Bringing convenience to life.

POLICY POSITION

INTERCHANGE FEES

ISSUE:

In recent years, the convenience services industry began the transition to acceptance of electronic payments in response to consumer demand. Adopting companies invested large amounts of capital in the technology and equipment to allow customers to pay for purchases with either debit or credit cards. The estimated number of vending machines that currently accept a cashless form of payment is nearly 15% of machines. Vending remains a micro-transaction business, with an average ticket sale of approximately $1.25 and predominantly in the form of debit.

The convenience services industry also has seen an increase in small ticket electronic transactions with the expansion of the micro market channel. Micro markets are an innovative and expanding retailing channel that includes automated self-service, in an unattended payment environment, that is directly linked to the vending industry. A micro market is a hybrid form of managed foodservice, vending, coffee service, and convenience store channels. While the average transaction amount in micro markets is higher in than in vending, it is still considered a small ticket transaction by the Federal Reserve rules and the payment networks.

The Durbin Amendment to the Dodd–Frank Wall Street Reform and Consumer Protection Act sought to relieve merchants and consumers from high debit card interchange fees by regulating the fees charged by payment networks and financial institutions for acceptance. In 2011, the Federal Reserve set a maximum interchange fee of approximately $0.22 for all debit transactions. Unfortunately, under these rules the published interchange fees for small ticket transactions have actually gone higher than historical norms, not lower, in some cases as much as quadrupling associated fees.

Due to the unique nature of the convenience services industry, and particularly the vending channel, the Federal Reserve's rules have had a disproportionately adverse impact. The increased fees, when implemented at the maximum $0.22 level, make it fiscally untenable for vending operators to accept debit cards. It has the effect of diminishing or eliminating that stream of revenue, retarding potential sales, and harming consumers who will no longer be able to make purchases with their debit card. For vending businesses in particular, it has the dual effect of increasing the costs of acceptance and reducing both the capital and potential to invest in the very technology and payments systems that could enable them to grow in response to consumer demand.

The Federal Reserve debit card interchange rate has created the unintended result of enabling payment networks and banks that issue debit cards to institute much higher, rather than lower, debit card interchange fees on small and micro ticket transactions. Or, to implement proprietary pricing agreements that limit choice and competition among payment options.

NAMA POSITION:

- NAMA requests that the Federal Reserve revise the rule on debit card interchange rates to acknowledge the unique requirements for small and micro-ticket transactions. NAMA supports a drop in the maximum permissible debit card interchange fee to an amended maximum rate of 4.5 to 5.0 cents for micro-ticket transactions defined as <$5.00 average sales ticket. This change would bring the rate on these transactions in compliance with the requirements of the Durbin Amendment and would achieve the intent to lower the interchange rate charged on purchases made with debit cards.