

## TESTIMONY IN REGARD TO SENATE BILL NO. 2217

March 7<sup>th</sup>, 2023

**To: *Committee Chairman Craig Headland and members of the Finance and Taxation committee***

**From: *Jeff Olson, President/CEO Dakota Credit Union Association***

Consumers across the country rely on credit and debit 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.

Interchange fees cover the cost of fraud detection, credit monitoring, and fraudulent purchase protection that make consumers and merchants whole when bad actors attack.

### **Accessible credit for North Dakota's 214,000 credit union members.**

Consumers rely on credit cards to build credit and gain access to funds that otherwise may not be available to them, something not available with debit cards. Credit unions work with their members to address their needs.

### **Changes to interchange mean changes to credit.**

The robust security features that make credit cards so appealing to consumers come at a cost. Interchange fees cover those costs, but increasing fraud and the possibility of reduced interchange fees pose a real threat to data security.

The bill's supporters claim that they are acting on behalf of the state's retailers and small businesses. However, what about the consumers? The reality is that this bill would be a damaging, costly tax on those small businesses that they are trying to help, and a tax that would certainly be passed on to North Dakota consumers.

From data breaches to skimmed cards, electronic payments are a prime target for bad actors. The rate — and cost — of criminal activity is on the rise. When a merchant's systems are breached, or a card is otherwise compromised, financial institutions - including credit unions - absorb a significant portion of the cost.<sup>3</sup> Today, merchants and retailers aren't liable for these breaches.

Today when any debit or credit card is used, the transaction gets processed as a full amount, including all taxes. That amount is transferred across the payment network (payment exchange networks owned by Visa, Mastercard, American Express, or Discover) to the financial institution that issued the customer's credit card. That financial institution or card issuer then transfers the payment in full across the same payment network to the Financial institution that the merchant uses. There is no structure in place to separate the sales tax from the main transaction amount as transactions are processed between financial institutions.

*1 CUNA, Operating Ratio and Spreads, YE 2021 report (CUNA-Credit Union National Association)*

*2 CUNA, Operating Ratio and Spreads, YE 2021 report*

*3 Consumers use credit cards for their ease-of-use, robust security, and fraud protection*

Some retailers claim that the software used in their point-of-sale hardware has the capability to separate the sales tax from the main transaction amount. Even so, the point-of-sale systems do not communicate with the various financial institutions involved in making sure that the customer's money ends up in the pockets of the retailer.

Major changes would have to be made to the existing electronic payments infrastructure at a significant, unknown cost. Ultimately, those costs would be passed on to the small businesses and consumers in North Dakota.

This bill is part of a broader effort by mega retailers across the country to reduce interchange fees and process credit card transactions across less secure alternative networks. If successful, consumers will bare the full burden additional costs and expenses added to the exchange networks.

For our credit union members – they rely on credit cards to build credit and gain **access to funds that otherwise may not be available to them.**

### **Here is a sample of the cost of running a debit card program at Credit Union.**

- The Median margin per account at a CU is \$30 on Debit Cards.
- On average, fraud costs reduce debit card margins by 18% per account.
- Interchange revenue for debit cards is small and barely covers program costs.

According to a recent study conducted by the Credit Union National Association and Fredrick polling on CU credit card accounts, from 2020 to 2021:

- Fraud costs increased 24% (\$2.50).
- Total program costs, including fraud, grew 14%
- Non-interchange revenue decreased nearly 7%.
- Margins on CC programs decreased nearly 11%.

Interchange Revenue Doesn't Pay For a credit union credit cards programs either and the credit union average margin is just \$90 per card annually.

Credit union credit card costs are \$0.23 higher per transaction than the interchange revenue. Meaning Credit Union credit card programs are under water... as Interchange revenue does NOT cover card expenses... card profits come from interest on outstanding balances.

If successful, consumers will ultimately take on the full burden of additional costs and expenses either on increase pricing or fees added to the exchange networks.

Also, what's behind the curtain? Big box retailers stand ready to make billions on the backs of the small retailers who are fronting this fight and who want customers on their own CC programs.

The bottom line is that interchange works. Consumers win with easy access to easy-to-use credit/debit cards; merchants win with guarantee and immediate payments; and financial institutions win with safe and secure products for their customers. This fraction of a cent keeps credit available to consumers, while protecting them-and merchants – from fraud.

We respectfully ask you to give SB 2217 a do not pass.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Jeff Olson". The signature is fluid and cursive, with the first name "Jeff" and last name "Olson" clearly distinguishable.

Jeff Olson

DakCU President/CEO

*4 National Voter Survey, CUNA/Frederick/Cygnal Polling, January 2023 (Credit Union National Association)*

5 CUNA/Frederick polling, July 2021.