



How the card industry got it badly wrong

Events this week have proved what a poor job the card industry made of defending interchange.

First, look to the US where, unlike other regulators around the world, the Supreme Court has recognised that payment cards offer benefits to customers as well as merchants. In a case involving American Express, the Supremes endorsed a lower court's ruling that, for two-sided platforms like payment cards, the government – the Department of Justice and 11 states – should have to prove that harms on one side of the platform outweigh benefits on the other. Although the judgment arose from a DoJ claim that Amex shouldn't pressure merchants to stop steering customers to cards with lower interchange rates, the basic principle now established is extremely valuable: customer benefits count just as much as merchant costs.

Whether the principle can retrospectively be applied in the US to the Dodd-Frank cuts to debit card fees is an interesting question. It's a safe bet that EU authorities will turn a blind eye.

For consumers, cards are a no-brainer

The fact is that, in arguing with the regulators, the card industry consistently fails to highlight the ways consumers benefit from plastic: I can walk into a restaurant in a city in a continent where I've never been before and buy a meal. I'm totally unknown: but the logo on my payment card is universally recognised. And that transaction will cross the world and be faithfully recorded on my statement. That has immense value to me. Apart from the convenience, there's the peace of mind that comes from not having to carry large sums of money around. My Internet purchases? Couldn't happen without my card account. And that's to ignore the transaction protection and – now unaffordable to EU issuers – rewards programmes.

Clearly, consumers are huge winners from their mostly free payment cards. Nor is it just shoppers: frequent travellers, small businesses, corporations, all have products specially tailored to their needs.

And it gets better: today, those benefits are also being delivered through smartphones. Tomorrow, who knows? Iris recognition, fingerprint, maybe even an embedded chip?

These should be convincing arguments: but they weren't made well enough or were simply drowned out by the synthetic outrage coming from the merchants and their trade bodies.

Failure to make them will cost Visa and Mastercard \$6.5 billion: that, plus untold legal charges, is what we learned this week that the associations plus several banks are now likely to pay to settle a US merchants' suit over interchange fees. In a claim cynical even by corporate lobbyists' standards, the merchants had argued that these "unfair costs" ultimately were paid by customers, in the shape of higher prices.

This, despite the clear evidence from around the world that, wherever interchange is cut, the savings go straight into merchants' tills. Not a penny has ever been shown to have reached a customer.

But what about merchants?

So, what good are cards to businesses? To listen to the National Retail Federation (NRF) in the US, merchants derive no benefit at all from accepting cards.

THE NRF: HIGH ON RHETORIC, LOW ON LOGIC

"Today's ruling is a blow to competition and transparency in the credit card market," National Retail Federation general counsel Stephanie Martz said in a statement. "The American Express rules in question have amounted to a gag order on retailers' ability to educate their customers on how high swipe fees drive up the price of merchandise."

To which there is one simple response. Have all your members ban card transactions for a week.

Then watch the cash pile up in the back office. Arrange security and insurance for it. See the check-out queues stretch out of the store. Notice how basket values fall. Live with the customers who walk away to a competitor. See e-commerce stop dead.

And that's just the basic functionality of card acceptance. Add to that the hugely valuable data which, perhaps belatedly, issuers, acquirers and associations are now making available to merchants. Clearly, cards offer true money-in-the-bank value to businesses. What price they

should pay for it? Well, that's open to debate. But to deny that there is value is nonsense.

And to let the merchant federations get away with this nonsense was and is an outright failure.

This week's final word comes from the UK: Tesco has announced it's experimenting with a "card only" store. Why? It halves check-out time. Are you listening, NRF?