

## Visa Eases Small-Ticket Restrictions (Corrected)

From: American Banker

Tuesday, November 1, 2005

By [Isabelle Lindenmayer](#)

To drive volume, Visa U.S.A. will announce today that it plans to lower the fees it charges certain retailers to accept credit and debit cards for purchases of under \$15 and will raise to \$25 the maximum purchase for which qualifying merchants may accept a credit card without a signature.

"This is an aggressive strategy to increase card usage at merchants that are traditionally cash heavy," said Elizabeth Buse, Visa's executive vice president of product development and management.

If the changes, which will take effect next April, are also intended as an olive branch in the fight over interchange, merchants said Visa will have to do more.

John Coghlan, who became Visa's chief executive this past summer, has said he would like to spend "500%" of his time on merchant relations, and at a conference last month he said he had met with National Retail Federation officials to discuss interchange fees.

"Anything that lowers interchange is always welcome, but what we're looking for is a broad fundamental reform of the entire interchange system," said J. Craig Shearman a spokesman for the retailer group. "We're not going to be satisfied with a little tinkering on one side or another."

The fees Visa and MasterCard charge merchants to accept debit cards are particularly problematic, Mr. Shearman said. "If a debit card is a plastic check, it should operate like a check. The Federal Reserve has always accepted that checks be accepted without a fee."

Mitch Goldstone, the president and chief executive of 30 Minute Photos Etc., one of the merchants that filed a class action in June accusing Visa and MasterCard of violating U.S. antitrust law, called Visa's move a "start in the right direction." However, he warned that the changes would appease only a handful of merchants.

"What about my merchant class?" he said. "We want the interchange to go down to zero. That's what merchants are looking for."

Visa's small-ticket program currently grants seven classes of merchants - garages, restaurants, fast-food stores, movie theaters, video rental stores, commuter transport, and taxicabs and limousines - a discount interchange rate of 1.65%, plus a transaction fee of 4 cents, on credit card purchases of \$15 or less. That program will be expanded to include seven more classes: bus lines, tolls and bridges, news dealers and newsstands, self-service laundries, dry cleaners, copy services, and carwashes.

Also, for the first time, Visa plans to lower its debit card interchange rate for transactions of \$15 or less by 5 basis points, to 1.55%, for the 14 merchant classes.

They also will be allowed to accept credit cards without requiring a signature for purchases of \$25 and less. (Currently, only the seven original classes in the program may accept credit cards without signatures, and only for transactions of up to \$15.)

So will three other classes - drugstores and pharmacies, service stations, and miscellaneous food stores, such as delis and gourmet food shops. However, those three classes, which include some of the country's

larger retailers, will not get the reduced interchange rates.

The association is expecting a pick-up in acceptance "across the board" among eligible merchants thanks to the change, she said.

Moshe Orenbuch, a Credit Suisse First Boston Corp. analyst, agreed that offering reduced interchange rates to more merchants could help to generate card usage at merchants that have not traditionally accepted cards. "If the objective is to open up merchants that don't take credit cards, it makes sense."

Visa said transaction volume in the small-ticket program, which it started in October 2003, has been growing at an annual rate of 45%. Ms. Buse said it was not difficult to persuade member banks to sign off on the idea of offering more merchants the reduced rates.

"The value proposition for the banks is the enormous volume" they could generate, she said.

Michael Nardy, an analyst at Green Sheet Inc., a publishing firm that specializes in the payments industry, said MasterCard International has a number of similar programs, including a convenience purchase program, which gives five merchant classes - fast food restaurants, convenience stores, gas stations, automated fuel dispensers, and movie theaters - a discount rate of 2% for small-ticket purchases.

The company also has a small-ticket debit program in which it charges those merchant groups, as well as limos and taxis, commuter transport, restaurants, and video rental stores, an interchange rate of 1.7% plus a 4-cent transaction fee, Mr. Nardy said.

MasterCard also has a quick payment service program that lets merchants accept cards without a signature for transactions of under \$25. The program originally was for movie theaters, parking garages, and fast-food restaurants only. MasterCard expanded it last year to include convenience stores, gas service stations, drugstores, and vending machines. (For garages, the cap is \$50.)

American Express Co. does not offer merchants a distinct interchange fee for small-ticket items, but it allows transactions of any size on its contactless cards to be processed without a signature.

However, interchange fees may not be the only consideration for those industries that have been traditionally cash-heavy.

According to John Meijer, the vice president of membership for the International Fabricare Institute, a trade group for dry cleaners, a reluctance to adopt new technology has been the main impediment to card acceptance in his industry.

"There are a lot of people who have been in the dry cleaning business for quite some time. It's just like asking your parents to change," Mr. Meijer said. "It's technology more than anything else. Fees have very little to do with it."

That said, the industry's attitude toward cards is changing, he said, particularly because of the increasing use of debit cards.

Card acceptance "is getting a lot higher, not so much because of credit cards, but because of debit cards," Mr. Meijer said. "The bottom line is if you're going to lose a customer because you don't accept credit cards, that is more important than the fees that are being charged."

© 2005 American Banker and SourceMedia, Inc. All rights reserved.

[Subscribe](#) | [About American Banker](#) | [Advertise](#)  
[Contact American Banker](#) | [Customer Service](#) | [Privacy Policy](#)  
[Site Map](#) | [Subscription Agreement](#)

Use, duplication, or sale of this service, or data contained herein, except as described in the Subscription Agreement, is strictly prohibited.

