Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Description:

Comment ID: 159800

From: Hancock Whitney Bank, Eric Rietschel

Proposal: 1818(AG67) Debit Card Interchange Fees and Routing

Subject: 1818(AG67) Debit Card Interchange Fees and Routing

Comments:

May 10, 2024
Via Electronic Mail

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

By Electronic Mail

Re: Regulation II Proposed Amendment - Debit Card Interchange Fees and Routing (Docket No. R-1818, RIN 7100-AG67)

Dear Ms. Misback:

Hancock Whitney Bank (the Bank) is the banking subsidiary of Hancock Whitney Corporation, a publicly-traded financial holding company headquartered in Gulfport, MS with over $36 billion in consolidated assets. The Bank operates 237 financial centers and 223 ATMs across Mississippi, Louisiana, Texas, Alabama, and Florida and is the 48th largest debit card program in the country according to the Nilson report[1]. As such, we appreciate the opportunity to comment on the Notice of Proposed Rule Making on Debit Card and Interchange Fees and Routing (the NPR).

On behalf of the Bank, I express our concerns that decreasing the interchange fee cap under Regulation II (Docket No. R-1818, RIN 7100-AG67), as set forth in the NPR, should be reconsidered for the reasons set forth below.

Processing and Operational Costs:

The NPR potentially creates a cost basis for covered institutions leveraging a weighted average for covered transactions. This is based on reporting from the largest issuers suggesting that the average per transaction costs for the industry have been decreasing. This methodology favors the very largest financial institutions that have the benefit of significantly lower costs and greater economies of scale. It does not account for the large percentage of issuers that are unable to fully recover costs using the current methodology. In fact, the Bank's per item debit processing costs remained constant and fraud charge off expenses increased 32% in 2023. This is in contrast to the proposal's assertions that expenses related to debit card transactions have nearly halved and fraud losses have decreased. Furthermore, the proposal fails to provide a thorough assessment of direct and indirect processing and operational costs associated with delivering debit card services, the potential ramifications to innovation, and the resulting impact on consumers.

The data referenced by the Federal Reserve Board (FRB) to justify the reduction of interchange fees fails to consider the full range of operational components, support processes, and required technologies necessary for sustaining a competitive and viable debit card program. The FRB should incorporate more recent cost analyses and incorporate all relevant expenses incurred by banks. This should include card production, delivery costs, account maintenance, support activities, and fraud monitoring. Further, it's important to acknowledge that a portion of debit processing costs is attributed to fulfilling evolving regulatory obligations (such as OFAC, BSA, etc.), emphasizing the necessity for the FRB to base any policy decision on a comprehensive and up-to-date understanding of the actual costs sustained by financial institutions of varying sizes. This requires accounting for both indirect and fixed costs associated with a debit card ecosystem. For example, approximately 15% of the Bank's contact center agent calls are dedicated to assisting debit cardholders with transaction inquiries, research, disputes, and fraud resolution. We strongly recommend that the FRB evaluate the aggregate results of the 2023 Debit Card Survey for Issuers that concluded on May 1, 2024 before making policy changes. This survey may offer revealing insights into current operating costs and the impact of the current inflationary cycle.

Innovation impacts:

The revenues generated from debit card transactions are reinvested in new technologies and initiatives aimed at meeting our clients' evolving needs, protecting the payments system and preventing fraud. This ultimately supports our ability to provide deposit accounts and essential financial services to the communities we serve. However, the proposed reduction in the interchange price cap may require banks to cut costs to compensate for the decrease in revenues. This potential outcome discourages banks of all sizes from investing in systems, processes, and technology, thereby posing risks to both consumers and financial institutions.

Merchant Surcharge and Consumer Impacts:

Merchants, operating within the existing regulatory framework, are increasingly adopting surcharge pricing, effectively shifting a portion of the processing expense burdens onto consumers. The proposal overlooks these practices, diminishing the likelihood that merchants will pass on to consumers any savings that might arise from the changes proposed in the NPR. As the costs of delivering basic banking services to consumers rise and revenues decline, there is a risk that the proposal may prompt the discontinuation of lower-margin services and accounts while consumers continue to endure surcharge pricing. Such an outcome could disproportionately impact low to moderate-income families and households.

Conclusion:

In summary, the proposed reduction in interchange fees carries significant implications for both financial institutions and consumers. The data relied upon by the FRB appears incomplete, highlighting the need for further research to comprehensively assess all relevant expenses incurred by banks. Additionally, the potential reduction in interchange fees fails to address the issue of merchants imposing surcharges, which ultimately burdens consumers. This, combined with the risks of service degradation and potential discontinuation of lower-margin accounts, poses significant concerns for many consumers. We strongly urge the FRB to consider the broader implications and reconsider the proposed reduction in interchange fees.

Sincerely,

Eric Rietschel
SVP, Director of Emerging Payments