



CardCoalition

## Payment System Facts

*To help policymakers grapple with payment card issues, the Card Coalition is pleased to present the following background information about payment systems. We hope you will find it helpful.*

### Methods of Payment

#### Credit Cards

Credit Cards give consumers access to a pre-established revolving line of credit offering flexible repayment terms via monthly billing. They offer cash advances via ATMs or at bank branches and protect consumers from theft, fraud, and inaccuracy. Those issued by American Express, Discover, MasterCard and Visa member banks offer worldwide acceptance.

#### Charge Cards

Charge Cards are similar to credit cards but do not access a line of credit. Instead, the balance is paid in full and by the due date (usually every thirty days). They are often used for travel and entertainment and by small businesses as purchasing cards.

#### Debit Cards

Debit Cards (often known as Check Cards) provide direct access to a consumer's checking account and serve as the functional equivalent of an electronic check. The most common types of these are PIN Debit Cards (which require the use of a personal identification number at point of sale) and Signature Debit Cards (which are used at point of sale in the same manner as a credit card). PIN Debit Cards are typically issued by ATM Networks (the logos you see on ATMs such as Pulse, Star and many regional networks). Signature Debit Cards are generally issued by MasterCard or Visa member financial institutions.

#### Electronic Benefit Cards

Electronic Benefit Cards allow governments to provide financial and material (generally food) benefits to authorized recipients via plastic debit cards.

#### Gift Cards

Gift Cards offer consumers a prepaid card welcome everywhere loaded with a set amount of funds on the card and usable for multiple purchases for as long as value remains on the card. Those that bear the logo of one of the national card systems can be used wherever that system's cards are accepted.

#### Payroll Cards

Payroll Cards offer employers a secure and efficient replacement for the traditional paycheck. They enable direct deposit for all employees—including those who do not have a checking account. Employees may shop or pay bills by phone, online, or mail, while saving costly check-cashing and money order fees.

#### Checks

Paper checks remain a common, but cumbersome, means of payment. They have a number of hidden expenses to the payee. Along with the expense of having to transport them to the payee's bank, payees are subject to fraudulent or bounced checks and, of course, the wait until a paper check goes through the clearance process.

#### Cash

While cash is, of course, a traditional method of exchange, it brings cost and safety concerns to users and recipients. Cash must be counted at point of sale and, again, when deposited in the merchant's account. It is subject to theft and loss and, unlike checks or cards, once tendered the transaction cannot be undone. It is also virtually impossible to use in an internet transaction.

## Quick Stats

The payment card system is one of the nation's most competitive marketplaces with a staggering *14,000* issuers offering products which:

- are used by 2/3 of American families who made *20.2 billion* credit and *36.2 billion* debit and prepaid transactions in 2009;
- process over 50% of the nation's payments (including over 90% of those made online);
- and are accepted at millions of locations--usable 24 hours per day.

Moreover,

- 80% of consumers own a debit card;
- 78% of consumers own a credit card;
- and 17% own a prepaid card.

## Benefits of Payment Cards

In November 2009, the non-partisan U.S. Government Accountability Office (GAO) published a report listing the benefits payment cards bring to consumers and retailers including: faster transactions;

- the convenience and safety of not having to carry cash or a checkbook;
- a convenient source of unsecured credit that allows consumers to finance purchases;
- an interest-free period to finance purchases if balances are paid in full at the due date;
- improved theft and loss prevention as compared with cash and easier dispute resolution in the event of problems; and
- a simple record-keeping report for budgeting, planning, and income tax preparation.

The GAO also concluded that retailers benefit from:

- allowing a potential customer who is not carrying enough cash to make a purchase immediately using a credit card; eliminating the risks from bad checks; receiving prompter payments; reducing the time merchants' customers spend at checkout with reduced labor costs, and
- using payment card networks to help in marketing.

## Payment Card Policy Issues

Today, the payment card industry faces a number of new legislative challenges. In 2010 the Federal Credit Card Accountability Responsibility and Disclosure Act became effective making major changes to credit and gift card practices. Additionally, while retail merchants who accept payment cards sell more at reduced costs and with increased profits, there is an effort to push federal and state legislation to pass their costs on to customers by capping interchange fees. These fees (which typically average 1.75% of payment card transactions) are paid by a merchant's bank to a customer's bank or credit union when a merchant chooses to accept a card for payment. In a study by the Competitive Enterprise Institute, certain retailers are cited as "disingenuous and misleading on several levels" for working to impose price controls and restrictions on payment systems. They succeeded in Australia, where there is no evidence of any benefit to consumers. In 2011, the Federal Reserve Board issued a regulation capping debit card interchange fees at 21 cents plus a 5 basis point fee to cover fraud losses.

Some seek to levy checkout fees at point of sale by charging more for the use of payment cards (retailers may currently give a discount for cash but this practice is not widespread). Additionally, some retailers seek to prohibit card networks from enforcing the current "Honor All Cards" rules that require participating merchants to accept all cards from a certain network as well as from all issuers for that network. Retailers may also not impose surcharges on particular types of cards within a payment network. Eliminating these rules would allow merchants to discriminate against specific types of card issuers—for example, by preferring cards issued by a major bank over those issued by a local community bank or credit union. Additionally, the "Honor All Cards" rules insure a consumer at point of sale knows that his or her payment card will be accepted.

## About the National Card Coalition

The Card Coalition consists of credit card and debit card issuers and related companies with an interest in state legislative, executive and relevant regulatory activities affecting the payment card industry and consumers. We are the only national organization devoted solely to resolving legislative issues pertaining to the payment card industry in all 50 states. To learn more: ✉ [www.cardcoalition.org](http://www.cardcoalition.org)