

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

Description:

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From: Iowa Bankers Association Payments Council, John K. Sorensen

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

Comments:

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By Electronic Delivery to regs.comments@federalreserve.gov

August 9, 2021

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

Re: Docket No. R-1748: Debit Interchange Fees and Routing (RIN 7100-AG15)

The Iowa Bankers Association (IBA) appreciates the opportunity to comment on the Federal Reserve System's proposed rulemaking to amend Regulation II to clarify routing requirements for card-not-present transactions. The comment period extension has allowed more time to solicit feedback from our nearly 300 bank members. The Iowa Bankers Association has been the voice for the banking industry in Iowa for 134 years. Ninety-eight percent of Iowa banks are members and we are the largest state banking association in the country.

The IBA opposed the Durbin amendment to the Dodd-Frank Reform and Consumer Protection Act in 2010, based on our belief that consumers are poorly served by government mandated price controls in nearly every circumstance. We believe this has proved to be true in the case of Durbin, as consumers have seen little benefit from merchant savings, and card issuing banks have had to pare back consumer benefits - such as free checking and card rewards programs. Having said that, we do believe the provisions of Regulation II - requiring at least two routing options for merchants - has helped to promote competition and choice for all parties engaged in end-to-end payments.

The IBA will comment on the two issues the Board has asked for clarification on:

1. The requirement that each debit card transaction must be able to be processed on at least two unaffiliated payment card networks, including card-not-present (e-commerce) transactions.
2. Standardization and clarification of the use of certain terminology.

Routing Choices

The purpose of Regulation II was to provide at least two network routing choices for debit transactions to ensure a competitive and robust marketplace that ultimately benefits consumers. As the marketplace evolves - the regulations should also evolve to ensure that the rule applies to all debit transactions - those that existed when the rule was written and those enabled through technologies that may be developed in the future. Today, this would include a debit card as well as card proxies like fobs or information stored in an e-wallet on a mobile phone, wearable or other device.

Consumer usage of debit cards for on-line purchases has shown dramatic growth since Regulation II was drafted in 2011. It has only accelerated during the pandemic. The consumer preference for

convenient on-line shopping is here to stay. At the same time, so called "single message" networks have invested in technology necessary to process consumer card-not-present transactions. As the Federal Reserve points out in their commentary, even though single message networks have acquired the needed technology, their share of card-not-present transactions is much lower than their share of card present point-of-sale transactions. This can only result from lack of network availability or choice. The IBA understands that acquirers and acquirer processors play a significant role in facilitating the routing intent of Regulation II. We encourage them to accept a supportive posture and facilitate the network choice intended by the regulation.

As previously stated, the IBA does not support interchange price controls. As long as the marketplace offers choice and a level playing field for all participants, competition will determine the value derived from completing a secure, convenient, end-to-end payment. Today, card issuers are faced with rising security and fraud costs, in addition to continual investments in compliance systems and technology upgrades necessary to meet consumer demands for faster, more secure payments.

Standardized Terminology

The IBA also believes that standardized terminology is needed to help clarify that deploying tokenization during the payment process does not and should not restrict the ability to access at least two unaffiliated networks in card-not-present and card-on-file environments. It is important that tokenization be based on standards where the issuer controls the keys, and tokens are portable between networks, ensuring the issuer has control. We believe it would help to clarify this point if the Regulation did not use the term "card-not-present" and "dual-message" interchangeably and instead require routing choice for all debit transactions.

Thank you for the opportunity to comment on this important amendment to Regulation II.

Respectfully,

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