

## **Interchange: Facilitating Benefits to Cardholders, Merchants and Society**

An interchange fee is a small fee paid by a merchant's acquiring bank to a cardholder's issuing bank as part of an electronic payment card transaction. Interchange promotes a strong, competitive and efficient global electronic payments system for consumers, merchants and society. It serves as a critical tool to balance the benefits and costs of electronic payments, and ensures that each participant pays their fair share of the costs associated with processing and protecting payment card transactions. For merchants, this fee allows them to enjoy all of the benefits from card acceptance, including security, guaranteed payment, fraud protection and speed of service. Merchants that accept electronic payments also benefit from reducing the costs and hassle associated with handling other forms of payment, including bounced checks, check verification and guarantee services, and check processing; as well as collecting, counting and safely transporting cash.

### **The Electronic Payments System: Consumer Benefits**

The use of electronic payments provides myriad benefits to consumers. While consumers do not directly pay interchange fees, they derive significant value from them.

**Participation in the Global Economy:** MasterCard's global electronic payment system facilitates commerce worldwide, allowing consumers to make purchases in more than 210 countries around the world. A consumer with a card issued by a credit union in Baltimore, for example, can make an online purchase from a merchant in Hong Kong without ever leaving home. That cardholder can use the same card to purchase an airline ticket, fly to Hong Kong, and make the purchase in person without any cash in his or her pocket. Payment cards have rendered cash and travelers checks – and the uncertainty that come with them – unnecessary for millions of travelers.

**Convenience and Safety:** Consumers across the economic spectrum can use payment cards to access their money at ATMs and make purchases at any time in fractions of a second at more than 30 million merchant locations across the globe. Electronic payments are more convenient and more secure than cash. MasterCard offers cardholders zero liability for unauthorized use – consumers are not financially responsible for purchases made if their card is lost or stolen. Additionally, consumers benefit from the security, efficiency and convenience of electronic payments, including cutting-edge technologies like MasterCard's "tap-and-go" PayPass™ technology and mobile payments.

**Innovation and Choice:** Thousands of financial institutions worldwide are part of the global electronic payments system, with intense issuer competition prompting innovation and allowing consumers the ability to choose between thousands of debit, credit and prepaid payment products that best fit their needs. Because interchange balances the benefits and costs of the electronic payments system, it encourages the participants in the system to innovate and invest in the future – from "tap and go" products such as MasterCard PayPass™ enabled cards and other devices to payment via mobile phones, product innovations are making payments faster, easier and more secure to meet the needs of today's consumers.

**Rewards:** By using electronic payment cards to make purchases, many consumers receive additional value through rewards or incentives programs – such as cash back, college savings or frequent flier miles – offered by the card issuer. Card-issuing banks offer these programs to consumers to enhance the benefits associated with electronic payments and compete for business.

## **The Electronic Payments System: Merchant Benefits**

By participating in the MasterCard system, merchants receive extraordinary benefits including guaranteed payment, increased sales, fraud protection, and the ability to attract customers to a speedy, efficient purchasing experience.

**Security and Fraud Prevention:** Paying the relatively small interchange fee allows merchants to accept payment cards and consequently hold much less cash than before electronic payment cards, lowering the merchant's risk of being targeted for theft. Interchange also offers incentives for the innovations that provide for new payment options, broader ranges of card products, and investments in cutting-edge security and fraud prevention measures.

**Increased Sales:** Being a part of the global electronic payments system drives increased revenues for merchants because many consumers prefer making payments with cards over cash or check, and the average payment card transaction is larger than the average cash transaction. Innovations such as MasterCard's PayPass™ speed up checkout lines, especially useful during peak shopping periods — and particularly important for merchant segments where speed is critical, such as quick-service restaurants, gas stations, concession stands and transit.

**Global Access:** Electronic payments are increasingly accepted around the world, augmenting sales, shortening lines, and allowing internet retailers to do business with cardholders worldwide. Consumers can make purchases even when they do not have sufficient cash on hand. This is particularly useful in emergency situations or for unplanned purchases. Open payment systems such as MasterCard enable, and are the primary means of, online payments around the world.

**Avoiding Credit Losses:** In late 2010 and early 2011, according to the Federal Reserve, extremely delinquent accounts that are not likely to be paid (known as credit card charge-offs) represent approximately seven percent of outstanding balances. If merchants ran their own card programs, they would have to bear this cost on their own. Instead, interchange helps compensate issuing banks for bearing the risk of those credit losses, so merchants are guaranteed payment regardless of whether the cardholder ever pays their credit card balance.

**Data Processing:** Card issuers must handle the costs of processing data to handle payment authorization, clearing and settlement, maintenance of cardholder account histories, billings, payments and many other functions. Interchange contributes to designing, operating and upgrading these important capabilities. Without interchange, merchants would bear no portion of these costs but would reap the benefits of card acceptance.

**Reduced Processing Costs:** Merchants who accept MasterCard payment products also benefit by reducing costs associated with handling other forms of payment, including bounced checks, check verification and guarantee services, and check processing; and collecting, counting and transporting cash.

## **The Electronic Payments System: Societal Benefits**

MasterCard is the technology at the heart of commerce. We provide the critical links between people, governments and business that make commerce happen. Our technology powers 23 billion electronic transactions each year, worth more than \$2.7 trillion, spanning 210 countries — and each transaction is faster than the blink of an eye. In addition to benefitting individual consumers and merchants, interchange affords significant benefits to society as a whole.

**Financial inclusion:** Payment cards, including payroll cards and other prepaid cards, are often the point of entry for new consumers to the “formal” financial system. By incentivizing issuers to create innovative prepaid and debit programs, interchange helps open the financial system to consumers who may not otherwise participate.

**Credit democratization:** Open, global payment systems help make credit available to virtually any creditworthy individual or business. Interchange helps balance the risk of issuing credit, allowing more cardholders access to revolving lines of credit.

**Government efficiency:** The United States federal government now distributes Social Security benefits via prepaid cards, targeting the nearly four million Social Security recipients who have no bank account, and saving the government millions of dollars. A Government Accountability Office (GAO) study estimated that card acceptance costs could be as little as approximately half the cost of processing cash or checks.