- CCCA would double the cost of fraud to \$20 billion over the next decade due to underinvestment in fraud protection and data security (Texas A&M).