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Dear CFIB Member:

IMPORTANT CHANGES TO VISA, MASTERCARD AND DEBIT CHARGES FOR MERCHANTS

Over the past couple of months, we have become increasingly concerned about developments in the credit and debit card industry that will adversely affect all businesses who accept payment via these cards. There are a number of different changes that will be taking place in the near future, all of which appear to be designed to complicate the ability of the merchant to figure out exactly what they are paying to process transactions, and enrich credit card companies and other institutions such as banks who issue the cards, largely at the expense of the merchant.

If you are currently using the CFIB plan for VISA, MasterCard and debit, you will still be better off than if you try to negotiate an arrangement on your own, and if you are not currently on the plan you may want to consider it going forward.

With respect to the credit card part of the market, over the past few months credit card companies have been introducing new types of cards, such as those referred to as “Premier”, “Mosaic” or “Infinite” cards, usually offering a special set of benefits to consumers who spend a certain amount of money. Consumers have not requested this—it has been completely initiated by the credit card companies with a wink and a nod from the issuers—Canada’s financial institutions. The hitch for merchants is that these cards can result in considerably higher fees for those who accept card payments. In some instances, the exact same credit card can attract a different merchant fee once it has been deemed “high spend”, or where the bank issuing the card detects a certain dollar amount has been reached. This can happen without the merchant having any clue that the merchant fee has changed. Needless to say, credit card companies will be making a lot more money for what is effectively the same service. And the consumer won’t care because they will not be assuming any costs.

On the debit card side of the market, Canada has long operated with Interac, a cooperative venture among banks, credit unions, payment related companies and others, as the principal clearing house for debit transactions at comparatively reasonable cost to consumers and merchants. The growth in debit has been astronomical since its introduction in 1984. VISA and MasterCard now want in on the action in Canada and are trying to convince the banks to support them with the promise of greater fee income. In the U.S., both VISA and MasterCard allow their credit cards to double as debit cards; in most cases, debit transactions also attract the “interchange rate” (a percentage of the transaction amount), not the flat fee charged by Interac. We believe that if VISA and MasterCard were to bring the same service to Canada, debit rates would go up dramatically. Therefore, VISA and MasterCard will make a great deal more money than has been charged in the past by Interac’s “flat fee” approach, with no extra value accruing to the merchant.

Currently, debit attracts a “cents per transaction” fee. If the credit card companies succeed, the market will move to a fee which is a percentage of the transaction size. For example, for a transaction of \$1,000, a current common rate would be \$0.065 (6.5 cents). In future, if the charge was to become 0.65 per cent (the current U.S. average), the fee would be \$6.50—an increase of almost 10,000 per cent!

Not surprisingly, these developments have taken place “under the radar” to date as serious scrutiny would raise opposition to the plans. As VISA and MasterCard dominate the credit card business, they are used to calling the shots with little if any push-back from customers, governments or other players as they have no competitors. At CFIB, we are currently aggressively making our case with government authorities, the credit card processing companies, Interac and others to get these developments out in the open, better understand their implications, promote transparency and protect the small business sector from massive cost increases. If these changes proceed as planned, the bottom line for small- and medium-sized businesses will be sharply higher costs for both credit and debit transactions, costs that will be especially difficult to bear as our economy faces a range of other serious challenges, including such things as punitively high energy costs.

If you are currently a merchant dealing with VISA or MasterCard, you will likely receive notice of some of these changes in the near future. I wanted to give you a heads-up at this time, and I will keep you posted as to CFIB activities aimed at lessening the negative impacts on small businesses, as well as the Canadian economy overall. It is difficult at present to estimate the total impact of these changes, but it will be substantial and the dramatically increased costs will not mean any changes in service, so this is a total cash grab. CFIB is the only group actively opposing these changes, and we will continue to do so until meaningful change is achieved. I would also appreciate receiving your feedback on any information you are receiving from VISA, MasterCard or others on this topic.

As always, I want to thank you for your support and participation in CFIB.

Sincerely,

A handwritten signature in cursive script that reads "Catherine Swift". The signature is written in black ink and is positioned to the left of the typed name and title.

Catherine Swift
President and CEO