Short Summary of the Credit Card Competition Act of 2023

American consumers are worried about inflation and rising prices, and credit card swipe fees are part of the problem. The Visa-Mastercard duopoly controls over 80 percent of the U.S. credit card network market- more than 576 million cards – and every time a Visa or Mastercard credit card is swiped, around 2-3 percent is deducted out of the transaction amount the merchant actually receives. Some of that cut Visa and Mastercard keep for themselves as a network fee, but most of it is an interchange fee which is fixed by Visa and Mastercard but paid to the bank that issued the card; overall, a merchant typically ends up receiving $98 or $97 on a $100 sale. In 2022 alone, Visa, Mastercard, and their card-issuing banks charged merchants a total of $93 billion in credit card fees. These fees are passed on to consumers in the form of higher prices on everything from gas to groceries, and the fees keep going up, most recently in April 2022.

Market competition helps keep fees in check, but Visa and Mastercard have structured their networks to avoid competitive market pressures on their fees. Visa and Mastercard set the fee rates for all their cards so the banks that receive the fees don't have to compete on those rates, and when a consumer presents any Visa or Mastercard credit card, a merchant has to accept it no matter how high the fees get or else the merchant will lose access to all the cards issued by all the banks in the Visa and Mastercard networks. It's a take-it-or-leave-it system, and it is difficult for any merchant to stay in business without accepting cards from the Visa/Mastercard duopoly.

The Credit Card Competition Act of 2023 would enhance credit card competition and choice in order to reduce excessive credit card fees. It would require the largest credit-card issuing financial institutions in the country—those with assets over $100 billion–to enable at least two credit card networks to be used on their credit cards instead of just one, and at least one of those networks must be a network other than the Visa/Mastercard duopoly. In other words, after a transition period during which the Federal Reserve would write implementing regulations, the giant banks that issue the overwhelming majority of Visa and Mastercard credit cards would have to choose a second competitive network to go on each card, and then a merchant would get to choose which of those networks to use to process a transaction. This competition and choice between networks would incentivize better service and lower cost; in fact, for more than a decade, federal law has required debit cards to carry at least two debit networks and this requirement of a choice of debit networks has fostered increased competition and innovation in the debit network market and has helped hold down fees.

The vast majority of banks and credit unions in the country—all but the biggest 30 or so—would not be subject to the bill's requirement to add a second credit card network. Also, cards where the network is itself the card issuer (such as American Express and Discover cards) would not be required to add a second network (though AmEx and Discover could serve as a second network on other banks' cards). Further, the bill would not force banks to add any particular network to their cards—banks would select which second network to add, as they currently do for debit cards, based on the service, security, and value that networks offer (though the bill would direct the Federal Reserve to identify a list of card networks that could not be added because they pose a national security threat or are owned or operated by foreign state entities). But by adding a second network to credit cards, networks would have incentive to hold down their merchant fees in order to incentivize merchants to choose to route transactions over their network instead of the other network on the card. That kind of marketplace competition is currently absent from the duopoly-dominated credit card system, and it is long overdue.

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