



## Pressure mounts on Visa, Mastercard: investigation by the Federal Trade Commission is widely reported. (includes related article on offline debit cards)

### **EFT Report**

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Despite published reports, Visa and MasterCard say they have not been formally notified that they are under investigation by the Federal Trade Commission.

The independent newspaper FTC:Watch reported March 9 that the FTC is investigating whether the arrangement in which the card associations force merchants to accept their off-line debit cards, as a condition of credit card acceptance, inhibits competition in the debit card market and deprives consumers of choice.

An FTC spokeswoman says the agency does "not confirm or deny investigations."

Whether or not card associations are in the right about their staunch stance that merchants accept all their cards, they should be deeply concerned if the FTC believes otherwise.

On Monday, the Justice Department filed a complaint in U.S. District Court in Washington to block a \$11.6 billion merger between defense contractors Lockheed Martin [LMT] and Northrop Grumman [NOC]. Justice also is challenging the \$37 billion purchase of MCI by WorldCom Inc., and considering action against Microsoft [MSFT]. Justice and the FTC are pursuing antitrust violations with renewed vigor.

"It seems to me the current mood by people at the FTC is driven by politics at hand," says Ron Rawson, president of R.C. Rawson Co., a San Francisco-based consultancy. "If the government is investigating people like the Microsofts and some of the others we've heard about, it would be logical they could make an argument why they should investigate Visa and MasterCard. But there is not a smoking-gun, open-and-shut issue here."

#### **Piling On**

Visa and MasterCard also must worry about their class action lawsuit by the merchants. The case is over the exact same issue as the reported FTC investigation.

Merchants want the right to reject off-line debit products - Visa Check Card and MasterCard MasterMoney - while still accepting credit cards and building online debit platforms. Retailers pay about \$1.10 in interchange costs for every \$100 purchase made with an off-line debit card because the transaction travels over the credit card network. An online transaction switched over the EFT networks costs a retailer from 3 cents to 12 cents.

Visa and MasterCard say fine, build online debit platforms, but accept the off-line cards as a condition for accepting credit cards. On top of that, the off-line cards have online functionality. So a cashier at the point-of-sale conceivably could ask a customer to use their personal identification number (PIN) rather than signature when making a purchase.

#### Issuer Choice Is Clear

Bank issuers are clearly in love with the off-line debit cards. And why not? They make them the most money. Visa Check Card and MasterCard MasterMoney issuance is soaring, while growth of online cards marked with the Visa Interlink point-of-sale logo is stagnant (see "Off-Line Debit Explosion," p. 3).

Development of the MasterCard Maestro online point-of-sale mark worldwide has been staggering, jumping to 109 million cards in circulation as of the third quarter in 1997, up from 77.8 million at the same time in 1996. That's 40.6 percent growth.

MasterCard would not make U.S. numbers available, but Maestro here is a moribund brand.

#### The Push For Online

Retailers that pay attention to saving money are looking for ways to build online debit programs. Wal-Mart [WMT], the world's largest retailer, is leading the fight against Visa and MasterCard, both in and out of the courtroom.

The company expects to be equipped to accept online cards bearing the marks of every regional EFT network at all 1,904 Wal-Mart stores and 436 Supercenters by the end of the year (EFT, Dec. 17, p. 1).

Regional EFT networks such as NYCE are hoping to keep that kind of support while their bank owners ignore them in favor of the national brands.

"Regional brands or marks have been relegated to the back seat," says David Campbell, executive vice president of strategic planning at Cleveland-based KeyCorp [KEY], a financial services holding company with \$74 billion in assets.

Campbell believes compromise is needed to settle the issue. He would like to see some kind of convergence in debit at the point-of-sale, where pricing for both online and off-line products meet.

"One thing I think is wrong is the national cards don't have a strong online mark," Campbell says. "And the pricing is unfavorable to issuers. It's a mark of last acceptance.

"Somebody has to step to the forefront with a national POS mark with pricing that will incent issuers to move toward it. If you look at what issuers make with online POS transactions today, it's probably a penny," Campbell says.

Reconciliation of online and off-line debit card pricing could lead to reconciliation between retailers and card associations.

EFT has been told of new national online debit products in the works, which would feature higher interchange rates, but has not received confirmations.

Mitchell Shapiro, the strident but humorous lead attorney for the plaintiffs in the Wal-Mart lawsuit, says retailers deserve the right to negotiate interchange fees on a business-by-business basis.

While acknowledging that retailers are free to install online point-of-sale PIN pads in their stores, Shapiro says the motivation and incentive to do so is killed by the flooding of the market with offline cards.

"Anyone who thinks the retailer has any choice not to take the offline debit card is crazy," says Shapiro, who works for Constantine & Partners of New York.

Shapiro warns that retailers will receive treble damages for every dollar earned by banks on off-line products if he beats Visa and MasterCard in the lawsuit. At Debit Card Forum two weeks ago in Miami, Beth Costa, a consultant at Boston-based Dove Associates, said damages will be moot because "we may see online fees increase and narrow the gap between the two products." Shapiro, who spoke prior to Costa, just shook his head and laughed. (Beth Costa, Dove, 412/486-2755; David Campbell, KeyCorp, 216/6899588; Ron Rawson, R.C. Rawson Co., 415/362-7673; Mitchell Shapiro, Constantine & Partners, 212/350-2702; Glynnis Woolridge, MasterCard, 914/249-4606.)

#### RELATED ARTICLE: Off-Line Debit Explosion

While continuing its battle with retailers in an antitrust lawsuit, and now reportedly under investigation by the Federal Trade Commission, San Francisco, based Visa, the world's largest card association, and Purchase, N.Y.-based MasterCard continue to have tremendous success with off-line debit cards.

The following are Visa's year-end figures for 1997. MasterCard figures are only through the third quarter:

	1997	1996	Growth
Visa Issuers	5,541	4,035	37.3 %
Visa Check Cards	58 million	45.6 million	27.4 %
MasterMoney	20 million	12.7 million	58.2 %
Visa Transactions	2 billion	1.2 billion	66 %
Visa \$ volume	\$93.7 billion	\$54.5 billion	72 %
MasterMoney	\$11.3 billion	\$5.5 billion	105 %

The following are year-end figures for Visa's Interlink online debit point-of-sale program:

	1997	1996	Growth
Visa Issuers	1,206	1,192	1.1 %
Interlink Cards	32 million	32 million	0 %
Transactions	213 million	169 million	26 %
Merchants	251,833	161,210	56 %

Terminals 831,049 531,993 56 %

"Visa has been working to increase acceptance for Interlink," says Visa spokeswoman Susan Forman. "Our two-product strategy is designed to help our members provide consumers with increased flexibility and utility, while enabling issuers to control risk. Where an issuer might not wish to provide every customer with the global functionality of the Visa brand, Interlink is a great complementary product offering."

Retailers are charged \$1.10 in interchange for every \$100 spent with a Visa Check Card; the Interlink online rate is 10 cents at supermarkets, capping at 12 cents for other merchants.

Source: Visa & MasterCard

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<http://business.highbeam.com/3706/article-1G1-20510904/pressure-mounts-visa-mastercard-investigation-federal>

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