

2009 GAO REPORT ON INTERCHANGE: FIRST, DO NO HARM.

All of the policy proposals reviewed in the report could be harmful to consumers.

- “Many industry participants and others agreed that the costs of card acceptance might shift from merchants to card holders if interchange fees were limited, card surcharges permitted, and interchange revenues decreased.” (p.55)
- “Other economists have argued that any consumer savings from lower prices would not be sufficient to offset the negative impacts on cardholders.” (p. 55)

Merchants themselves could be harmed by interchange regulation.

- “A limit on interchange fees could affect merchants negatively if this option led to decreased overall retail sales or available credit.” (p.55)
- “If consumers shifted from using rewards cards in response to decreased rewards and increased annual and user fees, merchants might realize lower sales revenues overall.” (p.55)
- “Issuers, if faced with lower interchange fee revenues, could decide that some credit card programs were too expensive to maintain and might cut credit to cardholders, including merchants that depend on credit to finance business expenses.” (p.55)

Consumers have received significant benefits as a result of competition in the card markets.

- “Consumers have benefited from competition in the credit card market, as cards often have no annual fees, lower interest rates than they did years ago, and greater rewards.” (exec summary)
- “Competition among issuers also can lower many cardholders’ credit card costs.” (p.26)

Merchants receive significant benefits when they choose to accept cards.

- “Credit cards also provide significant benefits to merchants, such as lower labor and processing costs and increased sales.” (p.28)
- “Accepting credit cards also allows merchants to make sales on credit at a generally lower cost than operating their own credit program. . . For example, they said merchants avoid the cost of credit losses, debt collection, credit quality assessment, card production, and statement preparation.” (p.30)

Interchange regulation in Australia has led to higher fees and fewer rewards for consumers – with no conclusive evidence that they have seen any savings in the checkout line.

- “RBA estimates that fees to merchants were lower by about \$1.1 billion (AU) for the period of March 2007 – February 2008, but officials acknowledged that it would be very difficult to provide conclusive evidence of the extent to which these savings have resulted in lower retail prices.” (p.45)
- “In Australia, issuers reduced rewards and raised annual fees following that country’s interchange fee cap.” (p.46)

Merchants have the ability to shop around and negotiate costs with their acquirers.

- “Increased competition for acquiring services provides merchants with considerable choice and opportunities to negotiate and lower some of their card acceptance costs.” (p.35)
- “Eight of the nine small merchants we interviewed reported getting solicitations – some frequently – for their acquiring business or have shopped their acquiring business.” (p.36)

Small issuers, like community banks and credit unions, rely on interchange revenue to compete with larger banks.

- “Representatives of credit unions and community banks reported that revenue from interchange fees allowed them to cover expenses related to offering credit cards and compete with large issuers to offer their customers credit cards.” (p.22)