Where the CCCA Goes Wrong

By Eric Grover

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The bill may look sensible on the surface. But it's a mistake to try conjuring up competition by diktat.

Since his unsuccessful efforts in 2008 and 2009 to impose price controls on merchants' card-acceptance costs, longtime payments-industry nemesis Sen. Ricard Durbin, D-Ill., has been on a crusade to gut the fees charged by card issuers and networks.

As part of the 2010 Dodd-Frank Act, Durbin's eponymous Durbin Amendment imposed punitive price controls on debit-interchange fees for politically unsympathetic issuers with over $10 billion in assets. His legislation also mandated that merchants have a routing choice between at least two unaffiliated debit networks.

Now, the Credit Card Competition Act ("Acquirers And the CCCA," January) is Durbin's latest salvo. Originally floated in Congress in 2022, it would require that issuers with over $100 billion in assets enable at least two networks on each credit card. Merchants would then choose which network to use.

The credit card market is more concentrated than debit, so Durbin's bill could capture the lion's share of the market with just the truly politically unsympathetic largest banks. The top 10 issuers with greater than $100 billion in assets accounted for 80% of U.S. general-purpose credit-card transactions in 2023.

The CCCA's supporters hope it will eviscerate credit interchange and network fees, and that, in addition to American Express, Discover, Mastercard, and Visa, more networks will jump into the credit-routing fray.

Powerful Impact

In reality, the CCCA is almost a bill of attainder, targeted at America's leading payment networks, Mastercard and Visa, albeit without naming them. Under the bill's rules, issuers' two network choices could not be Mastercard and Visa. American Express and Discover are the most obvious general-purpose credit-network alternatives.

In the Senate, Durbin's CCCA has bipartisan co-sponsors, including Republicans Josh Hawley, J.D. Vance, and Roger Marshall, and Democrats Peter Welch and Jack Reed. There's a companion bill in the House introduced by Republican Lance Gooden and co-sponsored by Republicans Thomas Tiffany, Jefferson Van Drew, Max Miller, and Bob Good, and Democrats Zoe Lofgren, Gregorio Kilili Camacho Sablan, James McGovern, and Chellie Pingree.

Senator Durbin is a crafty operator, resolute in his objective of gutting the economics of card issuers and networks, but flexible and opportunistic in his tactics.

Unlike the Durbin Amendment, the CCCA can’t be pilloried as price controls. Instead, it would change the bases of competition in an effort to commoditize America’s credit networks.

It would have an immediate and powerful impact on credit card network competition. American Express, Discover, Mastercard, and Visa have national acceptance at the physical point of sale and online. Consequently, out of the gate, merchants would have a real routing choice between two networks for every covered transaction in-person and online.

But CCCA supporters may be disappointed by issuers’ ability to defend interchange. Targeted giant credit card issuing titans like BofA, Capital One, Chase, Citi, and U.S. Bank would have some ability to protect their interchange revenue. As long as they had more than two credit networks to choose between, they could drop any network that competed by cutting interchange fees.

The CCCA, however, would assuredly destroy variable credit network acquirer-licensing and processing fees. Merchants wouldn’t lose sales by routing over the low-cost credit-network choice. And only the lowest-cost credit network selected by the merchant, or the merchant processor, would earn issuer transaction fees.

Gargantuan merchants like Amazon and Walmart would reap every cent saved by routing over lower-cost credit networks. However, merchant processors would control credit-transaction routing for almost all small and medium-size merchants, and pocket most of the savings.

The more crowded and competitive the credit-network market, the easier it would be for issuers to safeguard interchange. But the more certain it would be that acquirer-network fees paid by merchants would be crushed.

Meet the Networks

Would additional payment networks jump into the credit-routing market?

FIS’s debit networks, NYCE and Jeanie, and those of Fiserv, Star and Accel, are tailormade to compete in the kind of credit-network market Durbin wants to create. Rather than investing in these brands, the parent companies have let them atrophy. Instead of developing differentiated services enabling issuers and merchants to generate incremental business, they compete on switch fees—a commodity business model.

While the credit networks provide a range of risk-management services such as 3D-Secure, address verification, and stand-in authorizations, there’s robust risk management on both sides of the network. Issuers, merchant acquirers, processors, and merchants employ their own and third-party systems to manage fraud.

To be sure, FIS and Fiserv would have to invest to beef up their networks’ risk management, but for most transactions, they’d be entirely adequate. But FIS’s and

Fiserv's debit networks have much weaker acceptance than the four major branded U.S. general-purpose credit networks. Mastercard and Visa each have more than 18 million merchant-acceptance locations in the U.S.

By contrast, FIS reports that more than 2 million merchant-acceptance locations accept NYCE. Fiserv refuses to disclose Star's and Accel's acceptance, which means it's paltry compared with America's two largest networks.

These networks would have to address their massive acceptance deficit. Fiserv could expand a credit network's acceptance through its massive merchant-acquiring business, acquiring joint ventures, and third-party acquirers. FIS could increase a credit network's acceptance through recently divested Worldpay and other third-party acquiring businesses.

But, no matter how vigorous their efforts to expand acceptance, they'd still suffer a huge acceptance gap for many years.

There'd be potential synergies with the issuer- and merchant-processing businesses. A system that sees cardholder and transaction data from end to end enables better risk management, and, more tantalizingly, intelligent real-time promotional campaigns to generate incremental spend, which is the holy grail for issuers and merchants.

For FIS and Fiserv, a credit-network business would be incremental. Marginal processing costs for Star, Accel, NYCE, and Jeanie, like those of Visa, Mastercard, AmEx, and Discover, are close to zero. Nonetheless, challenger and incumbent credit networks wouldn’t make much, if any, transaction fees from merchants.

Acceptance-side credit-network licensing and processing fees would plunge, perhaps to zero, or even go negative, meaning that networks would pay merchants for the right to earn issuer transaction fees. Credit networks would have to rely on switch fees paid by issuers.

It’s All About Profits

New credit networks would have to set interchange fees at the prevailing rate. If they tried to compete with lower interchange, issuers would drop them. If they tried to entice issuers with higher interchange, merchants wouldn’t route over them.

Foreign credit networks, such as China UnionPay and Japan’s JCB, could use the CCCA as an opportunity to develop relationships with giant U.S. credit card issuers and to expand U.S. acceptance. CUP, however, might hesitate to raise its head in the U.S. market. Without naming it, the CCCA invites the Fed to declare CUP a threat to national security.

For FIS and Fiserv, any credit-network business would be incremental. Whether new credit networks could make enough from issuing behemoths like BofA, Chase, Citi, and Capital One, to make it worth their while, however, is an open question.

The CCCA aims to commoditize credit-network routing. But potential profits, not commodity markets, attract capital and new enterprises. Markets engineered to prevent profits will deter, rather than attract, capital. It’s not clear that FIS’s and Fiserv’s shareholders would be well-served through efforts by those companies to compete in a commoditized credit-network routing market.

The U.S. credit network market is fiercely competitive. More competition is always welcome. The bases of competition, however, don’t need prescriptive micromanagement from Washington mandarins.

—*Eric Grover*