

## Retailers Sue Visa, Seek Lower Credit Card Interchange Fees

Avivah Litan

As Gartner predicted, a second lawsuit by retailers takes aim at high credit card processing fees. Retailers should promote consumer use of alternative payment schemes until these interchange rates are lowered.

## NEWS ANALYSIS

---

### Event

On 15 July 2005, a group of seven large U.S. retailers sued Visa USA over a component of card acceptance fees known as interchange rates. The suit alleges that Visa engaged in price fixing and adopted rules that prevent merchants from negotiating lower rates. A similar class action lawsuit on behalf of smaller retailers was filed recently against Visa USA and MasterCard International.

### Analysis

As we anticipated, this is the second lawsuit filed by retailers against Visa concerning interchange fees. Unlike the initial suit, however, this one doesn't claim class action, and MasterCard is not listed as a defendant. We believe these differences stem from the fact that the large retailers in this suit (grocers and drugstore chains) don't benefit from the lower rates that Visa allegedly granted to other large retailers, such as Wal-Mart Stores. MasterCard reportedly hasn't struck similar merchant-specific deals. In June 2005, we predicted that at least two lawsuits would be launched in the next 12 months on behalf of U.S. retailers suing the card associations over interchange fees (0.7 probability).

Retailers have long criticized interchange fees; they claim the fees fail to reflect the costs that they incur. Moreover, retailers contend that they are forced to fund, via such fees, card issuers' consumer loyalty and marketing programs. The U.S. Federal Reserve Bank of Kansas City documented this issue in May 2005 and offered two findings about market competition in the credit card system:

- It has resulted in higher prices. Visa and MasterCard compete for card-issuing (bank) business. Banks earn the most fee-based revenue from the card that offers the highest fees.
- Consumers, to take advantage of card loyalty programs, end up choosing the payment scheme with the highest interchange fee. They do this at the expense of the lowest-fee method (a personal-identification-number-based debit card), for which banks often apply surcharges to boost their card revenue.

Despite these findings, however, the Federal Reserve lacks data from the card associations to determine whether the current system is indeed broken. This has prevented the Fed from recommending that government agencies intervene to lower the interchange rates.

### Recommendations:

- **Visa and MasterCard:** Provide the Fed with data to analyze whether the system needs reform.
- **Retailers:** Adopt alternative payment schemes such as PayPal and Bill Me Later, adapt them for use for in-store payments and promote their use with consumers.
- **U.S. Department of Justice:** Permit retailers to collaborate, without fear of antitrust concerns, on their own closed-loop payment card that can bypass the Visa and MasterCard networks

**Analytical Source:** Avivah Litan, Gartner Research

### Recommended Reading and Related Research

- "Federal Reserve Conference Highlights Impasse on Card Interchange Fees" — U.S. regulators and Department of Justice officials should let merchants collaborate on offering card payment alternatives. **By Avivah Litan**
- "Debate on U.S. Credit Payment Fees Swirls at Fed Conference" — The U.S. and Canada are the only countries in which interchange fees are increasing. **By Avivah Litan**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

## REGIONAL HEADQUARTERS

---

### Corporate Headquarters

56 Top Gallant Road  
Stamford, CT 06902-7700  
U.S.A.  
+1 203 964 0096

### European Headquarters

Tamesis  
The Glanty  
Egham  
Surrey, TW20 9AW  
UNITED KINGDOM  
+44 1784 431611

### Asia/Pacific Headquarters

Gartner Australasia Pty. Ltd.  
Level 9, 141 Walker Street  
North Sydney  
New South Wales 2060  
AUSTRALIA  
+61 2 9459 4600

### Japan Headquarters

Gartner Japan Ltd.  
Aobadai Hills, 6F  
7-7, Aobadai, 4-chome  
Meguro-ku, Tokyo 153-0042  
JAPAN  
+81 3 3481 3670

### Latin America Headquarters

Gartner do Brazil  
Av. das Nações Unidas, 12551  
9º andar—World Trade Center  
04578-903—São Paulo SP  
BRAZIL  
+55 11 3443 1509