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Visa Tinkers With Credit Interchange

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Visa USA increased certain interchange rates for credit cards beginning Aug. 1, raising rates for midsize and smaller merchants, while introducing a tiered pricing scheme intended to incent retailers to increase their Visa transaction volume. Visa also installed a price incentive to encourage e-commerce merchants to adopt its Verified by Visa authentication system.

And starting this October, Visa will raise some fees charged to its member financial institutions.

Visa's August increases coincide with decreases in debit card interchange rates tied to the scheduled September settlement of the merchants' lawsuit against Visa and MasterCard International. MasterCard had already announced that beginning in August it would lower the interchange it charges for debit cards by one-third, and increase the interchange on several of its credit card categories ("MasterCard De-Links Debit Rates From Credit Card Rates," July).

Interchange fees are charged to merchant acquirers who typically pass them on to their merchant customers. Under Visa's new rates, merchants classified as Tier 1 will see no increase in their interchange fees, paying 1.39% of the sale plus 10 cents for a card-present credit card transaction.

In Visa's broad Custom Payment Services/Retail Credit category, a Tier 1 merchant must have met sales thresholds of 45 million retail credit transactions worth \$1.5 billion in gross sales volume from June 2002 through May 2003.

Merchants that don't meet that threshold will be categorized as Tier 2 and pay 1.43% plus 10 cents. In the supermarket category, a Tier 1 merchant must have conducted 24 million CPS/Supermarket credit card transactions worth at least \$1 billion in gross sales volume during the same time period. Tier 1 supermarket merchants will continue to pay 1.20% of the transaction. Tier 2 supermarkets will pay 1.20% plus 5 cents per credit card transaction.

William Sheedy, executive vice president with oversight of interchange, says the San Francisco-based association instituted the tier system to encourage merchants to shift transaction volume to Visa. "This is an extension of our merchant relationship strategies. We're providing a financial

incentive."

Sheedy says the blended, weighted average increase for acquirers will be 2 basis points. Visa already raised interchange on some credit card categories last April.

In the e-commerce space, merchants that have instituted Verified by Visa will continue to pay 1.80% plus 10 cents. Online merchants without VbyV will pay 1.85% plus 10 cents.

In both the CPS/Card Not Present and CPS/Retail Key Entry categories, the interchange rate will rise from 1.80% plus 10 cents per transaction to 1.85% plus 10 cents.

MasterCard's interchange rates for its consumer credit card and corporate cards on Aug. 1 increased 1%, or 2 basis points, so merchants that paid an average 2% of the sale for a \$100 credit card transaction will now pay 2.02%.

But it's not just merchants that will be paying higher fees this year to accept Visa plastic.

In October, costs will rise for member financial institutions and merchant acquirers and generate an 8% increase in Visa revenues, says Neil Williams, executive vice president of finance. Visa's fiscal year begins in October.

The increases had been in the offing since January and were not influenced by the \$2.025 billion Visa will pay over the next 10 years as part of the suit's settlement with merchants, says Williams. Several of the fees have not been changed for over five years and relate to accessing and using VisaNet, Visa's card processing network, according to Williams.

"Functionality and new risk tools have been added (in recent years)," says Williams. Some of the fees are intended to incent use of the Internet and to reduce paper handling, he adds.

Fees will rise for domestic transaction switching but a tiered pricing system will mean larger issuers pay a lower price per transaction. Acquirers will pay a service fee of 0.0925% of their sales volume, up from 0.0840% today. The issuer processing guarantee fee will go to 1.5 cents per transaction from 1.3 cents. The VisaNet access fee for acquirers and issuers will move from a variable fee to a charge of 0.5 cents per transaction. Visa's top 200 merchants and top 100 issuers will be charged a new fee of 0.35 cents per kilobyte of data of their settlement files transmitted over the Internet.

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