



Senate Bill 2217

Presented by: Angie Olson, Director of Card Services
ICB Services, Inc.

Before: Senate Finance and Taxation Committee
Senator Jordan Kannianen, Chairman

Date: January 25, 2023

Chairman Kannianen and members of the Senate Finance and Taxation Committee (Committee), my name is Angie Olson, and I am the Director of Card Services for ICB Services, Inc., a sister company to the Independent Community Banks of North Dakota. ICB Services opposes SB 2217 and requests a "Do Not Pass" recommendation from the Committee.

ICB Services, Inc provides credit card program services to

- 43 Community Banks
- Within North Dakota, South Dakota, Minnesota, and Montana Regions
- 29,000 Accounts on File
- 2022 Aggregate Sales Volume 135MM

Merchants are under the impression that credit cards are a cash cow for issuers. To the contrary, at best many of our small community banks break even on their credit card programs. Most of our member banks offer cards as a service in rural underserved areas and do not expect to make a huge profit.

Small businesses do not want to put in the same bucket as Walmart or Amazon and in the same respect, Community Banks do not want to be classed with big corporate banks that you hear in the news.

I would like to go over a few of the costs that our community banks paid for their credit card programs in 2022:

- Transaction Fees: \$119,956.51
- Incurred \$123,309.24 Loan Losses
- \$70,936.30 Fraud Losses

Those amounts do not include costs to submit fraud/dispute cases.

- Total of 310 Dispute Cases @ a cost of \$4,687.20
- Total of 531 Fraud Cases @ a cost of \$32,616.64
- Additional fees paid for Fraud Management/Security. These are the products and services that help protect your card.
 - In 2022 our member banks paid a total of \$89,324.99 for those services

Additional costs our member banks pay:

- Daily Settlement fees
- Record Retention/Maintenance
- Authorizations
- Card Issuance/Plastics
- Statements/Inserts/Postage
- Notices/Letters
- Third Party Fees
- GUI (Graphical User Interface) access for banks
- Internet/Mobile Services
- Call Centers for 24/7 Customer Service
- Insurance
- Network/ATM/EFT Services (Tokenization)
- Rewards
- Visa Fees & Licensing Costs
- Employee Salaries
- Compliance
 - PCI Compliance (Payment Card Industry) – mandated to help ensure the security of credit card transactions in the payment industry. It means the systems are secure, and customers can trust you with their sensitive payment card information. 4 Levels of PCI (1 highest transactors to 4 the lowest)

Merchants will make you believe that this is just a simple programming change. That is false, there are no rails in the payment system today that separate sales from taxes. It's complicated a process and payment networks do not see data at the SKU level. Passing this legislation would mean that all card sales would need to be done in two transactions. The card would be used for the purchase of good/services and the consumer would have to pay for the tax separately with either cash/check. The burden would be on the business to collect tax, keep record, and submit to the tax department.

In respect to processing fees, the tax IS part of the sale, as it is processed through the payment network. Ask yourself this, as a business would you spend time and money on the infrastructure to process something for free? And if you had to invest in the infrastructure, wouldn't those costs be passed on to your customers, resulting in higher prices/fees??

For example, if this legislation were passed, gas stations would more than likely change the way they advertise gas prices with the inclusion of state and federal taxes. This would make it impossible for gas stations to offer pay at the pump for card payment. Most businesses have a standardized system, and this change would require complicated and expensive system upgrades and that do not exist today to my best knowledge. If this system could even be developed, how would it be paid for? Who would be responsible for those costs?

I would also like the committee to be aware that businesses can deduct 100% of their credit card processing fees from their taxable income. There are no limits on the amount a business can claim for processing fees. *Businesses must keep records of their processing fees

Processing fees are a cost of doing business. Since 2006 this legislation has been introduced 44x in at least 26 different states and over these 17 years it has never been passed or implemented. We do not know the full ramifications for both business and consumers if this legislation is passed. I am asking the committee to reflect on the information presented today and really think if this legislation will move North Dakota backwards or forward.

*Payment Network: Visa, MasterCard, American Express Discover

*Payment Processor: FIS WorldPay, TSYS, Fiserv, GPS (Global Processing Services) – the entity that authorizes transactions and routes them to the appropriate card networks, and settles funds to acquiring bank

*Merchant Acquirers: Bank that holds the merchant's account, accepting the deposits from the merchants' transactions. *Not every bank is a merchant acquirer

*Card Issuer: The FI that provides payment cards to customers