

Retailers criticize Mastercard and Visa's swipe fee settlement— here's our take

Article

The news: Retail industry groups said [Visa and Mastercard's proposed settlement](#) didn't go far enough to reduce and cap credit card interchange fees, [per](#) The Hill.

Here's what they had to say:

- The fee cut “amounts to pennies on the dollar,” **National Retail Federation** CAO and general counsel Stephanie Martz said. “These fees are an unfair business practice that harms merchants and consumers.”
- The **Retail Industry Leaders Association (RILA)** called the deal “a mere drop in the bucket.” It said the courts need to review whether this is enough “to remedy the harm caused by the current interchange system.”
- Doug Kantor, general counsel at the **National Association of Convenience Stores**, argued the settlement “tries to cut off every other merchant with a lawsuit from being able to ask for more,” per The Hill.

So, do retailers have a point? We break down the three main components of the settlement:

On the fee caps and reductions:

David's take: Merchants may have a point. We estimated that consumer credit cards alone generated \$70 billion in interchange in 2022. Saving \$6 billion (\$30 billion over five years) in consumer and commercial interchange hardly puts a dent in that.

Grace's rebuttal: Yes, but that's not pocket change either. And a cap protects against future near-term rate hikes. Merchants also need to consider what benefits they get from these swipe fees.

- Swipe fees support key value-added services like fraud solutions.
- The total cost of ecommerce fraud to merchants was **expected to exceed \$48 billion globally** in 2023, according to Juniper Research.
- Without networks' investments in fraud protection, those losses could be even worse: Visa helped block **\$40 billion in fraudulent activity in 2023**.

Visa debuted three AI-powered risk and fraud solutions last week. This launch likely wouldn't have been possible without swipe fees.

On the steering concessions:

Grace's take: Through this settlement, merchants can decide whether to surcharge credit cards based on their acceptance cost. This would result in super-premium cards getting

higher surcharges than no-frills cards.

While some merchants may be wary of upsetting customers with these fees, having this choice at all is a win.

David's response: But merchants were already free to surcharge all cards, and few do. Few credit card loyalists want to be told they have to pay extra for using their favorite card. This can create tension exactly where merchants want to avoid it—at the point of sale.

- This type of surcharging will likely mean higher prices for affluent, higher-spending cardholders. This won't make sense to most businesses that cater to them.

The settlement does provide merchants a more user-friendly route: offering customers incentives for using other forms of payment. This lets merchants reward cardholders for choosing a different method rather than punish them for using their preferred card.

On what's missing from the settlement:

David's take: The settlement doesn't address the contentious matter of credit card routing.

- The Credit Card Competition Act would make large banks offer at least two unaffiliated networks to route credit card transactions.
- This would increase competition—likely reducing transaction fees—because only one assigned network could be Visa or Mastercard.

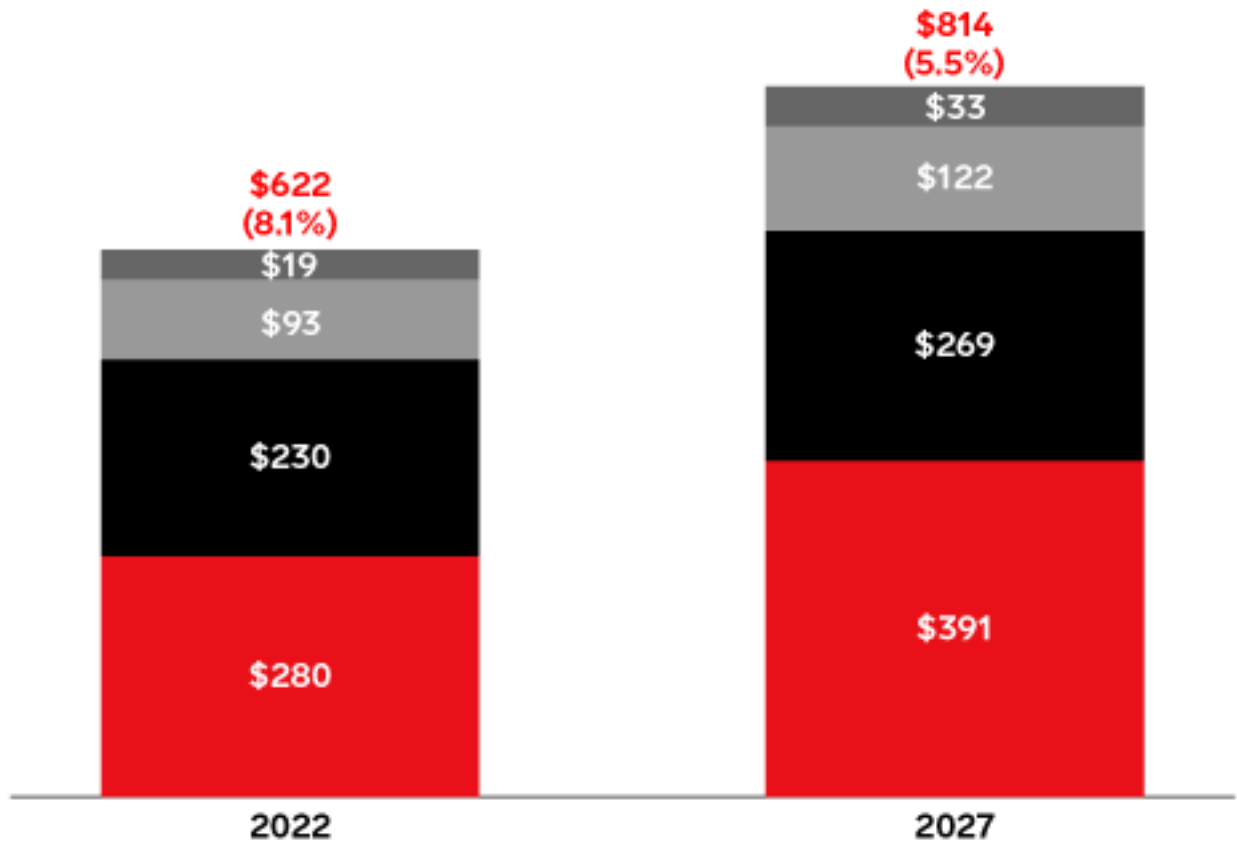
Grace's take: If Visa and Mastercard are hoping for closure, they won't get it. This settlement is far from the end of the interchange fight.

We will continue to see Congress attempt to regulate credit card routing as merchants, card networks, and issuers battle it out in legal courts and the court of public opinion.

[Dig deeper: For more details on Mastercard and Visa's settlement, read our article on the deal here.](#)

Issuer Revenues Worldwide, 2022 & 2027

billions and 5-year CAGR



- Interchange
- Net interest margin on revolving balances
- Other fees*
- Foreign exchange

*Note: does not include closed-loop intrawallet transactions, cash withdrawals from ATMs, trade finance revenues, and mobile money transactions; all forecasting is done at a constant foreign exchange rate; *other fees include annual membership fees, penalty on late payment fees, etc.; numbers may not add up to total due to rounding*

Source: Boston Consulting Group (BCG), "Global Payments Report 2023," Sep 12, 2023

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