

# **A White Paper On Food Stamp Co-Branded EBT Cards**

*The Food Marketing Institute  
August 2007*

## **FMI Position**

Co-branded cards for Food Stamp EBT are an unnecessary financial burden on retail merchants with no added benefit to consumers, which will eventually lead to higher expenses for states.

## **What is a Co-Branded Card?**

With the success of Food Stamp Electronic Benefits Transfer (EBT), states are continuing to look for more ways to save money in dispersing social programs. A recent development is the use of a co-branded EBT card for the delivery of some state programs. Currently, there are no states issuing co-branded cards for Food Stamp or WIC benefits.

Thirty-five states are currently using co-branded EBT cards, also known as Electronic Payment Cards (EPC), for other types of benefits including cash assistance such as TANF, child support, payroll and unemployment insurance benefits. (See: [http://fmi.org/gr/state\\_leg/](http://fmi.org/gr/state_leg/) for a list of those states and their benefits.) A co-branded card is defined as a commercially-branded card, such as VISA or MasterCard, which states are using to disperse benefits and payments for multiple government benefits programs on one card.

## **Background**

As previously noted, no states are using co-branded cards for Food Stamp EBT benefits; however, there is growing interest by some states because of the one-card approach. For retailers who currently choose to use their own commercial equipment to process EBT, a move to a co-branded environment has the potential to be extremely costly and even cost-prohibitive.

By law, retailers who choose to use state-issued equipment for EBT will not be charged interchange or other transaction fees. However, for a variety of reasons, many retailers have decided to use their own integrated commercial equipment to process EBT transactions, just as they process other debit or credit transactions.

The use of integrated commercial equipment by a retailer significantly reduces the stigma associated with the use of Food Stamp benefits by a customer. In fact, the type of card used to pay for a transaction is invisible to other customers as the EBT card is swiped in just the same fashion, using the same equipment, as all other forms of electronic payment.

Additionally, the use of integrated, commercial equipment allows for full lane coverage instead of having to designate which lanes can be used by customers paying with EBT cards. (Stores who utilize state equipment are issued state terminals based on the volume of EBT transactions the store conducts; usually one to two terminals per store.)

State-issued terminals are separate from the store's commercial equipment and depending on the POS configuration, may require the customer to verbally indicate to the cashier that they intend

to pay for the purchase using an EBT card so the cashier can swipe the card on the terminal and hand the customer a separate PIN pad to complete the transaction.

### **Fees**

Statutory language prohibits retailers who utilize state equipment from being charged fees in order to accept Food Stamp EBT benefits for payment. Currently, retailers who choose to use their own integrated equipment may incur charges for the use of, for example, equipment and telecommunications (phone lines), and will pay transaction fees to process EBT transactions.

Because EBT cards are currently state-issued outside of any commercial co-branding environment, transaction fees have remained relatively low and a high percentage of USDA FNS authorized retailers have chosen to pay those fees in order to provide an enhanced benefit to their customers by having EBT payments integrated into the commercial POS system.

However, if those fees are increased in a co-branded marketplace to more closely resemble current commercial interchange fees, retailers will be presented with a significant cost increase – in some cases ten times the current EBT transaction fees. *Retailers would have no choice but to utilize state equipment, even with the significant limitations it imposes.*

Unfortunately, there is currently not a “marketplace” for interchange fees. These fees are collectively set by the member banks of each of the card associations and do not vary among the various card issuers. The market power of the two card associations combined with the manner in which these fees are set creates a situation where there is not a competitive market and the incentive to issuers is to continually raise these fees at a significant cost to retailers. There is ongoing litigation (some 50 consolidated lawsuits) challenging the manner in which these fees are set.

Current interchange fees exceed the average profit margin of supermarkets. Transaction fees that are currently paid on EBT transactions processed on commercial equipment do vary based on the agreement set with the card processor, but may run one-tenth the cost of interchange fees. In some states, a portion of that EBT transaction fee is reimbursed by the state.

States may expect an incentive for issuing these cards during a tight budget period, and this may be the potential driver toward consideration of this approach. States should consider whether any issuer or card association rebate on a portion of the retailer-paid interchange fee may be offset by a reduction in federal administrative reimbursement funds.

States who are unaware of these fees may not know the size of the fee (some ten times higher than current EBT transaction fees) and the financial impact to USDA FNS authorized food retailers who are operating on an average one-percent profit margin. For more information on interchange fees, see: <http://fmi.org/gr/interchange/>

### **Additional Fees**

In addition to increased transaction fees and interchange fees, retailers could also face other fees such as network charges and monthly service fees in a co-branded environment. Several states are currently considering co-branding. In fact, Utah currently co-brands several state programs

on an EBT card and had planned to move Food Stamp EBT benefits to a co-branded card. Since the discussion of higher and additional fees for retailers and the potential for many retailers to move to state equipment, Utah has decided to postpone implementation of a co-branded Food Stamp EBT card at this time.

### **Retail Merchants and Software/Programming Changes**

The changes required to support an on-line co-branded card could be significant. For example, the changes that would need to be made within the POS system to understand the difference between government entitlement payments such as Food Stamp EBT and open payments such as TANF or Child Support could be monumental.

The POS would need to determine when a transaction should or should not be restricted, as the POS terminal will see this as one access device. Because the POS terminal will see this as one access device, the transaction will always be routed to the designated authorizer of that card and the designated authorizer might not be the correct authorization point. So, the POS terminal would need to know where to route the transactions to differentiate between the various programs.

### **The Affect on State Coffers**

These additional fees on merchants will create a domino effect that will stop at states' doors. When retailers are using their own commercial equipment instead of state-issued equipment to process EBT transactions, they are saving the states money in not having to provide equipment, conduct maintenance on that equipment, or cover telecommunications expenses.

*States must consider a very significant increase in the number of authorized retailers who will opt to use state equipment instead of paying interchange fees and costs associated with programming changes with no added benefit to the merchant or their customer.*

It would be our expectation that the vast majority if not the entirety of retailers would need to choose this option. If retailers begin to opt in for state equipment, then the cost to states to issue Food Stamps through EBT will exponentially increase. This is because states will bear the cost of the equipment, maintenance and telecommunications costs that integrated retailers now endure.

In addition, states issuing co-branded Food Stamp EBT cards will have to adhere to the Payment Card Industry's Data Security Standards<sup>1</sup> (PCI DSS). Retailers have invested millions of dollars and significant time and staff resources to comply with these mandated standards and states would most likely have to do the same.

For all of these reasons, FMI believes that co-branded Food Stamp EBT cards are cost-prohibitive to merchants, which will lead to higher costs for states.

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<sup>1</sup> The PCI DSS is a multifaceted security standard developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB, MasterCard Worldwide and Visa International, that includes requirements for security management, policies, procedures, network architecture, software design and other critical protective measures. This standard is intended to help proactively protect customer account data.