

## Merchants are shouldering fraud protection burden

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*From Ms Jennifer Hatcher.*

Sir, It appears that the big banks and their credit card allies have been quite effective in their misinformation campaign about credit and debit card swipe fees. Your article "[Visa and MasterCard warn consumers over fees](#)" (January 31) cites the banks' claims that debit card swipe fees are set so high because of their fraud protection and guarantee of payment costs. The reaction from merchants who hear this claim? "If only that were true."

As fact would have it, merchants shoulder much of the burden of fraud protection and are not necessarily granted that guaranteed payment. The Federal Reserve found that across all types of transactions, 43 per cent of reported fraud losses were borne by merchants. Other studies show merchants absorb even higher losses than banks. In order to increase their profits, Visa and MasterCard have even been encouraging customers to use the higher interchange signature debit on their transactions rather than PIN – despite the fact that signature debit is significantly more prone to fraud than PIN debit. When the big banks and credit card giants are prioritising profits over security, you know the system is broken.

Perhaps even more erroneous is the declaration that debit cards acts as an instant guarantee of payment. It seems as though Visa and MasterCard haven't been sending around their dispute resolution guidelines or included the concept of "chargebacks" in their new public awareness campaign. A chargeback is just as it sounds – when Visa or MasterCard reverses the debit or credit card charge back to the merchant. This means that any time there is a customer dispute, fraud, a processing error or an authorisation issue, the merchant is likely to be the one on the hook for the cost, not the bank or credit card company.

The banks are spending hundreds of thousands of dollars to spread misinformation about swipe fees. Perhaps it's because they know that they can't win on the merits. The facts are very clearly on the side of merchants and consumers.

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## Visa and MasterCard warn consumers over fees



By Suzanne Kapner

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Visa and MasterCard are spending tens of thousands of dollars on a soon-to-be-unveiled public awareness campaign designed to educate consumers on the perils of new debit card restrictions, according to people familiar with the plan.

Working with major credit card issuers and smaller community banks, Visa and MasterCard are taking advantage of a **rare opportunity potentially to delay the implementation of the new restrictions, which would limit the fees that banks charge merchants each time their debit card is swiped.**

Banks claim the changes could cost them \$12bn a year in lost fees, while benefiting large retailers such as **Walmart** and **Target**.

Several Congressmen recently signalled that they would be open to revisiting the rules, which became law last year as a last-minute amendment to the Dodd-Frank Wall Street reform act.

Barney Frank, the Massachusetts Democrat who was one of the architects of the regulatory overhaul, said he would be willing to work with Republicans now controlling the House of Representatives on redesigning the restrictions.

Spencer Bachus, who replaced Mr Frank as the chairman of the House Financial Services Committee following the midterm elections, has scheduled a tentative hearing for February 17.

The Federal Reserve is currently accepting comments on a proposal to cap the fees at 12 cents per transaction, roughly a 70 per cent reduction from current rates.

If finalised, the restriction would be a victory for large merchants, which have long argued that banks overcharge them for processing debit card transactions.

"A debit card is nothing more than a plastic cheque," said J. Craig Shearman, the vice-president of governmental affairs for the National Retail Federation. "It draws money out of the same account as a paper cheque, yet paper cheques clear at face value."

Banks claim that debit cards carry additional costs, including fraud protection and an instant guarantee of payment. They have warned that the cap being proposed by the Fed would only cover one-fifth of those expenses.

To make up for the shortfall, some banks say they could add monthly fees to debit cards or restrict their use – ultimately forcing consumers to pay more for everyday banking services.

Other perks are also likely to disappear. **JPMorgan Chase**, for instance, is doing away with a programme that allowed customers to waive current account fees if they used their debit card five times a month.

In addition to curtailing bank revenue, the rules would hurt Visa and MasterCard, which set the fees, by potentially opening the debit card networks they run to more competition.

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