Senator Marsha Blackburn
Questions for the Record to Linda Kirkpatrick
President, North America, Mastercard

1. Financial institutions face more risk with credit card transactions than they do with debit card transactions because credit transactions are unsecured loans to the consumer. If we were to legislatively create a framework that allows regulators to dictate the terms for which credit unions and banks are allowed to extend credit for credit cards, what would be the impact on consumers' access to credit?

If regulators dictated the terms under which credit unions and banks were allowed to extend credit for credit cards, consumers and businesses would be significantly harmed by (1) a lack of access to credit, (2) a reduction in industry investment to protect against fraud, (3) a loss of benefits, and (4) an inability to participate in modern financial services.

The financially underserved would be disproportionately affected by artificial price controls. Research from Professor Natasha Sarin ("The Impact of Durbin Amendment on Banks, Merchants and Consumers") found consumers lost roughly $3 billion annually from debit regulation.

Any artificial direct or indirect controls (e.g., routing mandates, Honor All Cards rules repeals, exemption from state income tax, etc.) would hamper consumer and small business growth. Controls would also negatively affect commerce and economic stability during the current unprecedented, massive inflationary environment when consumers and businesses are at their most vulnerable.

2. What is the cost to Mastercard each year of accepting liability for fraud and loss?

Financial institutions bear 100% of the losses resulting from charge-offs, which occur when consumers fail to pay their credit card bills. Charge-off rates are on average 3% - 4%, far exceeding the average merchant cost of credit acceptance of ~2%.

With respect to fraud, financial institutions bear 100% of the losses for in person transactions when merchants use EMV-enabled terminals. The vast majority of U.S. merchants have implemented EMV terminals, representing more than 80% of in person transactions. Further, while merchants bear some liability for fraud in card not present environments, merchants could shift 100% of this liability to financial institutions if they leveraged 3D secure technology.

Separately, Mastercard has invested billions of dollars in products and services to mitigate fraud in electronic payments. For example, Mastercard's SafetyNet technology prevented more than $10 billion in fraud in 2021 alone. Further, Mastercard's "zero liability" rules offer total protection to consumers who fall victim to fraud – consumers are never responsible for fraud losses.

Senator Dick Durbin
Chair, Senate Judiciary Committee
Written Questions
Hearing on "Excessive Swipe Fees and Barriers to Competition in the Credit and Debit Card Systems"
May 11, 2022

Questions for Linda Kirkpatrick, President, North America, Mastercard

1. Mr. Kim testified during the hearing that "I think roughly 60 percent of interchange revenue goes out in the form of rewards."

   a. **Is Mr. Kim correct?** Financial institutions are responsible for managing rewards with their cardholders. Based on Mastercard's knowledge, financial institutions reinvest most or all of the interchange revenue they collect back to the consumer to support and service their accounts. In the case of co-brand portfolios, financial institutions often share interchange revenue with merchants. In this way, both financial institutions and merchants reinvest interchange revenue to benefit their shared consumer relationships.

   b. **If not, what is the percentage of interchange revenue that goes out in the form of rewards?** Please see the response above.

   c. **Does Mastercard ever receive information from card-issuing banks in the Visa network on what percentage of the banks' interchange revenue goes out in the form of rewards? If so, how often does Mastercard receive such information and from how many banks does Mastercard receive it?** No, Mastercard does not receive this data from banks in the Visa network.

<u>Question for Linda Kirkpatrick</u>

1) Using cards to pay for purchases has been on the rise. Some argue that merchants feel like they have to accept Visa and Mastercard regardless of the fees that are charged, or consumers will go elsewhere. Others believe that these cards allow for convenience and higher buying power benefiting both parties. Do you believe that retailers have no choice but to accept Mastercard because of their market power in the credit and debit card markets?

Merchants have the ultimate choice to accept the forms of payments that align with their business needs. Many merchants only accept cash and check. Others prefer to only accept electronic payments because they recognize the value of doing so far exceeds their costs, given the benefits they receive from increased sales, decreased fraud, guaranteed payments, and more efficient operations. Various merchants accept both cash and check and electronic payments, and some provide discounts for cash to incentivize their preferred form of payments. Merchants are also free to decide whether to accept American Express, which has roughly the same share of the U.S. credit market as Mastercard. Other merchants accept Mastercard debit products, and not Mastercard credit products to minimize their cost of acceptance. Many merchants have direct agreements with Mastercard, or with their acquiring banks, which meaningfully reduce their cost of acceptance.

Merchant choice in payments is exemplified by the number of options they offer to consumers at the point of sale, including for example, digital wallets, digital currencies, and ACH-based payments that do not leverage Mastercard's network. Further, buy now pay later (BNPL) payment options have extensive merchant acceptance and experienced explosive growth during the pandemic, despite being two to three times more costly to merchants relative to credit card acceptance. Merchant choice in payments has never been more prolific than it is today. It is also clear that the competitive environment for payments has never been more intense.