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Subject: Reg II - Debit card Interchange

Comments:

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Proposal: Regulation II - Debit Card Interchange Fees and Routing
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Comments:

Susquehanna Bank appreciates the opportunity to comment on the proposal. Susquehanna prefers Alternative 2, Stand-Alone Cap. This is primarily because with the same 12 cent per transaction cap for both alternatives, the rule that provides a more simple administrative structure is preferable. Both alternatives are structured to allow recovery through interchange fees of only a portion of the costs of debit card use and related fraud. For our bank, authorization, settlement and clearing costs are only about 40% of the costs related to debit card activity. More than 25% of the costs are fraud related: detection, recovery, staffing and losses. The proposal indicates that other bank products cover administrative costs and security innovations without direct cost to the counterparty. In many such cases, however there is a cost to the counterparty when the transaction is fraudulent, such as a returned check or a credit card reversal. There are also fees for the bank customer using the account or the service. The consumer debit card user may bear a larger share of these costs going forward. The promise of periodic review of the costs without either a set schedule or any indication of what change in reported costs would trigger a review, makes this cap a limit that banks must immediately seek fee alternatives to offset. The reduced costs that the rule believes could be achieved can not occur at once due to existing contracts. In addition all the costs which for the bank are part of the debit card service, even if not included under the rule, will still be incurred. The requirement for two unaffiliated networks also reduces the ability of the issuer to negotiate or obtain volume based pricing since the routing will be merchant driven and unpredictable. Additional network participation results in choices and costs such as royalty and network certification costs. There is also a concern that as a result customers will face different processes for handling, authorization, clearing and settlement for transactions using each path unless standardization of network operating rules occurs. ATM transactions should

clearly be exempted from two network requirements. Without the merchant role, the argument for a need to have alternatives is reduced and the additional costs offer little benefit to the customer. As a final comment, we believe that the rule is generally looking backward at bank issued debit card transactions with merchants through a payment network and creating a rule only for that model when the innovations in mobile, fob, and wireless devices are rapidly changing the transaction options and reducing the opportunity for review of both the card and the individual requesting the payment. New approaches may soon even change the channels through which payments can be generated and will likely move to real time transactions and could create direct non-network payment instructions direct to the consumer's bank. Since consumers have moved rapidly to increase debit card use as a convenience, even where discounts for other methods of payment are available, we believe consumers in the future will act for their convenience and perceived financial benefit. Focusing on the network fee structure separate from fraud and the risks related to transactions and the costs required in order for banks to offer these transactions is likely to create a rule that is very quickly anachronistic.