



TYLER VORPAGEL

STATE REPRESENTATIVE • 27TH ASSEMBLY DISTRICT

Assembly Bill 587

Testimony of State Representative Tyler Vorpapel

Assembly Committee on Financial Institutions

October 21, 2021

Thank you, Chairwoman Duchow, Ranking Member Doyle and committee members, for your time listening to testimony on a bill that would have a significant impact on small businesses in the State of Wisconsin.

Any merchant or small business knows that if they accept Credit Cards as payment they will pay a “swipe fee” for the convenience of both the customer and themselves. A few years ago I had a business come to me and discuss with me the “swipe fee” that they currently pay when they collect taxes. While it wasn’t a new concept to me, it was the first time I had thought about the burden this places on our small business owners.

The way the current system works, when a customer swipes their Credit Card they pay a percentage based upon the amount of goods plus any taxes. The bill before you would remove the Credit Card transaction fee (“swipe fee”) for the portion that the business or merchant remits back to the state as taxes.

After speaking with local businesses for years after this bill idea was brought to my attention, I’ve heard many of them state that they do not dispute the need to pay transaction fees for the usefulness of accepting credit cards. However, they dislike that they are currently paying a fee on money that is not theirs. Essentially this would remove the “swipe fee” on the tax portion of money collected by the retailer so they are paying the “swipe fee” only on the sale of the goods rather than the additional taxes that are put on the goods by local and state ordinances.

It costs retailers money to collect and remit taxes that are required to the state, this is money they could be utilizing to put back into their business and community. While retailers currently are provided a small allowance of 0.5% as compensation for the sales taxes they collect, this is capped at \$1,000.

The past year credit card usage has surged not only from the pandemic, but also because the costs of goods continues to rise. As these prices rise so do the fees the retailers are paying to credit card companies. When I asked the Legislative Fiscal Bureau to estimate the credit card processing fees imposed on state sales for the past two year. Their estimates came back as \$36.74 Million in 2019 and \$50.79 Million in 2020. That is \$50 Million that could be going back into our local communities and stimulating more growth for small businesses that are still trying to find a way to recover from the past year.

I appreciate you listening to my testimony and hope that you all can see the importance of this legislation.



DAN FEYEN

STATE SENATOR

18th Senate District
(608) 266-5300
Sen.Feyen@legis.wi.gov

PO Box 7882, Madison, WI 53707-7882
<http://legis.wisconsin.gov/senate/18/feyen>

To: The Assembly Committee on Financial Institutions
From: Sen. Dan Feyen
Re: Assembly Bill 587

Hello members of the committee and thank you for taking the time to hold a public hearing on AB 587.

Wisconsin retailers pay transaction, or swipe fees on every credit card purchase made in the state. This fee is a percentage charged to the retailer based on every dollar of the purchase, including the tax portion of the sale. Retailers are then collecting the tax portions of every credit card purchase and forwarding this money to the Department of Revenue (DOR).

When talking with local businesses, we've heard that while they are happy to pay transaction fees for the usefulness and convenience of accepting credit cards, they dislike paying a fee on the tax money that is not theirs.

This bill prohibits a "swipe fee" from being imposed against a merchant on the tax portion of a transaction made using a credit card. This does not impact transactions made with a debit card.

It is estimated swipe fees cost retailers \$36.74 million in 2019 and \$50.79 million in 2020. This is money out of the pockets of Wisconsin business owners going straight to credit card companies for collecting taxes due to the State of Wisconsin.

Credit card usage increased during the pandemic and increases in general with higher prices. As prices increase the losses to retailers increase while credit card companies see higher profits.

Today you will hear from many of the impacted businesses who are currently tasked with being tax collectors for the State of Wisconsin and being charged fees by credit card companies for performing this duty.

Thank you again for holding a public hearing on this important legislation.



October 20, 2021

The Honorable Cindi Duchow
Chair
Assembly Committee on Financial Institutions
Room 221 North
State Capitol
P.O. Box 8952
Madison, WI 53708

RE: Support for Assembly Bill 587 to Protect Merchants Collecting Tax from Unfair Fees

Dear Representative Duchow:

Assembly Bill 587 would help enhance the fairness and efficiency of Wisconsin's tax system. The Bill would prohibit a payment card network from allowing a credit card swipe fee to be charged against a merchant for the tax portion of a transaction that a merchant collects on behalf of Wisconsin.

Background on Swipe Fees

Swipe fees that merchants pay in the United States today are higher than in any other industrialized nation in the world. In large measure, that is because these fees are anticompetitive. While banks issue credit cards to consumers around the country, those banks don't compete on the prices they charge merchants to accept those cards. Other businesses have to compete on price in order to sell their goods and services, but those banks that issue credit cards don't. Why? Because the dominant payment card companies (principally Visa and Mastercard) set the prices on behalf of the banks – and the banks then all charge the same schedule of fees.

That lack of competitive pricing, according to economists with the Federal Reserve Bank of Kansas City, means that the only real check on the cost of swipe fees is not the market, instead it is the cost at which merchants can no longer be profitable and accept cards.¹ It is not a coincidence that, in the convenience and motor fuels industry, the swipe fees paid by the industry and the pre-tax profits of the industry as a whole have been around the same number for the last several years. At more than \$11 billion per year across the country and \$200 million per year in Wisconsin, those fees are staggering.

Across all U.S. industries, merchants paid card fees of more than \$100 billion last year. In a year in which many merchants struggled for survival, with many of them ultimately losing that struggle and going out of business, more than \$100 billion in anticompetitive fees weighing them down is unconscionable. And, the card networks impose rules to hide the fees from consumers and ensure the charges are not subject to any competitive market pressures. Those rules are complex, but they constrain how merchants price their products, how the fees are (or are not) disclosed, what merchants can and can't do in accepting card payments, and much more. The rules also prohibit banks from working with multiple payment

¹ "A Puzzle of a Card Payment Pricing: Why are Merchants Still Accepting Card Payments?," Fumiko Hayashi, December 2004.

networks in ways that would promote price competition. All of these rules combine to reinforce the anticompetitive impact of swipe fees.

The point of any payment system is supposed to be to make commerce more efficient. Credit cards, which get processed electronically, should do that. Unfortunately, even with the more advanced technology, they are less efficient than cash, checks or other forms of payment.

With that as background, it's important to recognize that Assembly Bill 587 does not address the anticompetitive swipe fee system or seek to solve all of these large problems. Instead, it merely tries to protect Wisconsin's system of taxation and the merchants that provide a service in collecting Wisconsin taxes from some of the worst consequences that stem from the swipe fee system.

Inherent Unfairness for State Tax Collectors

The current system is inherently unfair to the merchants that collect taxes for Wisconsin. Last year, Wisconsin convenience store retailers collected more than \$2.5 billion in federal and state taxes. Those merchants collect tax on the sales of every product subject to sales tax in the state. The merchants then remit those tax collections to the state. Without the laborious work of these merchants, it would be much more difficult for Wisconsin to realize those revenues.

When a Wisconsin business makes a sale, however, the sales tax is added into the overall cost of that sale paid by the consumer. Take a \$100 sale on a credit card as an example. Without sales tax, merchants must pay about \$2.25 on average out of that sale to the credit card bank and can only keep about \$97.75. But, ignoring for the moment local taxes, when Wisconsin sales tax of \$5 is added to the sale, the merchant must pay \$2.36 in swipe fees and send the state the \$5 in taxes. That means the merchant only keeps \$97.64 from that sale.

That may not sound like much, but retail is incredibly competitive and most merchants make their living on very thin margins. Grocery stores, for example, have profit margins of just over 1 percent. So, the extra 11 cents in swipe fees attributable to the taxes those stores collect when selling \$100 in goods takes more than 10 percent out of the store's gross margin on the sale.

Why would anyone want Wisconsin merchants to lose more than 10 percent of their margin as a penalty for collecting taxes for the state? The answer is that they shouldn't. The way this happens now is not fair and no one should condone it.

Benefits of Assembly Bill 587

Assembly Bill 587 would directly address that inherent unfairness. It would create a simple new rule in Wisconsin – swipe fees could not be charged on the sales tax portion of transactions. That would prevent merchants from having to forfeit large parts of their profit margins simply because they are helping Wisconsin collect its taxes.

Opponents of the bill will attempt to confuse this simple picture. They will claim that the Bill is impossible or too expensive or bad for merchants or bad for consumers or that it will mess up the credit card system in Wisconsin. It is a familiar, and false, playbook.

What the opponents won't tell you is that Visa touts on its own website that it already collects sales

tax data on card transactions from more than 2 million merchants.² It doesn't say doing that is hard or expensive, it simply uses that as a marketing point to help sell its services. Not only can Visa do what the Bill says up front, the Bill also includes an after-the-fact rebate process that can be used as an alternative. The card companies' other complaints about the Bill all stem from the faulty premise that simply following the law would be hard or expensive – it won't be.

It is also worth noting that the credit card industry has complained that virtually any regulation of its unfair swipe fee system here and around the world would break the system.

- The card companies made that argument and said cards could go away when Australia regulated credit card swipe fees. But, it didn't happen. There is more card usage in Australia and the system is more efficient than before they instituted reforms.³
- The card companies argued that Europe's antitrust reforms relating to swipe fees would break their system. Europe's fees are less than one-seventh what they are in the United States – and the card system is healthy and continues to grow there.⁴
- The card companies argued that banks would go out of business and consumer costs would increase if debit cards faced regulation in the United States. None of that came to pass and debit spending in the U.S. has continued to increase.⁵

The bottom line is that Assembly Bill 587 makes sense. It treats merchants fairly and prevents them from losing money due to their service to the state. No one should block the bill simply because credit card companies yell that the sky is falling. It isn't – and they have yelled the same thing time and time again when they were simply wrong. We urge you to see through their histrionics and pass this common-sense bill.

Sincerely,



Doug Kantor
NACS General Counsel

² See <https://usa.visa.com/run-your-business/commercial-solutions/solutions/intellilink.html>.

³ See http://www.federalreserve.gov/SECRS/2011/March/20110303/R-1404/R-1404_022211_67474_559255029499_1.pdf at 4.

⁴ See [Card payments in Europe – current landscape and future prospects: a Eurosystem perspective \(europa.eu\)](#).

⁵ See “The New Debit Card Regulations: Effects on Merchants, Consumers, and Payments System Efficiency,” Fumiko Hayashi (available at [The New Debit Card Regulations Effects on Merchants Consumers and Payments System Effi.pdf \(kansascityfed.org\)](#)).



American Bankers Association

AFSA
AMERICAN FINANCIAL SERVICES ASSOCIATION



Credit Union National Association

EPC **ELECTRONIC PAYMENTS COALITION**

ETA
ELECTRONIC TRANSACTIONS ASSOCIATION

ICBA
INDEPENDENT COMMUNITY BANKERS of AMERICA



National Association of Federally-Insured Credit Unions



TECHNET
THE VOICE OF THE INNOVATION ECONOMY

JOINT LETTER RESPONDING TO STATE LEGISLATION THAT WOULD PROHIBIT INTERCHANGE ON THE SALES TAX PORTION OF ELECTRONIC TRANSACTIONS

REPRESENTATIVE CINDI DUCHOW, CHAIR

REPRESENTATIVE TERRY KATSMA, VICE-CHAIR

MEMBERS OF THE WISCONSIN ASSEMBLY COMMITTEE ON FINANCIAL INSTITUTIONS

As state legislative sessions across the United States proceed, legislation that would prohibit interchange on the sales tax provision of electronic payment transactions is once more being considered. Such proposals are not only unworkable, but they could not come at a worse time amidst the ongoing COVID-19 challenges.

The prime victims of this proposal would be consumers and small businesses. The backbone of our economy, according to the Small Businesses Administration there are approximately 30.7 million small businesses employing as many as 60 million Americans across the country. However, since the onset of the public health crisis last year, tens-of-millions of Americans have lost their jobs, left the labor force, and tens-of-thousands of storefronts have been shuttered. A vibrant small business sector is essential to the economic recovery of the United States, and that is why the electronic payments industry represented by the undersigned along with small businesses must work hand in hand to ensure healthy levels of job creation, innovation, and growth moving forward.

As we look towards the future and how to rebuild our economy, the threat of the potential prohibition on collecting interchange on the sales tax portion of an electronic payment is troubling. First and foremost, it is critical to emphasize the technically unworkable nature of the proposal. When a retailer makes a sale using a customer's electronic payment card, the system that processes the transaction recognizes only the final purchase amount on which the merchant discount fee is based. The system transmits neither information regarding the product, nor services sold, nor the amount of sales tax collected.

The result of the implementation of this legislation would make Wisconsin an island in a nationwide payment system. Second, retailers would be required to create and implement new payments systems and operational mechanisms to ensure compliance, which would be both costly and burdensome.

Furthermore, newly required operational systems would lead to additional administrative costs and burdens for retailers, which would be passed along to consumers in the form of higher prices. Consumers could be required to pay for multiple transactions – one for the sale of the product or service and another for the tax portion of the sale. The need to pay the sales tax portion of electronic transactions with cash or a check would be especially burdensome when paying for large ticket items like a computer or television. Increased costs related to such requirements would force small businesses to reconsider accepting electronic payments, the lifeline that kept so many in business during COVID-19.

The unworkable nature of the proposal is emphasized by the fact that nearly 30 similar proposals to prohibit interchange on the sales tax portion of electronic transactions have been considered between 2006 and 2021 and none has passed out of the committee of original reference.

Should this proposal be enacted, both merchants and consumers would be negatively impacted because, as noted above, merchants would need new, yet-to-be developed, specialized terminals and software to itemize and communicate segmented data to the card networks at the time of sale. This would especially hurt small businesses which do not have sufficient volume to offset the costs the new system would impose.

The ability for small businesses to offer a multitude of payment options is critical to their ability to compete with big-box retailers, give their customers the options they desire, and remain flexible in times of crisis. The rise in contactless payments is only just beginning. According to Verisk Financial, contactless transactions in the United States were estimated to increase by 256 percent in 2020, growing to an estimated 4.9 billion transactions with estimates that this will almost double by 2021. Given that these projections were made prior to COVID-19, the real acceleration in contactless payments will likely be far greater than previously anticipated.

This shift to contactless would not have been possible without the significant investment fintech companies, card networks, banks, and credit unions have made in technological innovation over the years. A wide array of authentication technology such as EMV, tokenization, and end-to-end encryption have allowed customers to limit their personal interaction at stores, and make purchases online and from mobile devices, all while providing peace of mind for customers and merchants alike that they're protected from cyber threats and fraud.

The payments industry has remained on the forefront of developing innovative payment technology, providing merchants and consumers alike safety, security, speed, and ease for transacting electronic payments, not to mention increasingly numerous options for doing so. Unwise governmental intervention in such a complicated ecosystem, such as a prohibition on collecting interchange on the sales tax portion of electronic payment transactions, threatens innovation and system security, that is funded in part, through the collection of interchange.

Ultimately, consumers and small merchants will bear the brunt of the consequences of a less efficient, less secure payments system. Safety and security have never been more important. Continuing to invest in secure payments technology is critical toward ensuring the U.S. economy and our small business community are given the necessary resources they need to operate and thrive, especially during these particularly challenging times.

American Bankers Association
American Financial Services Association
Card Coalition
Credit Union National Association
Electronic Payments Coalition
Electronic Transactions Association
Independent Community Bankers of America
National Association of Federally-Insured Credit Unions
TechNet



Testimony of the Wisconsin Bankers Association

Lorenzo Cruz, Vice President – Government Relations, WBA

Assembly Committee on Financial Institutions

October 21, 2021

Chairwoman Duchow and members of the Assembly Committee on Financial Institution,

Thank you for the opportunity to testify in opposition to Assembly Bill 587 today. My name is Lorenzo Cruz and I am Vice President of Government Relations at the Wisconsin Bankers Association.

Founded in 1892, WBA is the state's largest financial industry trade association, representing more than 200 commercial banks and savings institutions, their branches, and over 21,000 employees. The Association represents banks of all sizes in Wisconsin, and nearly 98 percent of banks in the state are WBA members.

In many ways, financial institutions are the cornerstones of Wisconsin's communities, having long provided services to individuals and business customers. Our members relish the opportunity to build and maintain relationships and offer products that help propel Wisconsin's economy.

The legislation before you poses several issues for members of our organization. But its implications stretch far beyond financial institutions and will have a negative impact on every layer of the electronic payment ecosystem, including the most important stakeholders it serves – everyday consumers like you or me.

The provisions you see in Assembly Bill 587 are neither new, nor practical solutions to help small businesses. In fact, the opposite is the case. This legislation has been proposed over 40 times in states across the country over the last 16 years. Thankfully no state has ever enacted this proposal and it should be noted this model legislation has never been voted out of any committee of origin in any state.

Our goal is to demonstrate the reasons this bill is so fraught with peril and why it should meet the same fate in Wisconsin that it has everywhere else.

Under AB 587, it would be illegal to levy an interchange fee on the tax portion of any credit card transaction here in Wisconsin and impose a \$200 fine per transaction for any entity that does so. One important thing to remember - the fees at issue here do not go to MasterCard or Visa – interchange fees are used to compensate the banks and credit unions - here in Wisconsin - who issue credit and debit

cards, and they are simply a component of what the retailer pays for a card transaction. It's also important to remember that American Express and Discover are different systems – which do not involve interchange fees, so AB 587 will not impact American Express or Discover cards.

The stated goal is to reduce expenses merchants incur for collecting and remitting taxes to the State of Wisconsin. WBA members can certainly empathize with this position; banks are required to act as agents of the government in a variety of ways for which we are not compensated. Nobody likes having to provide a service for free, but tax collection is a well-established part of commerce, regardless of the method of payment.

The electronic payments system is extremely intricate web that functions efficiently, speedily, securely, and delivers incredible value to merchants and customers alike. Credit cards have provided consumers across the socioeconomic spectrum with convenient, safe, and affordable access to credit that is ubiquitous across the globe. Merchants receive expedient, GUARANTEED payment for goods or services. Our card-issuing member institutions in many ways are guaranteeing merchants even have taxes to remit to the state in the first place. Retailers also benefit from increased volume and sales, and the fraud protection and cybersecurity card-issuing banks and credit unions provide. For receiving all these benefits, merchants are charged a merchant discount fee that represents a small percentage of an overall sale. This misguided legislation would disrupt this well-functioning system and create a litany of unintended consequences.

Credit card fees are a result of a market. They balance cardholder expectations, and the benefit merchants receive for card acceptance. Those benefits of acceptance are huge for merchants large and small. They enjoy higher volume and higher sales, fast transaction times, lower costs associated with cash handling and checks, and more sales channels like e-commerce.

Contrary to popular belief, the interchange fee that card issues receive has remained remarkably unchanged over the last 10 years. What has changed is the utilization of credit cards, a consumer-driven trend, which increased significantly.

To their credit, proponents of this bill have done an effective job of oversimplifying this legislation and have led many to believe AB 587 is easy to accomplish and implement. If enacted, AB 587 would make Wisconsin an island in the electronic payments space.

Currently, financial institutions and card networks only see and recognize the full transaction sum when approving, routing, and settling electronic payments. This is by design - it protects consumers privacy but more importantly it allows these incredibly robust and secure networks the ability to function efficiently at lightning speed. To drill down a bit, Visa's payment network process over \$12 trillion dollars' worth of transactions annually, their network has the capacity to process over 65,000 transactions a second. Despite the claim you may hear from some purported experts - to reach in and segregate Wisconsin based transactions for special treatment would require a major overhaul of how transaction message are processed. It not an easy fix, it is not simply including a bit of code or flipping a switch. Let me give you an example of how long changes on these networks can take to implement. You are all familiar with the EMV chip in cards which have dramatically lowered fraud rates. That program was formally launched in 2011 after close to 15 years of research and testing. Deadlines for most retailers to convert their terminals took place in 2015 and the final deadline for terminal

compliance took place this year with the conversion for fuel dispensers. That's almost a 25-year time frame. While the proposal today is admittedly less dramatic, tinkering and making changes to these networks are not simple propositions.

To ultimately comply with AB 587, payment networks would need to develop technology to bifurcate the underlying sale price for a good or service from all the taxes associated with the purchase. To accomplish this - changes would need to be made at every credit card acceptance terminal in the state, that segmented data would then need to be transmitted as two different messages through the network "plumbing", not attaching any fees to the tax message and allowing it to ride the payment rails for free. Keep in mind that fee prohibition in this bill applies to numerous different taxes, not just sales tax. There are many common purchasing scenarios where it would be impossible for a network to decipher what goods are taxed and at which rate.

Keeping this in mind, let's discuss what would happen if this bill became law and effective today. And unfortunately - I can say to you definitively- AB 587 can be implemented today, and it would come at a staggering cost for all parties concerned.

Purchases in Wisconsin using credit cards that are transmitted on Visa and Mastercard's networks would have to be run as split tender transactions. Split tender is a method processing which happens every day, when consumers chose to use a credit or debit card to pay for only a partial amount of a total transaction. If AB 587 were enacted, the consumer would present their credit card and use it to pay for the underlying good or service. The consumer would then need to furnish cash or check to cover the tax portion of transaction. No more paying at the pump or using an automated checkout - lines would become a nightmare, and there would be significant uncertainty surrounding e-commerce.

After all this surgery - at the expense of Wisconsin banks and credit unions and consumers - we would expect the cost saving AB 587 to be dramatic - but it's not. Credit interchange fees average around 2.5% and assuming our 5% sales tax, the hypothetical saving on a \$50 credit card purchase would be .0625 - not even a penny.

There is another reason why credit card interchange fees are assessed against the entire amount of a transaction and that is that card issuing financial institutions are responsible for the entirety of any electronic transaction - if there is fraud, or a breach or the cardholder goes into bankruptcy, the issuer must cover the entire amount - tax included. This fact would not change even if bifurcation technology were to be developed. Therefore, in essence, AB 587 creates a government-mandated cost shift by making financial institutions eat the cost of covering the tax portion of a transaction. It is not the government's role to be meddling in private business agreements, implementing price controls, or picking winners and losers.

Bear in mind the agreements merchant acquirers have with networks and processors are all negotiated. Businesses wary of fees have numerous tools at their disposal to defray the costs associated with credit card acceptance. They may accept exclusively cash, offer cash discounts, or surcharge for credit cards - a common practice. The fact of the matter is that credit card fees are a cost of doing business - but don't take our word for it. Expense's businesses pay to accept credit cards as a merchant are deductible for federal tax purposes.

Instead of advancing AB 587, the Legislature should consider additional ways to compensate retailers for the tax collection service they provide to the state. There are already models for doing so, including the motor vehicle fuel supplier administrative allowance for fuel tax remittance. Numerous other states have vendor compensation programs or incentives for prompt tax remittance.

The legislation before you is truly a costly misguided approach to accomplishing its goal. It demands financial institutions, payment processors, card networks, and indeed retailers too, to make huge Wisconsin-specific investments far exceeding the amount of relief this could ever provide to retailers. At every step along the way, it would be foolish to assume these costs wouldn't all be borne by consumers in the form of higher prices or reduced services.

Thank you again for the opportunity to testify in opposition to AB 587 today.

Coalition Memo on Interchange Fee Legislation



AB 587 and SB 572 are currently before the Legislature for consideration and seek to prohibit "swipe fees" from being imposed against a merchant (retailer) on the tax portion of a credit card transaction. The coalition of Wisconsin's financial institutions and card companies urge rejection of this legislation. Our resistance to this proposal consists of, but is not limited to, the three objections listed below.

Electronic payment systems are invaluable to merchants and consumers and should not be disrupted.

The electronic payments ecosystem encompasses far more than credit card companies like Visa, Mastercard, and American Express. It allows card companies, banks, credit unions, processors, and other to seamlessly communicate with one another to facilitate tens of billions of transactions for consumers and merchants in the U.S. annually. (See illustration on next page.)

- Merchants receive guaranteed and speedy payment and minimal risk for the entire transaction, not just the retail price of a good or service. (Financial institutions advance the total funds, including the tax portion, to retailers regardless of whether the transaction is collectible.)
- Financial institutions guarantee payment to retailers, insure against fraud, protect consumer's data and personally identifiable information, issue cards, offer rewards, for consumers convenience and comfort in card use.
 - » For all these services and to access payment networks, merchants incur the small interchange fee.
- Consumers value the security, convenience, fraud protection and easy-to-use credit that credit cards provide.

This balance would be jeopardized under this proposed legislation.

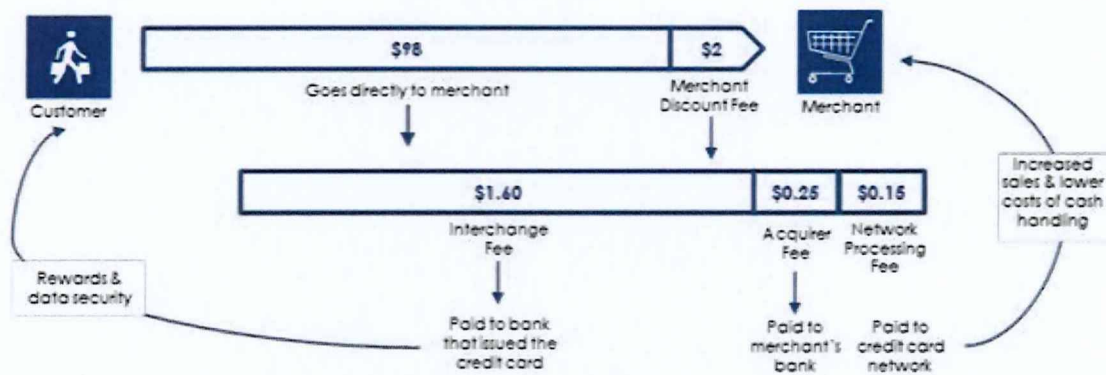
Implementation is not possible under existing technology.

- U.S. electronic payment infrastructure does not support a system where amounts can be excluded from credit card fees.
- Implementation would require bifurcation of the underlying retail price and tax applied to it, or force consumers to face two transactions per sale – one retail, one tax – the latter of which no financial institution or card processor would conduct for free.
- The lack of uniformity in local taxes would add unmanageable complexities.
- **No state has ever enacted such a policy.** Wisconsin would become an island in a national electronic payments system. Networks are highly specialized and operate under national processing rules that allow for acceptance to be nearly instantaneous. Every player in the ecosystem would therefore need to design and implement Wisconsin-specific systems and processes.
- New systems would need to be designed to incorporate this law change at a high cost of financial institutions, card networks, card processors, and retailers. These costs would ultimately be passed on and harm consumers – with no consumer benefit.

Government shouldn't be interfering in contractual business agreements or implementing price controls.

- This legislation is the antithesis of limited government, free market principles members of both major political parties subscribe to.
- Government should not insert itself into contracts that financial institutions, card companies, processors, and merchants have all negotiated and agreed to.
- Interchange fees are simply a cost of doing business, and as such, may be deducted as business expenses for tax purposes.

WHAT IS INTERCHANGE?



Schematic courtesy of Electronic Payments Coalition®

For more information, please contact:

Lorenzo Cruz, WBA - lcruz@wisbank.com
John Cronin, WBA - jcronin@wisbank.com
Sarah Wainscott, WCUL - swainscott@theleague.coop
Matt Kussow, Visa - mattkussow@gmail.com
Jason Childress, American Express - jchildress@foley.com



NORTH SHORE BANK

Chairwoman Duchow and members of the Assembly Committee on Financial Institutions,

My name is Jude Lengell and I am Vice President of Deposit Operations and Customer Support at North Shore Bank, which is headquartered in Brookfield Wisconsin. I have over 40 years of banking experience and I reside in Milwaukee.

Our bank employs 470 people and has branches in Wisconsin's Brown, Calumet, Door, Kenosha, Kewaunee, Milwaukee, Oconto, Outagamie, Ozaukee, Racine, Shawano, Walworth, Washington, Waukesha, Winnebago counties, and in Illinois' McHenry County. We are a community bank with over \$2.5 billion in assets and have been in business since 1923.

As a community bank, North Shore Bank supports a variety of initiatives and events within the communities it serves. The bank invests in educational endeavors, contributes to non-profit organizations that strengthen our communities, donates to the efforts that enrich lives of employees, customers, and neighbors, and continually looks for opportunities to contribute to the benefit of our communities. Most recently, we have invested in the first-ever Southside Dining Week in Milwaukee. Organized and presented by North Shore Bank, the inaugural event will celebrate international cuisine from 21 area restaurants located across eleven of Milwaukee's south side neighborhoods. The bank sees it as a way to help uplift those businesses and introduce neighbors near and far to the area's many fantastic offerings. What's more, the bank makes donations and provides support through its community-minded commitment to Bank on Kindness[®]. Throughout the year, the initiative looks for opportunities – big and small – in our communities to offer help to others and lend our support. North Shore Bank is a community-minded bank; it's at the heart of what we do.

I am testifying today in opposition to Assembly Bill 587 and urging you not to disrupt the way the electronic payments processing system works.

The electronic payments system is complex and has a lot of moving parts and many players. When a cardholder uses their credit or debit card at a merchant, the transaction takes seconds, even though the process itself entails multiple stops and steps from, and between many players. The key players in the electronic payments processing system are; Issuers, Acquirers, Credit/Debit Card Networks, Payment Processors, Payment Gateways, ISO's, and Payment Facilitators.

Card issuers bear the responsibilities and costs of ensuring all the attributes that make up a successful payment transaction have been tested and certified. This includes the many possible points of failure the online message passes through on its way to a completed authorization. There are hundreds of parameters, rules, and algorithms that allow these transactions to maintain their level of security, accuracy, and compliance requirements.

Merchants pay a discount fee as compensation to the parties that facilitated the transaction. In return, merchants benefit by faster settlement time frames, which improves cash flows and no more waiting for checks to clear, handling checks that are returned, or dealing with great sums of cash. Merchants also

benefit as the issuers act as the primary contact for card transaction disputes. The issuer alone bears all the costs in the reissue of cards that have been part of a breach at a merchant. There is no faster and secure way today for merchants to receive funds for their goods and services than through the electronic payments processing system. We know this first hand, as when there are glitches in the payment ecosystem, our call center phones light up like a Christmas tree.

For my bank, costs tied to fraud losses and our fraud infrastructure (i.e. fraud detection software and applications, fraud monitoring, etc.) amounts to hundreds of thousands of dollars annually. As you can imagine the small portion of the interchange fee is indeed critical to continue to help offset a portion of the card fraud costs.

The electronic payments system does not allow for a split of the retail purchase price and the tax amount applied to it. If passed, consumers would face the unpleasant experience of using their credit or debit card to purchase the goods or service, but would have to cover the tax portion of the transaction with a check or cash. Customers will call the issuers as this will result in mass confusion and may move consumers away from using their credit or debit card or at minimum, consumers would use their card outside the state of Wisconsin. Possible upgrades to software, hardware, fraud controls, ISO mapping, reporting, call scripts, etc. are just some of the items that would need to be upgraded/reengineered if this bill is passed.

If Assembly Bill 587 were passed, Wisconsin would be the sole state that prohibits fees from being charged on a portion of the total amount of a credit and debit card transaction. We do not believe it is appropriate to shift costs tied to a sales tax issue to Wisconsin banks. Taking away our portion of interchange fees that go towards supporting electronic payments is wrong and unfair. The short term impact would be big, but in my mind, the downstream challenges and long-term impact is devastating. This concludes my testimony and am happy to answer any questions. Thank you for your time.

10-21-2021: Chairwoman Duchow and members of the Assembly Committee on Financial Institutions,

My name is Elisa Rollo, and I am the Senior Vice President, Chief Retail Officer, of the Stephenson National Bank & Trust (SNBT). I work and reside in Marinette County. SNBT employs 126 full-time people and has branches in Marinette and Oconto counties in the state of Wisconsin. We are a community bank at approximately 620m in asset size and have been in business since 1874....147 years...weathering plenty of challenging times, wars, pandemics, and even the Great Depression.

One of our many core values is Community Leadership, and we believe in the strength of our communities. To date in 2021, our employees have pledged 5,362 hours of their time to volunteerism to 118 organizations in each of their respective communities. We contribute a % of the bank's income to the community or roughly \$200⁰ per year.

I am here today to testify in opposition to AB 587. I'd like to speak to the committee members about banks in the electronic payments processing flow, and how important it is to banks and consumers in keeping the process as it stands.

The electronics payments system is a complex network that involves many players allowing for the security and speed, and efficiency of card payments. A credit card payment transaction begins by a customer inserting the card into a terminal, tapping it, or handing it to the merchant to pay for their goods/services. Once inserted messages travel on the card network to the consumers Financial Institution (FI) where it is scored for credit availability and fraud risk. If approved, the sum travels to the merchant's processor, less the discount fee. The transaction is then settled, and funds (less the merchant discount fee) are deposited into the merchant's account at their FI. At this point the 3 components of the merchant discount fee are distributed as "compensation" to the parties that facilitate the transaction. Card network gets its piece, merchant's bank gets an acquirer piece and the bank that issued the card receives the interchange fee. The fees on credit card transactions are what support this framework. All players in the transaction are performing their compensable "jobs".

This seamless transaction occurs within seconds behind the scenes on every payment. A merchant is guaranteed 100% payment for the full cost of the transaction and the immediate authorization allows them to receive this payment same or next day without customer disruption.

The interchange fee supports the infrastructure of the payment network as well as reliability of the system, ensuring cards will work as intended, so purchases can be made without customer interruption. This fee also supports one of the most important pieces, fraud protection for the consumer. Fraud is handled by the bank, not the merchant, as we serve as the consumer's primary point of contact in any charge disputes. The bank works to make the consumer whole, and all charges are refunded.

Although interchange fees allow for a vital way for banks to serve their customers, we do realize it is an expense of doing business to retailers. The value to merchants of having the ability to accept cards rather than having customers pay the old way by cash or check should certainly make it more appealing. Physically accepting, handling, and banking cash and check payments costs the merchants time and efficiency, shifts the cost of bad checks back to the merchant, and provides for a slow check out experience for the customer. The logistics of splitting transactions to limit fees earned in the payment process, and consideration of the 72 counties in Wisconsin with multiple tax rates would add to the list of problems of this solution. Creating a system to handle sales tax separately isn't currently necessary as accountants are accustomed to properly declaring sales tax card processing expense deductions for merchants.

The passing of this bill would make Wisconsin the only state that prohibits fees from being charged on "just a portion" of the total amount of the transaction, and banks would be reliant on payments processors desire and motivation to act within time deadlines on any changes when it impacts only one out of 52 states. This legislative solution would cause a major disruption and expense to banks by requiring changes to infrastructure, software, hardware, and terminals to support the new system.

While we understand costs related to merchants serving as primary sales tax collectors for the state, changing the transaction process in the complex national payments ecosystem for Wisconsin alone, shifting the cost to banks and limiting the interchange fee that supports the process would not be a prudent decision.

This concludes my testimony, and I am happy to address any questions the committee members may have.



**Statement Before the
Assembly Committee on Financial Institutions**

By

**Bill G. Smith
State Director**

**National Federation of Independent Business
Wisconsin**

Thursday, October 21, 2021

Assembly Bill 587

Madam Chair, members of the Committee, thank you for scheduling today's important hearing and allowing an issue to be brought forward on behalf of thousands of retailers located throughout our state.

Although NFIB includes a broad spectrum of business types among our nearly 10,000 members, the retail industry is dominated by smaller businesses, who are working hard to find employees, keep products on their shelves, and overcome the economic uncertainty they see over the next several months.

The focus of today's hearing is not the interchange fees assessed on all sales transactions by credit card companies. Rather this legislation is about the fairness of applying those fees to the tax portion of a sales transaction when a credit card is used for payment.

Madam Chair, sometimes it can be complicated restoring fairness to the tax code – but this isn't one of those times.

Those opposed to this proposal will suggest this is costly, complicated legislation.

If this proposal were about eliminating or regulating interchange fees then perhaps we could discuss whether credit card transactions actually benefit retailers, whether retailers would need costly new systems, whether consumers would lose convenience, whether fraud or credit risks would increase, and finally, whether this legislation would hurt small business.

**National Federation of Independent Business in Wisconsin
10 East Doty Street, Suite 519 – Madison, WI 53703 - 608/255-6083 – www.nfib.com/wi**

Statement Before the Assembly Committee on Financial Institutions

Thursday, October 21, 2021

Page Two

Of course, none of those concerns are relevant because this legislation isn't about the merit or cost of interchange fees. Assembly Bill 587 is, however, about tax fairness.

This legislation is not complicated, and its provisions will not hurt small business, it will not inconvenience merchants and consumers, and it will not require the installation of costly, new systems.

This legislation simply says it is not appropriate or fair for credit card companies to apply their swipe fee, paid by retailers, to the tax portion of their credit card transactions.

So, let's be clear, the sky is not falling – change can be challenging but worth the effort when the goal is not just fairness, but also providing our small retailers with a system that will have a favorable impact on the increasing cost of credit cards in the marketplace.

Therefore, I respectfully urge members of the Committee to act favorably on Assembly Bill 587.

Thank you for your consideration.



To: Members of the Assembly Committee on Financial Institutions
Representative Cindi Duchow, Chair

From: Jon Jossart, General Manager, Ambassador Hotel-Milwaukee, and
Vice Chairman, Wisconsin Hotel & Lodging Association Board of Directors, and
Legislative Committee Chairman, Wisconsin Hotel & Lodging Association

Date: October 21, 2021

Re: Support for AB 587– Fees imposed on merchants in connection with credit card transactions and providing a penalty

As a hotel executive for over 20 years of multiple properties renting lodging in Wisconsin, as well as a Member of the Board of Directors for the only state association representing the entire lodging industry in Wisconsin, I come to you at a time when many businesses in our industry continue to be in need of financial relief as we struggle to stay alive through the challenges posed by the pandemic and the labor shortage. Your support of Assembly Bill 587 would help hotel and lodging operators around the state keep more money in their businesses, which we can invest back into our employees and operations.

Hotels are hit especially hard with credit card swipe fees because our guests pay more in taxes on a transaction as compared to other businesses. In addition to state and county sales taxes, we also collect room tax, premier resort tax and local exposition taxes. Essentially, we serve as tax collectors for the state, counties and municipalities, and other than a minor rebate from the state, we bear the financial burden of the credit card fees associated with collecting these taxes. To put that in perspective, our hotel collected nearly **\$700,000.00** in sales tax, room tax and expo tax in 2019. If we assume that all of our customers paid with a credit card, and the average swipe fee is 2.5%, that means our business spent **\$17,500** to collect money for the state and county in 2019.

The Wisconsin Hotel & Lodging Association reviewed state sales tax records from 2019 collected by "Accommodations" (hotels/motels, etc.). The state portion alone brought in more than \$117 million in tax revenue. If all of those sales were made using credit cards, the lodging industry was on the hook for somewhere between \$1.4 million and \$4.7 million in swipe fees on the state sales tax collected for the year. This does not include county sales taxes, expo tax, premier resort taxes or municipal room taxes. If you were to add those taxes in, the total collected is likely around twice that amount.

AB 587 helps Wisconsin businesses of all sizes collect taxes fairly, and it provides multiple solutions for the credit card providers to comply.

Please support AB 587. Thank you for your consideration.



2801 Fish Hatchery Road | Madison, WI 53713 | (608) 270-9950 | (800) 589-3211 | FAX (608) 270-9960 | www.wirestaurant.org

Testimony

October 21, 2021

TO: Assembly Committee on Financial Institutions
Representative Cindi Duchow, Chair

FR: Kristine Hillmer, President and CEO

RE: Testimony in support of AB 587

Thank you Madam Chairman and members of the committee for hearing our testimony today. I was hoping to have some of our members with me today. Unfortunately, with the labor shortage, many are unable to leave their businesses to be here.

The Wisconsin Restaurant Association represents over 7,000 restaurant locations statewide. Our organization represents all segments of the restaurant and hospitality industry and includes food establishments of all types and sizes, such as seasonal drive-ins, supper clubs, diners, locally owned franchisees, fine-dining and hotels/resorts. Over 75 percent of our membership are independent restaurants. Regardless of ownership type, all restaurants are the cornerstones of their neighborhoods and communities. Restaurants not only provide great food, drink and hospitality, they support schools, teams, charities and churches with fundraising and donations. They provide meeting places to celebrate, mourn and organize, or just provide a safe, tasty meal for a busy family. Prior to the pandemic, the restaurant industry employed nine percent of Wisconsin's workforce.

I am sure you all know the toll the COVID-19 pandemic has taken on the entire hospitality and tourism industry. I wish I could report the restaurant industry is recovering and that we will be back to normal soon. Unfortunately, that will not happen as soon as we all hoped. Restaurant recovery has started moving in reverse because consumers changed their behavior due to the delta variant. On premise dining is declining. Overall sales were up slightly in September, but in inflation-adjusted terms, eating and drinking place sales were down from July levels. Restaurants are still nearly 8 percent below pre-pandemic employment levels, prevent them from being open the hours needed to increase sales. Wholesale food prices increased sharply in September, posting the highest 12-month increase since 1980, with some commodities up 20-50 percent. Compared to one year ago, menu prices in the Midwest are up 5.4 percent in an effort to combat the steep increases in labor, supply and service expenses. However, our members tell us that Wisconsin consumers are pushing back against menu price increases.

For an industry that operated on a 3 percent profit margin prior to the pandemic, I am sure you can see that trying to operate profitably now is very difficult, let alone to make the revenue needed to service the additional debt taken on earlier in the pandemic just to stay in business.

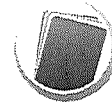
It should be no surprise that the use of credit cards greatly increased in restaurants during the pandemic. Public health officials strongly encouraged cashless transactions and consumers complied. This obviously increased card-processing expenses paid by restaurants, especially the smaller operations who typically pay higher fees due to their small size. Add on the fact that by accepting certain credit cards which reward

consumers with points or cash back, merchants pay even higher fees to fund those rewards. This is all on top of the fees paid by restaurants to collect state and local sales taxes on behalf of government. Increases in menu prices is an automatic increase in taxes collected, which in turn increases the fees restaurants pay card companies to those collect taxes. Many organizations in the room will say that is the cost of doing business today and businesses either need to raise prices or use other methods to pass those costs on to the consumer.

As I mentioned, many of our frugal Wisconsin brothers and sisters are already resisting those menu increases and dining out less often or spending less while in the restaurant. Some eating and drinking establishments are charging additional fees to their customers who use credit cards, but that is not practical for the majority of restaurants, especially for high-check-average table service restaurants and most counter service operators.

The bottom line is restaurants and other retailers should not be paying processing fees to collect taxes on behalf of state and local governments. We collect taxes because it is required and accept our responsibility to collect and remit taxes on time and accurately. We already absorb costs associated with tax collection. These duties require quite a bit of staff time to compile and remit required documentation and the staff time required is not free. Paying fees to collect taxes that are not reimbursed, just adds additional pressure points on businesses that are struggling to stay alive.

AB 587 will be a tremendous help to the entire restaurant industry. Giving restaurants a rebate back for the fees they pay to be the state's tax collector is much need reform and we strongly urge your support.



CardCoalition

October 19, 2021

The Honorable Cindi Duchow, Chair
The Honorable Terry Katsma, Vice Chair
Assembly Committee on Financial Institutions
Wisconsin State Capitol
2 East Main Street
Madison, Wisconsin 53708

Dear Chair & Vice Chair:

Please Oppose AB 587 relating to payment card interchange fees & sales tax

The Card Coalition urges you to not report AB 587 from your Committee.¹ We call your attention to the attached Coalition Memo filed by the Wisconsin Bankers Association, the Wisconsin Credit Union League, American Express, Mastercard, and Visa. The Memo outlines objections and concerns with the bill.

We share those concerns.

In recent years, several states have considered legislation relating to exempting sales and use taxes from interchange fee calculations. After considering the issue, they have chosen **not** to enact these proposals.²

The payment card system does not support exempting taxes

The necessary infrastructure to exempt sales and use taxes from interchange fee calculation does not exist and would have to be created at a high cost to merchants, processors, networks, and financial institutions alike.

Additionally, a financial institution would bear the credit risk for the entire transaction, including the tax portion, while merchants at the point of sale would need specialized terminals and software to itemize and communicate segmented data or consumers could face paying two separate transactions per sale—one for the product or service and another for the tax portion—thereby slowing checkout.

Payment card networks are highly specialized and operate under national processing rules to facilitate almost instantaneous acceptance. It is based on universal acceptance, guarantee and settlement of payment regardless of transaction type.

¹ The Card Coalition is the only national organization devoted solely to the payment card industry and related legislative and regulatory activities in all 50 states. For more information, this—or any payment card issue—please visit us at www.cardcoalition.org.

² When merchants accept a payment card, they pay a “merchant discount fee” which is typically 2 – 2.5% of the transaction amount. One component, the “interchange fee,” is simply that portion of this fee that is received by the bank or credit union that issued the customer’s card. These fees typically average 1.75%. Merchants pay this in order to access the global electronic payments network and to gain the opportunities for increased revenue and guaranteed payment provided by payment card acceptance.

To change this for solely one state and establishing a precedent of designating that certain types of payments must be handled in a unique way increases costs to the financial institution and consumer, and has the potential to extend to other types of transactions beyond sales tax.

Wisconsin's Small banks & credit unions would be harmed

Changing the payment system would place a disproportionate burden on small institutions which suffer most from increased compliance costs when new regulatory requirements are imposed.

The Legislation Inappropriately Shifts the Costs of Processing Payments

AB 587 would compel the electronic payments system to absorb the entire cost to process billions of dollars in sales and use tax. The electronic payments system is a service provided to merchants and consumers to enable the efficient and secure transfer of funds between the parties. States and local governments that derive sales and use tax from these transactions benefit in similar fashion.

In addition, unlike cash transactions, electronic payments provide the added assurance of transparency, a clear benefit to tax authorities. The State of Wisconsin collected \$5.86 billion in sales and use tax during the 2019-2020 fiscal year.³ While some portion of that amount would be the result of cash transactions, a significant amount would have been processed through the electronic payments system. The cost of this valuable service has always been borne by the parties who receive the benefit thereof, not by the parties providing the service.

*

In sum, legislation—like AB 587—that prohibits interchange on tax portion of transactions harms retailers and consumers and creates substantial operational burdens on merchants and increases costs.

Thank you for your consideration.

Sincerely,



Toni A. Bellissimo
Executive Director
(703) 910-5280
tonib320@gmail.com

³ See: https://docs.legis.wisconsin.gov/misc/lfb/misc/210_preliminary_2019_20_general_fund_tax_collections_8_31_20.pdf



Innovative Payments Association
110 Chestnut Ridge Road
Suite 111
Montvale, NJ 07645

October 18, 2021

The Honorable Cindi Duchow, Chair;
The Honorable Terry Katsma, Vice-Chair; and
Members of the Wisconsin Assembly Committee on Financial Institutions
Wisconsin State Assembly
State Assembly Chamber, Wisconsin State Capitol
Madison, Wisconsin 53703

RE: IPA Opposition – AB587 and SB572 (*Interchange*)

Dear Chairman Duchow and Vice-Chair Katsma:

The Innovative Payments Association (IPA)¹ is writing today to express our concerns with AB587 and SB572 (collectively, the bills), which would require that state and local taxes and fees be excluded from the calculation of interchange fees. The IPA is concerned about the potential unintended consequences of the bill for Wisconsin consumers and retailers. The IPA appreciates the opportunity to discuss our concerns with these bills with the goal of having a dialogue with you and your staff.

If enacted, the bill would require the creation and implementation of completely new systems and processes, software, and hardware throughout the electronic payments value chain. This would be an enormous and costly undertaking that retailers would have to help pay for. Until the proper infrastructure could be built and deployed, many small and medium-sized retailers would be forced to conduct two transactions for each customer to comply with the provision of the bill – one for the cost of the product or service and another for state and local tax, adding additional time and friction for both the customer and retailer.

Small retailers, in particular, would be hit hard by the impacts of this legislation. They often do not have sufficient volume to offset the costs the new system would impose, which would likely erase any potential savings in interchange assessments. They may also be forced to pass the increased costs along to the consumer or stop accepting electronic payments altogether, harming those who have been impacted the hardest by the COVID-19 epidemic in particular.

This would also hamper the acceptance of card products, including prepaid cards. Prepaid cards serve a crucial function in disbursing financial payments and government benefits. Prepaid cards have been a trusted method for the disbursement of federal benefits for at least the last 10 years. In 2018, the federal government disbursed \$137 billion² in benefits using prepaid cards,

¹The IPA is a trade organization that serves as the leading voice of the electronic payments sector, including prepaid products, mobile wallets, and person-to-person (P2P) technology for consumers, businesses and governments at all levels. The IPA's goal is to encourage efficient use of electronic payments, cultivate financial inclusion through educating and empowering consumers, represent the industry before legislative and regulatory bodies, and provide thought leadership. The comments made in this letter do not necessarily represent the position of all members of the IPA.

² <https://www.federalreserve.gov/publications/2019-september-prepaid-card.htm>



Innovative Payments Association
110 Chestnut Ridge Road
Suite 111
Montvale, NJ 07645

including Social Security, veterans' benefits, and child support. In fact, federal law mandates that all federal benefits be delivered electronically.

In particular, prepaid cards' crucial function in delivering payments has been well demonstrated during the COVID-19 pandemic. The federal government delivered approximately 5.8 million³ Economic Impact Payments (EIPs) that were authorized under the Coronavirus Aid, Relief, and Economic Security (CARES) Act via prepaid card and approximately 8 million⁴ EIPs that were authorized under the Consolidated Appropriations Act, 2021 via prepaid card.

In addition to the federal government, every state in the Union uses prepaid cards to distribute benefits such as Supplemental Nutrition Assistance Program (SNAP), Temporary Assistance to Needy Family (TANF) benefits, and unemployment insurance to their citizens.

Given this, now more than ever, it is critical that Wisconsin consumers not be limited in their ability to utilize electronic payments.

Finally, the IPA notes that, if the systems are eventually put in place to separate the sales tax from the cost of the good or service, the sales tax portion still has to be processed through the existing payments infrastructure. It is still subject to all of the processes and protections granted to the underlying cost of the good or service — but, by virtue of this legislation, the payments system would be prohibited from recovering the cost of providing this service through the existing payment's structure (i.e., interchange).

The IPA and our members regularly work with policymakers, regulators, law enforcement, and merchants to identify, mitigate, and resolve consumer related issues. We would welcome the opportunity to work with you and your colleagues on this issue. However, if the bill is not rejected, the IPA is concerned that, due to the consumer restrictions and costs that would be imposed by the bill, both Wisconsin consumers and retailers would be severely harmed.

In closing we encourage you and your colleagues to reject the bill for the benefit of all Wisconsin consumers and retailers. The IPA appreciates the opportunity to share our views on the bill. If you have any questions or wish to discuss any issues, please contact me directly at the number listed below or at btate@ipa.org.

Sincerely,

Brian Tate (btate@ipa.org)
President and CEO
IPA

³ <https://home.treasury.gov/system/files/136/EIP-data-update.pdf>

⁴ <https://www.irs.gov/newsroom/treasury-issues-millions-of-second-economic-impact-payments-by-debit-card>



One League, One Focus - Your Success!

October 21, 2021

To: Honorable Members of the Assembly Committee on Financial Institutions
From: Sarah Wainscott, SVP - Advocacy | Wisconsin Credit Union League
Re: **Oppose AB 587 – Changing Interchange ‘Credit Card Swipe’ Fees**

The Wisconsin Credit Union League is the state trade association for 120 Wisconsin credit unions – not-for-profit, cooperatively-owned financial institutions that serve over 3.5 million members. Credit unions’ structure and mission to “provide an opportunity for its members to improve their economic and social conditions,” enables and ensures that members are, perpetually, the focus.

AB 587 is a fundamentally flawed proposal that would disrupt a payment system that benefits all parties involved, including consumers.

Consumers Want To Use Cards & Card Protection is Key

Consumers across the country rely on credit cards to make life happen, from paying for groceries and school supplies to covering emergency car repairs or medical expenses. Accepted nearly everywhere, credit cards offer robust security, fraud protection, and access to credit that may not otherwise be available.

In a 2021 national poll, respondents indicated the following were “very important” in choosing a credit card:¹

- 86% Personal information is secure from data breaches
- 84% Card is widely accepted by all vendors
- 83% Protected from fraudulent purchases

From data breaches to skimmed cards, electronic payments continue to be a prime target for bad actors. In 2020, 300+ million individuals were affected by data breaches. The average cost credit unions assume to protect consumers from a data breach is 8.6¢ per transaction.

The robust security features that make credit cards so appealing to consumers come at a cost to financial institutions. When a merchant’s systems are breached, or a card is otherwise compromised, it is the financial institutions that absorb a significant portion of the cost.²

- \$1,600/card — The average fraud payout in 2020
- \$6.50 — Average cost to replace contactless cards
- 36% — Number of credit unions reporting greater fraud losses, from 2019-2020

Interchange fees, which are only a fraction of a cent per dollar transacted, help cover the cost of fraud detection, credit monitoring, and fraudulent purchase protection that make consumers and merchants whole when bad actors attack. Interchange fees cover the protections that make cards a safe and attractive option for consumers.

¹ CUNA/Frederick polling, July 2021. Percentage of respondents reporting factors that are “Very Important” in choosing a credit card.

² CUNA/Frederick polling, July 2021.

Balance in the Current Payment System

When a consumer makes a purchase and chooses to pay using a card, the credit union guarantees payment of the entire transaction amount: the cost of the item and all taxes applied.

Paying the interchange fee on just *a portion of the total transaction*, as the bill proposes, results in disproportional compensation for the protections and guaranteed payment provided by the credit union, for *the full transaction amount*.

Wrong Solution for a Worthy Goal: Supporting Small Business

Wisconsin credit unions have been a vital lifeline for small businesses since their foundation in this state. As businesses weathered the unexpected pandemic in 2020, Wisconsin credit unions showcased their support with over \$1 billion in business loan extensions and \$435 million in PPP & SBA loans (the average PPP loan size of under \$41,000).

Credit unions strongly support the businesses their members own, frequent, work for, and that keep their communities afloat. While we agree with the goal and will continue our efforts to support Wisconsin businesses, the policy proposed in AB 587 is not a feasible route to do so.

On behalf of Wisconsin's credit unions, we respectfully request you oppose AB 587.

