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August 11, 2021

Via Email (regs.comments@federalreserve.gov)

Ann E. Misback
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: *Docket No. R-1748 - Debit Card Interchange Fees and Routing*

Dear Ms. Misback:

Lyft appreciates the efforts the Federal Reserve Board and Staff have devoted to the regulation of debit card interchange fees. We support the proposed amendment presently under consideration, and we believe the Board should take further action to adjust the maximum interchange fee, particularly as it applies to transactions in smaller denominations. As things now stand, those smaller dollar-value transactions bear a disproportionate share of the interchange fee burden.

Ensuring equity in the apportionment of interchange fees is important to Lyft and to its customers. Debit cards represent a popular method of payment for everyday transactions, including for rides and other micromobility services that consumers can find using Lyft. And large numbers of the transactions Lyft handles are in small denominations. In 2019, for example, more than 25% of the millions of transactions Lyft processed were in amounts less than $10. If interexchange fees are overallocated to such small transactions, Lyft is necessarily disadvantaged. So too are its customers, when a disproportionate share of their payments are being retained by issuing banks. Lyft believes everyone should have access to reliable and affordable transportation, which has the power to help address our cities' biggest challenges, including joblessness, food insecurity, and poor health. The need for such transportation services is particularly acute for those who do not own their own cars, including the economically disadvantaged.

While current regulations protect against certain abuses by issuing banks, they do not go far enough – particularly for smaller transactions. Issuers that are subject to the fee cap are permitted to collect 22 cents per transaction (plus an 0.05% based on the size of the transaction). For a $2 ride share transaction, for example, that means a regulated bank keeps fully 11% of the amount collected from the customer. Anomalously, issuers keep a smaller percentage of larger transactions. For example, on a $100 purchase, a regulated bank would be allowed to retain interchange fees of just 3/10ths of one percent of the transaction amount. This discrepancy for debit card transactions contrasts with interchange fees for credit card transactions, which increase in proportion to the transaction amount. It is also inconsistent with the cost structure that the interchange fee is meant to address; many of the issuing banks' costs (such as those

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associated with fraud losses) are sustained in proportion to the dollar amount of the transaction, and no issuer costs are incurred in inverse proportion to the size of the transaction.

The current proposal marks one commendable step. There is no remaining technological reason for issuers to be exempted from the network competition requirement for card-not-present transactions. Lyft knows this firsthand, as it has already seen a small number of issuers voluntarily enable not just a dual-message network (like Visa or MasterCard) for such transactions, but also one or more single-messages networks. The remainder of the issuer community can and should be required to follow suit, consistent with the letter of the authorizing statute.

However, the competition resulting from enabling just two networks will not be sufficient to protect merchants and their customers from excessive network fees. As data collected by the Board demonstrates, there are a number of single-message networks that impose – and pass along to the issuing banks – interchange fees just as high as those of the dual-message networks.[1] As a result, if issuing banks are required to enable only *two* unaffiliated networks, they will have both the opportunity and the incentive to choose the networks with the highest permissible interchange fees, not the lowest.

As a practical matter, therefore, the fee set by regulation will continue to function not only as the ceiling but also the floor. Recognizing, then, the central importance of the price cap, Lyft urges two important steps to improve the regulatory framework:

1. **The Board should set interchange fees that are variable – not fixed – for smaller transactions.**

   As discussed above, charging essentially the same fixed interchange fee for small transactions as for larger ones means that banks keep an unjustifiable portion of small debit card transactions. This could be remedied quite simply by requiring interchange fees to be calculated on a variable basis for smaller transactions. For example, a revised regulation could continue to apply a fixed maximum fee for transactions above $10, but a variable fee proportional to the transaction value for those between $0.01 and $10.

2. **The Board should reduce the maximum interchange fee.**

   In the enabling legislation, Congress directed the Board to establish regulations setting interchange fees that are "reasonable and proportional to the cost incurred by the issuer with respect to the transaction."[2] In the decade since the current interchange fee was set, technological advances have greatly improved the efficiency of processing debit card

[1] *See* https://www.federalreserve.gov/paymentsystems/files/Avg_IF_by_PCN.pdf (column headed "Average interchange fee per transaction").

[2] 15 U.S.C. § 1693o-2.

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transactions.[3] Issuers have also managed to reduce their share of fraud-related losses, while the shares picked up by merchants and cardholders have increased.[4] (For card-not-present transactions, including all of the transactions on Lyft's platform, merchants bear 100% of the fraud losses and issuers bear none.) As things now stand, the average cost of actually processing a transaction has fallen by nearly half over the last decade to just \$0.039 – a tiny fraction of the current interchange fee.[5] The facts simply do not support the current fee level.

These reforms would promote the goals of fairness and proportionality that motivated Congress and the Board in the first place to impose limits on the interchange fees issuers are permitted to impose.

Respectfully,

DocuSigned by:

Kaushik Subramanian

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Kaushik Subramanian
VP, Payments

[3] *See* Federal Reserve Board, *2019 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions* 20-21 (May 2021).

[4] *Id.* at 4.

[5] *Id.* at 20-21. Issuers also sometimes point to other costs, such as fraud losses, fraud prevention costs, cardholder inquiry costs, reward program costs, and non-sufficient funds handling costs. Even assuming for sake of argument these costs should all be factored into the regulatory price cap, they could still not justify the current fee level. The Board's most recent data indicates that this expanded set of costs, averaged over all debit card transactions pro rata, have fallen substantially over the past decade and now amount to only \$0.12/transaction. *Id.* at 23.