

Proposal: 1748 (AG15) Regulation II - Debit Card Interchange Fees and Routing

Description:

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Comment ID: 140341

From: Todd Kruse

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Subject: R-1748; Regulation II - Debit Card Interchange Fees and Routing

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Comments:

NONCONFIDENTIAL // EXTERNAL

Dear Secretary Misback,

Recently I paid for a meal at QC Pizza in Minnesota using their Square electronic payment system.

Since I had read the book written by Square's co-founder the restaurant owner and I discussed the service. He was a huge fan of this service.

The Square story about innovation, competition, and customer experience is fascinating.

All decision makers in this proceeding should read this book and/or ask Square to testify.

If the USA didn't have innovators like Square our economy would grow stagnant.

Book is at - <https://www.penguinrandomhouse.com/books/617493/the-innovation-stack-by-jim-mckelvey/>

Thank you for the opportunity to comment on Debit Card Interchange Fees and Routing. We applaud the Federal Reserve's plans to clarify that banks must allow retailers to have the choice as to where to route online debit card transactions for processing, the same as they do with in-store debit transactions.

When Congress, in passing the Durbin Amendment, said routing was up to merchants, that meant wherever the purchase is made, not just in stores. The accelerated shift to online spending during the pandemic has put this this issue front and center. The lack of routing ability has cost retailers billions of dollars, and that is an added expense businesses like ours can't afford as we work to recover from the economic impacts of COVID-19. The National Retail Federation has raised this issue with the Fed repeatedly, and we are glad to see the Board of Governors take action. In addition to providing merchants with the competitive choice to which we are entitled, the Board of Governors' move will help bring about the competition that is needed to bring debit interchange fees under control. Card processing fees ultimately drive up prices for consumers, and cannot be allowed to continue to grow.

When the Durbin Amendment was passed, processing a debit card purchase on networks required entering a PIN, or authenticating the purchase through a signature. In the original version of Regulation II, the Federal Reserve Board anticipated that the smaller debit networks, which could only process PIN, would develop the ability to process transactions without a PIN-thereby insuring that, no matter what form of authentication a customer used, the merchant would have a routing choice between two unaffiliated debit networks. However, today, even as more and more purchases are happening online, many card-issuing banks have not enabled "PINless" capability on their cards for the competing networks.

The absence of at least two unaffiliated networks for (online) transactions forecloses the ability of

merchants to choose between competing networks when routing such transactions, an issue that has become increasingly pronounced because of continued growth in online transactions, particularly in the COVID-19 environment. A Fed survey found banks' average cost of processing debit transactions was about 8 cents as of 2009. The cost has steadily fallen in new surveys conducted every two years since then and stood at 3.9 cents as of 2019 which was released on last month. That means the 21-cent figure has doubled from about 2.6 times banks' cost to 5.4 times the cost. With the PIN issue limiting routing options, the Fed survey found networks operated by Visa and Mastercard accounted for two-thirds of debit transaction processing in 2019. In addition, online debit volume was growing at 17.9 percent a year, more than four times the in-store growth rate of 4.2 percent. Average online debit purchases were also nearly twice as large as those in stores, at \$61.36 compared with \$32.65.

My company needs debit network routing options to help contain network costs. I strongly encourage the Board to act quickly to finalize the clarification, so it is in full effect before the 2021 holiday shopping season. Not only is the clarification necessary to enforce federal law, but it will also bring immediate relief to my business and help me continue to provide the low prices and enhanced service my customers expect and deserve. I also would like to further urge the Board to lower the debit card cap on swipe fees which have totaled \$24.3 billion in 2019, up from \$16.2 billion in 2009.

Thank you again for the opportunity to provide comments on the proposed clarifications, and I strongly encourage the Board to act quickly on both enforcing the routing law and reducing the regulated debit rate.

Sincerely,

Todd Kruse