

May 4, 2022

The Honorable Dick Durbin
Chairman
Committee on the Judiciary
United States Senate

The Honorable Chuck Grassley
Ranking Member
Committee on the Judiciary
United States Senate

RE: National Grocers Association's Statement for the Record – Committee on the Judiciary Hearing, "Excessive Swipe Fees and Barriers to Competition in the Credit and Debit Card Systems"

Dear Chairman Durbin and Ranking Member Grassley:

The National Grocers Association (NGA) represents an industry comprising more than 21,000 independent community grocers across the country and the wholesalers, manufacturers and suppliers who service them. The independent grocery sector is responsible for 1.1 million jobs and one-third of all U.S. retail grocery sales, and generates more than \$36 billion in taxes. Roughly 65% of NGA's membership is made up of single-store operators, and many of these family grocers have fed and served their communities for generations.

Grocery is a highly competitive industry with net profit margins ranging from 1-2% annually. For many of our members, the fees associated with accepting credit and debit cards is one of the highest costs of doing business. These "swipe fees" have a direct effect on our members' operations and the viability of their businesses. NGA thanks the committee for holding this timely hearing and would like to illustrate some of the impacts that the lack of competition in our card payment systems have on Americans and the small businesses that serve them.

The U.S. Card Payments System is Broken

Independent grocers, and U.S. merchants more broadly, strive to provide myriad payment options to meet their customers' preferences for how they want to transact. As credit and debit payments become more and more ubiquitous, grocers must reckon with the fact that an ever-growing share of their transactions come with an ever-growing cost in the form of swipe fees.

For more than a decade, Visa and Mastercard have set not only their network fees – the costs associated with a credit or debit card payment being routed through their network – but the interchange fees that

merchants pay to the issuers of the credit and debit cards with which Americans transact. Nearly twice a year, every year, these two card networks have instituted fee changes that, on net, almost always lead to increases in merchants' costs. Case in point, this hearing comes on the heels of a net \$1.2 billion increase in interchange fees and other merchant costs implemented by Visa and Mastercard in April 2022.

Visa and Mastercard use their dominance over the U.S. card payment marketplace to set not only the fees associated with accepting card payments, but the rules and "standards" that govern the rest of the participants in the marketplace as well. Unfortunately, the benefit of this duopoly has been one-sided. Visa and Mastercard profit margins continue to lead the S&P 500, and credit and debit card issuers continue to gain from central interchange price fixing. Merchants and American consumers, meanwhile, are left with increased costs and higher rates of fraud.

U.S. merchants paid \$137.83 billion in credit and debit card processing fees in 2021, a 24.3% increase from 2020 and more than double the amount paid a decade ago.¹ U.S. merchants pay the highest swipe fees in the industrialized world, an average of 2.2%, but these fees can vary from 1-4% depending on the type of credit card a customer uses. Merchants have no ability to affect these costs. Even some of the world's largest retailers do not have leverage to negotiate significantly lower swipe fees.

The U.S. also has the dubious distinction of leading the world in card fraud, with merchants shouldering an ever-increasing percentage of these costs. Visa and Mastercard continually use increased rates of U.S. card fraud as an excuse to implement higher fees onto merchants, yet neither network actually pays for the costs of fraud. According to the Federal Reserve's most recent debit issuer survey, "From 2011 to 2019, the percentage of losses from fraudulent transactions reported by covered issuers absorbed by merchants steadily increased from 38.3 to 56.3%, while the percentage of losses absorbed by issuers steadily decreased from 59.8 to 35.4%."² Of the other 8.3%, the Fed survey states, "Cardholders absorbed the remainder."

Everyone Pays for Swipe Fee Increases

For independent grocery – a high-volume, low-margin industry – swipe fees are too costly to absorb fully and, unfortunately, some portion must be passed onto American consumers in the form of higher prices. Whether a customer pays with a credit card or not – or receives points, miles or other rewards – all

¹ Nilson Report, "Merchant Processing Fees in the United States—2021", Issue 1216 (March 2022)

² Board of Governors of the Federal Reserve, "2019 Interchange Fee Revenue, Covered Issuer Costs, and Covered Issuer and Merchant Fraud Losses Related to Debit Card Transactions", (May 2021)

Americans have to pay for these increased costs. According to merchant payment consultancy CMSPI, the average American family pays more than \$700 per year in swipe fees.

Swipe Fees are an Inflation Multiplier

Grocery is an incredibly competitive industry in which even a few cents can drive life-long customers to shop at a different store. In this environment, independent grocers do all they can to keep costs low and maximize savings that can be passed on to their customers. This trickle-down savings effect has been illustrated in the delta between the Producer Price Index (PPI) and the Consumer Price Index (CPI), but our current economy is being impacted by a level of inflation not experienced in over a generation.

Swipe fees – whether they be the interchange portion that Visa and Mastercard set on behalf of the banks that issue the credit cards, or the network fees portion that is paid directly to Visa and Mastercard – are generally a percentage of every transaction and therefore act as an inflation multiplier. As inflation forces the costs of goods and services higher, merchants and their customers must shoulder an ever-greater amount of these fees.

Thank you for holding this hearing and bringing transparency to the U.S. card payments marketplace. The independent grocery industry, and the Americans across our country who our members' serve, need the federal government to inject competition into this broken system. Allowing Visa and Mastercard to continue their swipe fee duopoly will only lead to worse outcomes and more costs, to American consumers, merchants, and the economy as a whole.

National Grocers Association