



## **CREDIT CARD MERCHANT FEES**

Every year, \$44 trillion worth of payments are made in Canada. Only 20% of this value is done with cash, down from 50% in the 1990s. This signals the growing reliance and importance of credit card and debit transactions, not only for consumers, but also for the businesses that rely on these methods to accept payments. However, at \$5 billion per year, the credit card fees paid by Canadian merchants are among the highest in the world, costs which trickle down to the consumer regardless of their payment method.

Many of the businesses accepting credit card payments for goods and services are unclear on the inner workings of merchant services providers (MSPs). MSPs are a third party, such as VISA and MasterCard, who process credit card transactions. The current system has resulted in many businesses paying higher fees for credit card acceptance than necessary. Businesses are enticed to switch service providers on the premise of lower rates. However, as most businesses are unaware of the actual VISA and MasterCard rates - the actual Merchant Discount Rate (MDR) - they are misled to believe that a lower MDR results in savings on their actual credit card transactions. On the contrary, a lower than actual MDR means that the MSP is losing money on every transaction and, thus, has to recoup its losses through the card brand fee and/or non-qualified surcharges, which can vary substantially across different service providers.

The 3 Components to Credit Card processing:

1. *Merchant Discount Rate (MDR)* - This is the base rate charged by the provider. Any rate below the rate VISA charges the MSP for processing one of its credit cards causes the MSP to take a loss on the transaction. In order to recoup this loss, the MSP thus has to bump up the rates in 2. and 3;
2. *Card Brand Fee (CBF)* - 0.10% or more (the actual cost is 0.08% but is rounded up by most MSPs): This fee is used by VISA and MasterCard to advertise their brands, as well as to improve the stability of their networks; and
3. *Non-qualified Surcharge (NQS)* - 0.30% is the average value of this surcharge. However, it can vary greatly depending on the base rate offered by the MSP. Certain MSPs will undercut the Merchant Discount Rate (MDR) and then increase the Non-qualified surcharge (NQS) to make up for the loss they incur. Monies raised through this rate are used by major banks to promote their credit card programs and to pay for benefits received by credit card holders. The rate is also charged on keyed transactions, which are considered higher risk, as well as on all Infinite credit cards (i.e. Avion, Aeroplan, etc.). Transactions made



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