



Summit Strategies Merchant Support:

Swipe-Fee Reform

Understanding Swipe-Fee Reform

The message in the headlines and articles in the media are clear: businesses, including those in the healthcare industry, are burdened by the rising costs of debit card fees.

In 2009, U.S. merchants paid \$62 billion in interchange fees on \$3.7 trillion of goods and services, according to *The Nilson Report*, a leading source of news and proprietary research on consumer payment systems.

Interchange fees, also called “swipe fees,” on average cost 1% to 2% of each debit card transaction. These fees account for the largest portion of the cost of accepting debit cards. A portion of the collected fees go to credit card companies to support their large network, while the remainder goes to the financial institutions or the “issuing banks” that provide the cards to consumers.



Swipe Fee Reform

The Swipe Fee Reform bill allows the Federal Reserve authority to cap debit card interchange fees and requires that they be “reasonable and proportional to the actual cost incurred.”

After a long lobbying effort on behalf of the banking industry, the result of

this monumental win for businesses and medical practices across the United States means that the Federal Reserve will be able to cap the transaction fees for debit cards at 23.9 cents, a higher cap than the 12 cents initially proposed. Currently, the average debit card interchange fee is 44 cents per transaction.

The Senate version of the bill recommending a discount to customers who pay with card types that carry lower fees was not included in the final version. Merchants, including medical practitioners, are obligated to accept all types of debit and credit cards on the same terms.

The legislation targets only debit card fees. Credit card fees remain unregulated.

The bipartisan reform will bring meaningful cash flow relief to millions of practitioners, allowing physicians to hold down prices for services.

Additionally, it prevents more than \$1 billion dollars a month from being added to the balance sheets of big banks.

The Banks’ Perspective

The American Bankers Association (ABA) issued a statement that the vote would benefit big retailers and hurt small banks. “The Senate has essentially said it is fair for one industry to reap what another has sown, and American consumers will now have to pay more for basic banking services. Community banks, the backbone of local communities will suffer the most,” said Frank Keating, ABA President. The debate will continue long after the reform is enacted.

A Historical Perspective

The swipe fee reform language included in the Dodd-Frank Financial Reform Conference Report was based on an amendment introduced by Senator Richard Durbin (D-IL) and passed by the Senate in a broad bipartisan vote. Representatives Peter Welch (D-VT) and Bill Shuster (R-PA) were also instrumental in highlighting the importance of swipe fee reform in the House of Representatives.

Banks of all sizes, collaborating with card networks, pushed back hard to lobby against this provision. The House adopted a compromise version that was offered by Senator Durbin. The revised language is now part of the financial regulation signed by President Obama on July 22, 2010 will go into effect on October 1, 2011.

The swipe fee reform will benefit all those who accept debit cards by reining in the excessive fees formerly imposed by credit card companies and banks.

Gain The Most Benefit

While the cost of debit card transactions will be capped at the interchange level, the entire benefit could go to your processor if your account is not set up properly. It is now more important than ever to consult an advisor who can provide your practice administrators with accurate information so that you can make an educated decision to gain the most benefit from swipe fee reform.