

Hidden Interchange Fees

Full disclosure will lead to fair, cost-based rates

By **Tim Hammonds**

FMI and associations across every retail sector are waging a campaign to rein in the fastest-rising, most uncontrollable cost in our business: the interchange fees that credit-card companies and banks extract from every single plastic transaction. A few facts underscore how serious this issue is for merchants and for all consumers, who ultimately pay the fees:

- These hidden fees cost consumers tens of billions of dollars a year and are soaring as plastic becomes the primary currency used to buy products, and as Visa and MasterCard relentlessly increase the rates.
- All consumers pay whether they use cash, check or credit because the high cost must be built into the price of all goods and services.
- The card companies take advantage of a

Consumers and merchants have the right to know how they are affected by credit-card companies' hidden interchange fees

broken system by fixing the fees in secret with the banks that issue their cards. There is no competition to restrain fee increases. On the contrary, Visa and MasterCard compete by setting higher fees to entice banks to issue their cards.

- Visa and MasterCard charge Americans some of the highest fees in the world, defying economies of scale, technology innovations, and continuing low inflation and interest rates—all of which should make our fees the lowest. Everyone else in the world benefits at our expense.
- A recent European Commission investigation found that credit-card companies are charging too much for their services, and that interchange fees are excessive and unjustifiably inflate consumer prices.
- All these practices are cloaked in secrecy because of credit-card company rules. Retailers are not permitted to disclose the fees to consumers.

Retailers are not even allowed to see the full set of rules they must follow when agreeing to accept credit cards.

The secrecy surrounding interchange fees presents an effective starting point for our campaign, invoking one of the most sacred American principles: "The Right to Know."

Consumers have a right to know an interchange fee is charged on every plastic transaction. They should have a right to avoid that fee, just like they can on ATM withdrawals when the fee is disclosed.

They have a right to know that interchange fees are not based on the actual costs to process transactions, that the fees subsidize reward-program airline tickets, vacations, concierge services and other benefits that the card programs lavish on a select few consumers who qualify for elite premium cards.

It is fundamentally unfair to have all consumers, particularly those who do not even pay with plastic, help pay for these program perks.

Merchants have a right to know the rules the card companies require them to observe—rules so extensive that a Visa executive compared the full set to the size of a New York phone book. No merchant I am aware of has ever seen the complete set, forcing companies to abide by a contract that they cannot fully review.

Once the public and government learn the facts about interchange fees, solutions must follow.

First, require card companies to charge a fair fee based on the cost of the payment service itself.

Second, foster the development of real competition among card companies and banks, eliminating the current upside-down system that drives payment fees higher and higher.

In a truly competitive market, companies offer consumers the best value for their dollar. We see this principle at work every day in the supermarket industry, where Americans enjoy the lowest prices in the world. Consumers deserve the same value when paying for products.



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